U.S. Small Business Administration

Building on a Month of Strong Results, Biden-Harris Administration Takes Steps to Further Promote Equitable Access to Relief for America's Mom-and-Pop Businesses

Small businesses power the nation's economy and our communities. They account for 44 percent of U.S. GDP, create two-thirds of net new jobs, and employ nearly half of America' workers. Now, millions of Main Street small businesses – especially Black- and Brown-owned small businesses – are struggling to make ends meet. The COVID-19 pandemic and resulting economic crisis have left more than 400,000 small businesses permanently shuttered and millions more have lost substantial revenue. The Biden-Harris Administration is committed to delivering equitable relief to hard-hit small businesses so they can rehire and retain workers, safely reopen, and deliver the essential goods and services our communities depend on.

Over the last month, the Small Business Administration (SBA) has made equitable access to the latest round of Paycheck Protection Program (PPP) funding a top priority. The changes have resulted in a significant increase in funding to underserved groups compared to the first month of the PPP in April 2020:

- For businesses with fewer than ten employees, the share of funding is **up nearly 60 percent**
- For businesses in rural communities, the share of funding is **up nearly 30 percent**
- The share of funding distributed through Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) is **up more than 40 percent**

But President Biden and Vice President Harris believe we can still do better – particularly at delivering relief to small businesses in low- and moderate-income (LMI) communities, whose share of funding remains stagnant compared to the first round of PPP.

Today the Biden-Harris Administration is announcing several reforms to further target relief to America's mom-and-pop businesses and to ensure relief funds are distributed equitably. These reforms include a 14-day period, starting on Wednesday, during which only the smallest businesses will be able to submit PPP applications, as well as several critical changes to eliminate barriers that disproportionately harm minority-owned, women-owned, Main Street, and other underserved small businesses.

Specifically, on Wednesday, February 24, 2021 at 9 am ET, **the SBA will establish a 14-day, exclusive PPP loan application period for businesses and nonprofits with fewer than 20 employees**. This will give lenders and community partners more time to work with the smallest businesses to submit their applications, while also ensuring that larger PPP-eligible businesses will still have plenty of time to apply for and receive support before the program expires on March 31st.

The SBA is also announcing four additional changes to open the PPP to more underserved small businesses than ever before. While these changes are being implemented, SBA will work with community partners to improve the emergency relief "digital front door" and conduct extensive stakeholder outreach. And, SBA will strengthen its relationships with lender partners to advance equity goals, deliver funding efficiently, and prevent fraud, waste, and abuse. The SBA will:

- Allow sole proprietors, independent contractors, and self-employed individuals to receive more financial support by revising the PPP's funding formula for these categories of applicants;
- Eliminate an exclusionary restriction on PPP access for small business owners with prior non-fraud felony convictions, consistent with a bipartisan congressional proposal;
- Eliminate PPP access restrictions on small business owners who have struggled to make student loan payments by eliminating student loan debt delinquency as a disqualifier to participating in the PPP; and
- Ensure access for non-citizen small business owners who are lawful U.S. residents by clarifying that they may use Individual Taxpayer Identification Number (ITIN) to apply for the PPP.

A critical goal from Congress for the latest round of PPP was to reach small and LMI businesses who have not received the needed relief a forgivable PPP loan provides. Congress set a $15B set-aside for small and LMI first draw borrowers. With existing policies, the current round has only deployed $2.4B to small LMI borrowers, in part because a disproportionate amount of funding in both wealthy and LMI areas is going to firms with more than 20 employees. The less than 20 exclusivity period combined with the changes to expand access for sole proprietors, ITINs, returning citizens, and student loan debt will help us achieve Congressional goals.

The actions announced today will help to lay the foundation for a robust and equitable recovery for small businesses across the country.

Expanding access to emergency COVID-19 relief programs through equity-focused reforms

Prior rounds of COVID-19 economic relief helped millions of small businesses stay afloat and keep employees on the payroll. However, too many minority-owned businesses and Main Street businesses found themselves left out while larger, well-connected businesses accessed programs quickly. To better support these small businesses, the SBA, U.S. Department of the Treasury, and U.S. Department of Education are implementing reforms to expand access to the Paycheck Protection Program.

- **Prioritize the smallest businesses for forgivable loans through the Paycheck Protection Program.** While 98 percent of small businesses have fewer than 20 employees, these firms receive just 45 percent of PPP funding and represent roughly 90 percent of the firms that have received PPP support so far this year. To address this persistent problem and ensure those newly eligible can access relief, the SBA will initiate an exclusivity period of 14 days for businesses and nonprofits with fewer than 20 employees. The exclusivity period will begin on Wednesday, February 24, 2021, at 9 am ET and end on Tuesday, March 9, 2021, at 5pm ET. All applications already submitted by lenders to the SBA before the start of the exclusivity period will still be processed by the SBA. During the two-week period, the SBA will not accept new applications from lenders for businesses and nonprofits with 20 or more employees, so that lenders can focus on serving smaller companies. Once the exclusivity period ends, lenders will be able to submit PPP loan applications for all eligible businesses and nonprofits again.

