

McMORRIS RODGERS' bill, institutes reforms to show how the SBA reviews and processes SBIC applications and to improve those. This legislation will grow the reach of a program that currently runs at zero cost to the American taxpayer, which is certainly a mark that we should all recognize and appreciate.

Mr. Speaker, I want to thank Mrs. McMORRIS RODGERS for this important legislation.

I urge my colleagues to support H.R. 4111, and I yield back the balance of my time.

The SPEAKER pro tempore. The question is on the motion offered by the gentleman from Ohio (Mr. CHABOT) that the House suspend the rules and pass the bill, H.R. 4111.

The question was taken; and (two-thirds being in the affirmative) the rules were suspended and the bill was passed.

A motion to reconsider was laid on the table.

MAIN STREET EMPLOYEE OWNERSHIP ACT OF 2018

Mr. CHABOT. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 5236) to expand opportunities available to employee-owned business concerns through Small Business Administration loan programs, and for other purposes, as amended.

The Clerk read the title of the bill.

The text of the bill is as follows:

H.R. 5236

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Main Street Employee Ownership Act of 2018".

SEC. 2. DEFINITIONS.

In this Act—

(1) the terms "Administration" and "Administrator" means the Small Business Administration and the Administrator thereof, respectively;

(2) the term "cooperative" means an entity that is determined to be a cooperative by the Administrator, in accordance with applicable Federal and State laws and regulations;

(3) the term "employee-owned business concern" means—

(A) a cooperative in which employees are eligible for membership; and

(B) a qualified employee trust;

(4) the terms "qualified employee trust" and "small business concern" have the meanings given those terms in section 3 of the Small Business Act (15 U.S.C. 632); and

(5) the term "small business development center" means a small business development center described in section 21 of the Small Business Act (15 U.S.C. 648).

SEC. 3. EXPANSION OF 7(A) LOANS.

(a) IN GENERAL.—Section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended—

(1) in paragraph (15)—

(A) in subparagraph (A)—

(i) by striking "this subsection to qualified employee trusts" and inserting "this subsection—

"(i) to qualified employee trusts";

(ii) in clause (i), as so designated—

(1) by inserting "and, for any transaction costs associated with purchasing," after "purchasing";

(II) by striking the period at the end and inserting "and"; and

(iii) by adding at the end the following:

"(ii) to a small business concern under a plan approved by the Administrator, if the proceeds from the loan are only used to make a loan to a qualified employee trust, and for any transaction costs associated with making that loan, that results in the qualified employee trust owning at least 51 percent of the small business concern.";

(B) in subparagraph (B)—

(i) in the matter preceding clause (i), by inserting "or by the small business concern" after "the trustee of such trust";

(ii) in clause (ii), by striking "and" at the end;

(iii) in clause (iii), by striking the period at the end and inserting "and"; and

(iv) by adding at the end the following:

"(iv) with respect to a loan made to a trust, or to a cooperative in accordance with paragraph (35)—

"(I) a seller of the small business concern may remain involved as an officer, director, or key employee of the small business concern when a qualified employee trust or cooperative has acquired 100 percent of ownership of the small business concern; and

"(II) any seller of the small business concern who remains as an owner of the small business concern, regardless of the percentage of ownership interest, shall be required to provide a personal guarantee by the Administration.";

(C) by adding at the end the following:

"(F) A small business concern that makes a loan to a qualified employee trust under subparagraph (A)(ii) is not required to contain the same terms and conditions as the loan made to the small business concern that is guaranteed by the Administration under such subparagraph.

"(G) With respect to a loan made to a qualified employee trust under this paragraph, or to a cooperative in accordance with paragraph (35), the Administrator may, as deemed appropriate, elect to not require any mandatory equity to be provided by the qualified employee trust or cooperative to make the loan.";

(2) by adding at the end the following:

"(35) LOANS TO COOPERATIVES.—

"(A) DEFINITION.—In this paragraph, the term 'cooperative' means an entity that is determined to be a cooperative by the Administrator, in accordance with applicable Federal and State laws and regulation.

"(B) AUTHORITY.—The Administration shall guarantee loans made to a cooperative for the purpose described in paragraph (15)."

(b) DELEGATION OF AUTHORITY TO PREFERRED LENDERS.—Section 5(b)(7) of the Small Business Act (15 U.S.C. 634(b)(7)) is amended by inserting "including loans guaranteed under paragraph (15) or (35) of section 7(a)" after "deferred participation loans".

SEC. 4. SMALL BUSINESS INVESTMENT COMPANY PROGRAM OUTREACH.

