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Small business advocates fear many will be left out of new PPP funding

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Business advocates fear smaller businesses might not see much of the new Paycheck Protection Program funding being voted on by Congress.

A new deal expected to pass Congress will infuse a fresh $310 billion into the federal Paycheck Protection Program, but some business advocates say the new legislation as crafted does not do enough to ensure smaller businesses get access to the critical funding.

"There are problems with access that go beyond the amount of funding," said Sarah Crozier, senior communications manager at Main Street Alliance, a national small business network with locations across the country. "There are serious design flaws of the program."

She said many of the group's members, which had worked with major banks, found themselves denied for various issues. And while the Small Business Administration funding is a necessary Band-Aid, she said the program needs to serve as a bridge to a more comprehensive solution that focuses squarely on the smallest of businesses being left out.

The new funding also follows a wave of media coverage that showed that some PPP loan beneficiaries sported market capitalizations of $100 million or more, including well-known brands such as Ruth's Chris Steak House and sushi chain Kura Sushi USA Inc.

"Really, we are advocating for an overhaul of the program to something that emphasizes direct subsidies to businesses," Crozier said. "Especially for those businesses who are not well-banked or well-connected, many of whom are very small."

The new legislation follows the $2.2 trillion Cares Act signed into law March 27. It was designed to ease some of the economic fallout of the novel coronavirus and countermeasures meant to stem its spread, which have wreaked havoc on the economy. This latest bill, passed Tuesday by the Senate and slated to appear before the House later this week, also sets aside $30 billion to be loaned by smaller banks, credit unions and community financial institutions with under $10 billion in assets, and another $30 billion to be loaned by banks and depository institutions with $10 billion to $20 billion in assets.

But that won't guarantee the smallest loans get funded — or help small businesses that were turned away by banks — said Ryan Metcalf, head of U.S. regulatory affairs and social impact at San Francisco-based nonbank lender Funding Circle. He points to SBA data that suggests 40% of the original PPP funding went to just 4% of the businesses that applied, showing how the money has continued to flow to larger businesses.

"What is written today is another giveaway to the big banks, and frankly I am furious," Metcalf said. "Why is the Senate setting aside money for the same institutions who prioritized their own customers, excluded non-existing customers and only provided loans to companies with the most amount of employees? I'm confused."

There was no set-aside for nonbank lenders like Funding Circle, he said, adding that 61% of the applications it received were for PPP loans under $50,000 apiece. "We had suggested a carve-out based on size. I am surprised that it didn't go that way."

Across the SBA, while 74% of originated loans were for $150,000 and under, those outlays only accounted for 17% of the program's total dollar volume. Loans for $1 million and up accounted for just 4% of all loans but nearly 44.5% of the hundreds of billions that initially funded the program, according to SBA data.

The first round of funding added up to $342.3 billion and went to 1.7 million loans nationwide, a small percentage of recipients when compared with the estimated 30

million total small businesses that operate across the U.S. It is unclear how many businesses applied for or received the loans; the SBA has not shared that specific data yet.

A Senate Small Business & Entrepreneurship Committee spokesperson said the set-aside for smaller lenders was specifically created to serve more small businesses and those in underfunded or rural communities. Committee Chairman Marco Rubio, R-Fla., has also called on the Treasury to approve more nonbank lenders that can serve small businesses without an existing banking relationship, the spokesperson said.

Still, there are critics who say the second tranche doesn't appear go far enough to help the smallest and most vulnerable businesses.

Karen Mills, a former SBA administrator who's now a senior fellow at Harvard Business School, said she recommended to Congress last week that it set aside $100 billion of the new funding for PPP loans smaller than $40,000. That provision, however, is not part of the legislation that passed the Senate Tuesday.

“Nonbank lenders like Square, PayPal and Intuit Quickbooks all have shared that the loans in their queues currently average around $25,000 to $40,000, as opposed to the SBA’s reported approved loans averaging $240,000,” Mills said. “Capping a proportion of the new loans is a way to reach those smallest businesses, sole proprietors and independent contractors who don’t have established banking relationships.”

If the banking gatekeepers remain the same, then the supplemental funding will likely still remain out of reach for small business, particularly those owned by people of color, said the National Association for Latino Community Asset Builders, which contends the first round of funding flowed “primarily through big banks and almost exclusively to their preferred customers.”

“The large majority of Latino-owned businesses were locked out of the first round of PPP and, based on what the Senate passed on Tuesday, we don’t expect that status quo to change in round two,” said Noel Poyo, executive director of the San Antonio, Texas-based NALCAB, in a public statement. “In a cynical lobbying trick, the $30 billion that was ‘set aside’ to provide access to underserved businesses was opened up to 95% of all banks, rendering the set-aside meaningless.”