- **Provide equitable funding for sole proprietors and independent contractors.** Many sole proprietors, independent contractors, and self-employed individuals are structurally excluded from the PPP or were approved for as little as $1 due to the loan amount calculation. These businesses make up a significant majority of all businesses and include cleaning services, home repair contractors, personal care businesses, and small independent retailers, among other examples. While businesses with employees calculate their eligibility for PPP loans based on employee payroll costs, those without employees must calculate eligibility based on the IRS 1040 Schedule C entry for "net profit," which deducts items such as depreciation, healthcare costs, rent, and utilities. This calculation often limits the amount of relief sole proprietors and independent contractors can receive, hurting many of the most underserved small businesses. Approximately 70 percent of non-employer firms are owned by women and people of color, compared to 40 percent of employer firms. In addition, 95 percent of Black-owned firms and 91 percent of Latino-owned firms are non-employers.

To address this problem, the SBA will revise the loan calculation formula to match the approach authorized by Congress in the Economic Aid Act for small farmers and ranchers that use IRS 1040 Schedule F. New Schedule C filers will be able to calculate their PPP loan amount using the gross income line on their Schedule C form. The SBA will also establish a $1 billion set aside for non-employer Schedule C applicants located in LMI census tracts. To ensure this new formula minimizes the risk of waste, fraud, or abuse, the SBA will review a sample of applications from high-income non-employer businesses for compliance with the statutory attestation that the loan request is necessary due to the uncertainty of current economic conditions. This new policy will take effect during the first week of March.

- **Ensure fair access for returning citizens.** Numerous studies show that criminal background checks for employment opportunities and relief programs disproportionately hurt people of color. Currently, a business is ineligible for PPP if it is at least 20 percent owned by an individual who has either: (1) an arrest or conviction for a felony related to financial assistance fraud within the previous five years; or (2) any other felony within the previous year. To expand access to the program, the SBA will adopt bipartisan reforms included in the PPP Second Chance Act, co-sponsored by Senators Ben Cardin (D-MD), Rob Portman (R-OH), Cory Booker (D-NJ), and James Lankford (R-OK), which would eliminate the second restriction (the one-year look-back) unless the applicant or owner is incarcerated at the time of the application. This new policy will take effect during the first week of March.

- **Eliminating student loan debt as a barrier to PPP.** Recent research shows that two in five student loan borrowers are likely to experience default. Black and Latino student loan borrowers running non-employer businesses are nearly twice as likely as their white peers to be behind or in collections on their student loans. Currently, the PPP is not available to any business with at least 20 percent ownership by an individual who is delinquent on a student loan. Working with the Departments of the Treasury and Education, the SBA will remove this restriction to broaden access to the PPP. This new policy will take effect during the first week of March.

- **Guarantee access to immigrant-owned small businesses.** Under current law, small businesses that are owned and operated by non-citizens may apply for a PPP loan if the owner is lawfully residing in the United States. However, many small business owners who use an Individual Taxpayer Identification Number (ITIN) instead of a social security number, including visa holders and green card holders, have had trouble accessing the PPP. A lack of clear guidance from the SBA has created inconsistency in access for ITIN holders, with some lenders willing to work with ITIN holders while others have declined. The SBA will address this unfair inconsistency by issuing clear guidance in the coming days that otherwise eligible applicants cannot be denied access to the PPP because they use ITINs to pay their taxes.

- **Promote transparency and accountability by improving the PPP loan application.** The latest round of PPP has only collected race/ethnicity, gender, and veteran status data for 26 percent, 43 percent, and 35 percent of applicants, respectively. While this is a marked improvement compared to the first round of PPP, which did not initially collect any demographic data at origination, these response rates are far lower than the 70 – 85 percent historic response rate for other SBA programs which have applications that feature demographic questions further up in the application. To address this challenge, the SBA moved the demographic question from the last page to the first page of the PPP application on February 17th. The change will increase borrower awareness and capture a higher response rate to better illustrate the impact the PPP is having across various population segments.

Improving outreach, building trust, and increasing accessibility to underserved communities

The Biden-Harris Administration is committed to providing the technical assistance and support needed to ensure that the nation's small businesses can access federal relief programs. The Administration will work to earn the trust of underserved communities by working with community partners, increasing communication and transparency, and making tools more accessible.