The Administrator shall provide outreach and educational materials to companies licensed under section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. 681(c)) to increase the use of funds to make investments in company transitions to employee-owned business concerns.

SEC. 5. SMALL BUSINESS MICROLOAN PROGRAM OUTREACH.

The Administrator shall provide outreach and educational materials to intermediaries under section 7(m) of the Small Business Act (15 U.S.C. 636(m)) to increase the use of funds to make loans to employee-owned business concerns, including transitions to employee-owned business concerns.

SEC. 6. SMALL BUSINESS DEVELOPMENT CENTER OUTREACH AND ASSISTANCE.

(a) ESTABLISHMENT.—The Administrator shall establish a Small Business Employee Ownership and Cooperatives Promotion Program to offer

technical assistance and training on the transition to employee ownership through cooperatives and qualified employee trusts.

(b) SMALL BUSINESS DEVELOPMENT CENTERS.—

(1) IN GENERAL.—In carrying out the program established under subsection (a), the Administrator shall enter into agreements with small business development centers under which the centers shall—

(A) provide access to information and resources on employee ownership through cooperatives or qualified employee trusts as a business succession strategy;

(B) conduct training and educational activities; and

(C) carry out the activities described in subparagraph (U) of section 21(c)(3) of the Small Business Act (15 U.S.C. 648(c)(3)).

(2) ADDITIONAL SERVICES.—Section 21(c)(3) of the Small Business Act (15 U.S.C. 648(c)(3)) is amended—

(A) in subparagraph (S), by striking "and" at the end;

(B) in subparagraph (T), by striking the period at the end and inserting "and"; and

(C) by adding at the end the following:

"(U) encouraging and assisting the provision of succession planning to small business concerns with a focus on transitioning to cooperatives, as defined in section 7(a)(35), and qualified employee trusts (collectively referred to in this subparagraph as 'employee-owned business concerns'), including by—

"(i) providing training to individuals to promote the successful management, governance, or operation of a business purchased by those individuals in the formation of an employee-owned business concern;

"(ii) assisting employee-owned business concerns that meet applicable size standards established under section 3(a) with education and technical assistance with respect to financing and contracting programs administered by the Administration;

"(iii) coordinating with lenders on conducting outreach on financing through programs administered by the Administration that may be used to support the transition of ownership to employees;

"(iv) supporting small business concerns in exploring or assessing the possibility of transitioning to an employee-owned business concern; and

"(v) coordinating with the cooperative development centers of the Department of Agriculture, the land grant extension network, the Manufacturing Extension Partnership, community development financial institutions, employee ownership associations and service providers, and local, regional and national cooperative associations."

SEC. 7. INTERAGENCY WORKING GROUP.

(a) IN GENERAL.—Not later than 90 days after the date of enactment of this Act, the Administrator (or a designee of the Administrator) shall coordinate and chair an interagency working group, which shall—

(1) develop recommendations on how Federal programs can promote, support, and increase the number of employee-owned business concerns;

(2) ensure coordination with Federal agencies and national and local employee ownership, cooperative, and small business organizations; and

(3) publish a report on the activities of the interagency working group that is indexed and maintained for public review.

(b) MEETINGS.—The interagency working group shall meet at such times as determined necessary by the, but not less than biannually. Such meetings may occur in person or via electronic resources.

SEC. 8. AMENDMENT TO REPORT TO CONGRESS ON STATUS OF EMPLOYEE-OWNED FIRMS.

Section 7(a)(15)(E) of the Small Business Act (15 U.S.C. 636(a)(15)(E)) is amended by striking

"Administration." and inserting "Administration, which shall include—

"(i) the total number of loans made to employee-owned business concerns that were guaranteed by the Administrator under section 7(a) of the Small Business Act (15 U.S.C. 636(a)) or section 502 of the Small Business Investment Act of 1958 (15 U.S.C. 696), including the number of loans made—

"(I) to small business concerns owned and controlled by socially and economically disadvantaged individuals; and

"(II) to cooperatives in which employees are eligible for membership;

"(ii) the total number of financings made to employee-owned business concerns by companies licensed under section 301(c) of the Small Business Investment Act of 1958 (15 U.S.C. 696(c)), including the number of financings made—

"(I) to small business concerns owned and controlled by socially and economically disadvantaged individuals; and

"(II) to cooperatives in which employees are eligible for membership; and

"(iii) any outreach and educational activities conducted by the Administration with respect to employee-owned business concerns.".

SEC. 9. REPORT ON COOPERATIVE LENDING.

(a) SENSE OF CONGRESS.—It is the sense of Congress that cooperatives have a unique business structure and are unable to access the lending programs of the Administration effectively due to loan guarantee requirements that are incompatible with the business structure of cooperatives.

(b) STUDY AND REPORT.—

(1) STUDY.—The Administrator, in coordination with lenders, stakeholders, and Federal agencies, shall study and recommend practical alternatives for cooperatives that will satisfy the loan guarantee requirements of the Administration.

(2) REPORT.—Not later than 120 days after the date of enactment of this Act, the Administrator shall submit to Congress the recommendations developed under paragraph (1) and a plan to implement such recommendations.

SEC. 10. AMENDMENT TO DEFINITION OF QUALIFIED EMPLOYEE TRUST.

Section 3(c)(2)(A)(ii) of the Small Business Act (15 U.S.C. 632(c)(2)(A)(ii)) is amended to read as follows:

"(ii) which provides that each participant is entitled to direct the plan trustee as to the manner of how to vote the qualified employer securities (as defined in section 4975(e)(8) of the Internal Revenue Code of 1986), which are allocated to the account of such participant with respect to a corporate matter which (by law or charter) must be decided by a vote conducted in accordance with section 409(e) of the Internal Revenue Code of 1986; and".

The SPEAKER pro tempore. Pursuant to the rule, the gentleman from Ohio (Mr. CHABOT) and the gentlewoman from New York (Ms. VELÁZQUEZ) each will control 20 minutes.

The Chair recognizes the gentleman from Ohio.

GENERAL LEAVE

Mr. CHABOT. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks and include extraneous material on the bill under consideration.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Ohio?

There was no objection.

Mr. CHABOT. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, ownership structures of businesses come in numerous shapes

and sizes. Whether they follow a traditional model or an employee-owned structure, small businesses across the Nation continue to face a difficult lending environment.

Although the SBA bridges the gap for many of the Nation's small firms, 100-percent-employee-owned firms face uncertainty as they navigate the SBA's 7(a) Loan Program.

To strengthen the 7(a) Loan Program for employee-owned small businesses and worker cooperatives, Ranking Member VELÁZQUEZ introduced H.R. 5236, the Main Street Employee Ownership Act of 2018.

In order to provide clarity for program participants, H.R. 5236 would update reporting statistics to ensure accurate data is captured.

The bill also codifies ownership transition plans.

Additionally, H.R. 5236 requires the SBA's resource partners to have educational material available to explain the nuances of these uniquely structured businesses.

Although the requirements for personal guarantees within the 7(a) Loan Program prove challenging to some of these business structures, H.R. 5236 importantly preserves this hallmark and requires the SBA to work with industry representatives to develop ways to satisfy the guarantee while reducing its burdens.

Employee-owned small businesses are an important part of the small business ecosystem. We must continue to streamline the processes and procedures in place at the SBA for all small businesses. H.R. 5236, Ms. VELÁZQUEZ's legislation, is a step in the right direction that provides clarity for employee-owned small businesses and worker cooperatives.

Mr. Speaker, I want to thank the ranking member, Ms. VELÁZQUEZ, who has spearheaded this legislation.

I urge my colleagues to vote "yes" on H.R. 5236, and I reserve the balance of my time.

Ms. VELÁZQUEZ. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I rise in support of H.R. 5236, the Main Street Employee Ownership Act, a commonsense measure to improve SBA's lending and training programs to enable employees to purchase the companies they work for.

As baby boomers near retirement, the country faces a substantial dilemma: Roughly half of privately held companies are owned by baby boomers, and fewer than 15 percent have a formal exit plan in place. And while it is wonderful to think that family members will take over the business, this is a relatively rare occurrence. Some will be bought out; others will close. This will have significant secondary economic impacts that will ripple through our local communities.

Mr. Speaker, I have been working with Senator GILLIBRAND's office to help address this looming problem.

The bill before us will reward workers and invest in our Main Street econ-

omy by improving the lending landscape for employee-owned businesses, such as employee stock ownership plans and co-ops.

There are 7,000 such companies in existence all over the Nation, contributing to our local communities and economies. However, businesses seeking to transition to employee-owned status face difficulty in obtaining adequate capital to cover the oftentimes prohibitive costs.

The SBA was authorized to loan to ESOPs in 1979. Unfortunately, this tool has rarely been used due to misunderstanding of the business structure and cumbersome transition requirements.

This bill seeks to align common industry practices with SBA protocols to encourage more lending to ESOPs and co-ops. By codifying current SBA standards of practice and easing some burdensome guarantee restrictions, it is my hope we will keep local enterprises in their communities, saving jobs along the way and preventing economic dislocation for many workers.

Mr. Speaker, I urge Members to support this legislation, and I reserve the balance of my time.