- **Improving the Emergency Relief Digital Front Door.** For many small business owners, the SBA.gov website is the first access point for our relief programs. SBA.gov gets tens of millions of page views per quarter and had 75MM views in 2020 from applicants seeking information about PPP loans. Businesses come to SBA.gov for help, but too many times they left discouraged or confused trying to navigate the site. The Administration and the SBA are working to update key areas of SBA websites to help more applicants find navigators and lenders that can help them stick with the application process from start to finish. As a start, the SBA has updated the SBA.gov homepage, updated language to make it more accessible, and added single click pathways to the most helpful resources, including Lender Match that can help connect small businesses directly with PPP lenders. The SBA is on track to make additional changes for PPP and proactive website improvements that will positively impact all loan and grant programs moving forward.
- **Giving Voice to Communities.** To improve upon the delivery of small business relief programs, the Biden-Harris Administration has conducted extensive stakeholder outreach to learn more about challenges and opportunities in the implementation of current emergency relief programs. This stakeholder outreach has followed a "whole of government" approach, with small business meetings hosted by President Biden, Vice President Harris, Treasury Secretary Yellen, senior National Economic Council (NEC) staff, and SBA and Treasury staff. NEC, SBA, and Treasury staff have facilitated several discussions with more than 100 representatives from small business advocacy organizations, community financial institutions, and other stakeholders to collaborate on improving outreach to small and minority-owned businesses. The Administration will continue to engage with communities to inform the design and delivery of vital programs that meet their needs.

Strengthening the SBA's relationships with its lender partners to achieve goals and improve program integrity

With more than 5,000 active lenders, the Paycheck Protection Program is one of the largest public-private partnerships to deliver relief to the American people in US history. In the weeks ahead, the SBA plans to strengthen its relationships with lender partners to advance equity goals, deliver funding efficiently, and prevent waste, fraud, and abuse.

- **Enhance the current lender engagement model.** As part of the Biden-Harris Administration's commitment to further improve access to capital for small businesses, the SBA is launching a new initiative to deepen its relationships with lenders. This model will increase opportunity for lenders to provide recommendations and ask questions about the PPP and drive resolution of open questions and concerns in a more streamlined way. The SBA's goal is to make it easier for lenders to make PPP loans and to continue its relationships with this broader network of lending partners to expand access to capital after the PPP. Over the last several weeks, the SBA has hosted lender calls with over 6,000 attendees; held individual meetings with lender trade associations representing a wide array of institutions, from the largest banks to the smallest community lenders, and equipped the agency's field team of lender relations specialists with information to support resolution of lender and borrower questions.

- **Partner with lenders to achieve shared goals of reaching underserved small businesses.** The newest round of PPP lending has improved equitable access across most dimensions, but more work is needed to ensure underserved small businesses access help, especially those in LMI areas. Preliminary SBA data shows that much opportunity to improve lies with lending partners who succeeded in reaching these areas in the first round of PPP. The SBA will continue efforts to partner with its trusted lenders to increase equitable access to capital.

- **Increase program integrity.** The Biden-Harris Administration is committed to addressing waste, fraud, and abuse across all federal programs. The Administration has instituted several new anti-fraud measures to prevent wasted taxpayer dollars. Unlike the previous round of the PPP, loan guaranty approval is now contingent on passing SBA fraud checks, Treasury's Do Not Pay database, and public records. While these checks mean there is no longer instantaneous approval, more than 96 percent of loan applications have an approval time of less than 48 hours after being submitted. The SBA now also conducts manual loan reviews for the largest loans in the PPP portfolio and a random sampling of other loans. The SBA has worked, and will continue to work, with its lender partners to create streamlined processes to resolve issues as quickly as possible, while still ensuring taxpayer dollars are spent wisely.

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Appendix: Paycheck Protection Program Data

As of 2/18/2021

Program Summary

The SBA has deployed ~$133.5B in forgivable PPP loans to ~1.8 million small businesses in the first month of the program. **The current round of PPP is more equitable on all measures, with the exception of LMI, which remains stagnant:**

- The average loan size is down 42 percent, to just $73,966
- The share of funding going to small businesses is up, and to larger businesses is down
    - For businesses with <10 employees share of funding is up nearly 60%
    - For businesses with <20 employees, share is up 50%
    - For businesses with over 100 employees, share is down over 60%

Equity Metric	PPP Month One ('20)	PPP Month One ('21)	% Change
Average Loan Size	$127,111	$73,966	-42%
% of businesses <10 employees	69.1%	78.8%	14%
% of funding <10 employees	16.7%	27.0%	62%
% of businesses <20 employees	83.9%	90.3%	8%
% of funding <20 employees	30.1%	45.1%	50%
% of businesses >100 employees	2.3%	0.8%	-65%
% of funding >100 employees	32.2%	13.1%	-59%

In addition, support to rural communities is up nearly 30% and support flowing through Community Development Financial Institutions and Minority Depository Institutions is up more than 40%:

Equity Metric	PPP Month One ('20)	PPP Month One ('21)	Notes
% of businesses <$100K	76%	83%	**60% more of the funding** is going to the smallest businesses proportional to this point last round
% of funding <$100K	18%	29%	
% of businesses in rural communities	21%	27%	**29% more businesses** in rural communities served proportional to this point last round
% of funding in rural communities	16%	17%	
% of loans made by CDFIs and MDIs	4%	5%	**40+% more funding** through trusted CDFIs and MDIs proportional to this point last round
% of funding through CDFIs and MDIs	3%	5%	
% of businesses in LMI communities	23%	23%	**Similar proportion** of businesses served and slightly **smaller proportion of funding** to LMI communities proportional to this point last round
% of funding in LMI communities	26%	25%	