Mr. CHABOT. Mr. Speaker, I reserve the balance of my time.

Ms. VELÁZQUEZ. Mr. Speaker, I yield 2 minutes to the gentleman from Colorado (Mr. POLIS).

Mr. POLIS. Mr. Speaker, I thank the gentlewoman from New York for yielding me time.

Mr. Speaker, I rise in support of H.R. 5236, the Main Street Employment Act of 2018, that will help employee-owned companies.

Employee ownership is an important part of helping workers build wealth. In addition to the income gap in this country, we also have a wealth gap. When a company does well, everybody should do well, not just the investors.

This bill helps promote employee-owned businesses by making changes to the Small Business Administration's loan program that helps employee-owned businesses access capital. It is currently a barrier in the rules that actually gives a disadvantage to employee-owned businesses, when, as a society, as a Nation, we should be encouraging employee ownership.

The SBA Loan Guarantee Program is often the only financing that many small businesses can get early on to get off the ground. This bill would open up SBA lending for cooperatives, which we often call co-ops, and also strengthens the lending program for ESOPs, which is another form of employee-owned company.

There is a very successful ESOP in the district I am honored to represent called New Belgium Brewery that makes among the best beer in the world.

This bill also creates a small business employee ownership and cooperative program, which helps employers and employees understand how to create employee-owned businesses, providing some of the help for succession planning, coordinating with other programs

to help employee-owned businesses succeed.

Employee-owned businesses are anchor businesses in our communities. They provide good, stable jobs and help employees build value and wealth over time and participate in the governance of the company. They align the incentives of workers with owners and management and are good for overall economic productivity as well.

This bill builds on the bipartisan language that I helped secure in the omnibus appropriations bill directing the SBA to encourage employee ownership. Passing this bill will make those changes in the 1-year spending bill that expires September 30 permanent.

Mr. Speaker, I encourage all Members to support this very important piece of bipartisan legislation.

Ms. VELÁZQUEZ. Mr. Speaker, I yield myself the balance of my time.

Mr. Speaker, there is no question that we need to support our Main Street small businesses, especially those that fall outside of traditional business structures. H.R. 5236 does just that by requiring more training and clarifying lending protocols.

Today's bill is endorsed by at least 25 organizations, including America's SBDCs, the American Sustainable Business Council, the Association for Enterprise Opportunity, ESCA, and a variety of co-ops and employee-owner associations.

Mr. Speaker, I would like to thank Justin Pelletier and Jon Cardinal for their tireless work on this complex topic.

Mr. Speaker, I urge Members to support this bill, and I yield back the balance of my time.

Mr. CHABOT. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I will conclude by saying that employee-owned businesses really populate the streets and neighborhoods of many cities across this Nation. They are unique in form but face many of the same hurdles that other small businesses face.

H.R. 5236 streamlines how employee-owned businesses operate under the important rules of the SBA 7(a) Loan Program. While preserving important characteristics of the program, H.R. 5236 will help employee-owned businesses as they seek capital to grow, expand, and create much-needed jobs.

Mr. Speaker, I want to again thank and commend the ranking member, Ms. VELÁZQUEZ, for her leadership on this legislation.

I would urge my colleagues to support H.R. 5236, and I yield back the balance of my time.

The SPEAKER pro tempore (Mr. HILL). The question is on the motion offered by the gentleman from Ohio (Mr. CHABOT) that the House suspend the rules and pass the bill, H.R. 5236, as amended.

The question was taken; and (two-thirds being in the affirmative) the rules were suspended and the bill, as amended, was passed.

A motion to reconsider was laid on the table.

SMALL BUSINESS 7(A) LENDING OVERSIGHT REFORM ACT OF 2018

Mr. CHABOT. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 4743) to amend the Small Business Act to strengthen the Office of Credit Risk Management within the Small Business Administration, and for other purposes, as amended.

The Clerk read the title of the bill.

The text of the bill is as follows:

H.R. 4743

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Small Business 7(a) Lending Oversight Reform Act of 2018".

SEC. 2. DEFINITIONS.

In this Act, the terms "Administration" and "Administrator" mean the Small Business Administration and the Administrator thereof, respectively.

SEC. 3. CODIFICATION OF THE OFFICE OF CREDIT RISK MANAGEMENT AND THE LENDER OVERSIGHT COMMITTEE.

(a) IN GENERAL.—The Small Business Act (15 U.S.C. 631 et seq.) is amended—

(1) by redesignating section 47 as section 49; and

(2) by inserting after section 46 the following new sections:

"SEC. 47. OFFICE OF CREDIT RISK MANAGEMENT.

"(a) ESTABLISHMENT.—There is established within the Administration the Office of Credit Risk Management (in this section referred to as the 'Office').

"(b) DUTIES.—The Office shall be responsible for supervising—

"(1) any lender making loans under section 7(a) (in this section referred to as a '7(a) lender');"

"(2) any Lending Partner or Intermediary participant of the Administration in a lending program of the Office of Capital Access of the Administration; and

"(3) any small business lending company or a non-Federally regulated lender without regard to the requirements of section 23.

"(c) DIRECTOR.—

"(1) IN GENERAL.—The Office shall be headed by the Director of the Office of Credit Risk Management (in this section referred to as the 'Director'), who shall be a career appointee in the Senior Executive Service (as defined in section 3132 of title 5, United States Code).

"(2) DUTIES.—The Director shall be responsible for oversight of the lenders and participants described in subsection (b), including by conducting periodic reviews of the compliance and performance of such lenders and participants.

"(d) SUPERVISION DUTIES FOR 7(A) LENDERS.—With respect to 7(a) lenders, an employee of the Office shall—

"(1) be present for and supervise any such review that is conducted by a contractor of the Office on the premise of the 7(a) lender; and

"(2) supervise any such review that is not conducted on the premise of the 7(a) lender.

"(e) ENFORCEMENT AUTHORITY AGAINST 7(A) LENDERS.—

"(1) INFORMAL ENFORCEMENT AUTHORITY.—The Director may take an informal enforcement action against a 7(a) lender if the Director finds that the 7(a) lender has violated a statutory or regulatory requirement under

section 7(a) or any requirement in a Standard Operating Procedures Manual or Policy Notice related to a program or function of the Office of Capital Access.

"(2) FORMAL ENFORCEMENT AUTHORITY.—

"(A) IN GENERAL.—With the approval of the Lender Oversight Committee established under section 48, the Director may take a formal enforcement action against any 7(a) lender if the Director finds that the 7(a) lender has violated—

"(i) a statutory or regulatory requirement under section 7(a), including a requirement relating to credit elsewhere; or

"(ii) any requirement described in a Standard Operating Procedures Manual or Policy Notice, related to a program or function of the Office of Capital Access.

"(B) ENFORCEMENT ACTIONS.—An enforcement action imposed on a 7(a) lender by the Director under subparagraph (A) shall be based on the severity or frequency of the violation and may include assessing a civil monetary penalty against the 7(a) lender in an amount that is not greater than \$250,000.

"(3) APPEAL BY LENDER.—A 7(a) lender may appeal an enforcement action imposed by the Director described in this subsection to the Office of Hearings and Appeals established under section 5(i) or to an appropriate district court of the United States.

"(f) REGULATIONS.—Not later than 1 year after the date of the enactment of this section, the Administrator shall issue regulations, after opportunity for notice and comment, to carry out subsection (e).

"(g) SERVICING AND LIQUIDATION RESPONSIBILITIES.—During any period during which a 7(a) lender is suspended or otherwise prohibited from making loans under section 7(a), the 7(a) lender shall remain obligated to maintain all servicing and liquidation activities delegated to the lender by the Administrator, unless otherwise specified by the Director.

"(h) PORTFOLIO RISK ANALYSIS OF 7(a) LOANS.—

"(1) IN GENERAL.—The Director shall annually conduct a risk analysis of the portfolio of the Administration with respect to all loans guaranteed under section 7(a).

"(2) REPORT TO CONGRESS.—On December 1, 2018, and every December 1 thereafter, the Director shall submit to Congress a report containing the results of each portfolio risk analysis conducted under paragraph (1) during the fiscal year preceding the submission of the report, which shall include—

"(A) an analysis of the overall program risk of loans guaranteed under section 7(a);

"(B) an analysis of the program risk, set forth separately by industry concentration;

"(C) without identifying individual 7(a) lenders by name, a consolidated analysis of the risk created by the individual 7(a) lenders responsible for not less than 1 percent of the gross loan approvals set forth separately for the year covered by the report by—

"(i) the dollar value of the loans made by such 7(a) lenders; and

"(ii) the number of loans made by such 7(a) lenders;

"(D) steps taken by the Administrator to mitigate the risks identified in subparagraphs (A), (B), and (C);

"(E) the number of 7(a) lenders, the number of loans made, and the gross and net dollar amount of loans made;

"(F) the number and dollar amount of total losses, the number and dollar amount of total purchases, and the percentage and dollar amount of recoveries at the Administration;

"(G) the number and type of enforcement actions recommended by the Director;

"(H) the number and type of enforcement actions approved by the Lender Oversight Committee established under section 48;