

An Empirical Review of the Paycheck Protection Program

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Thank you for the invitation to testify at a hearing titled “An Empirical Review of the Paycheck Protection Program.” It is an honor for me to present before you and answer questions. I am a Research Associate at the Center for Economic Development in the Maxine Goodman Levin College of Urban Affairs at Cleveland State University. The Center for Economic Development provides research and technical assistance to government agencies, non-profit organizations, and the private sector. One of the Center’s focus areas includes applied research supporting economic inclusion.

I have focused my research on the access of minority, Hispanic- and female-owned businesses to PPP loans. In 2020, these businesses received smaller PPP loans than their business counterparts of the same size.¹ For example, Hispanic-owned businesses with less than four employees received 5% smaller loans compared to non-Hispanic-owned businesses of the same size, or \$828 less.

In 2020, on average, female-owned businesses received 12% less per employee compared to male-owned businesses (or \$1,144 less). Minority-owned businesses received 11% less per employee than white-owned businesses (or \$1,013 less). Hispanic-owned businesses received 8% less per employee than non-Hispanic business owners (or \$727 less).

Larger companies displayed increased discrepancies in loan amounts. On average, female-owned businesses with less than four employees received 17% smaller PPP loans than male-owned businesses of the same size (or \$3,233 less); and female-owned businesses with 20 to 500 employees received 22% smaller loans than male-owned businesses of the same size (or \$102,813 less).

I conducted over 20 interviews with a variety of PPP loans recipients. The sample consisted of businesses in Northeast Ohio, where nearly 40% of previously employed residents filed for unemployment as the pandemic started (Figure 1). I interviewed small businesses that received PPP loans ranging from about \$20,000 to over \$2 million. The sample included female-owned, male-owned, minority-owned, and white-owned businesses. Every respondent expressed appreciation for the assistance provided by the government in the form of PPP loans, and the majority stated that the loan helped them retain employees. Almost every interviewee mentioned frustration with the application process and uncertainty around what it entailed.

In general, businesses that received smaller loan amounts (less than \$150,000) reported more difficulty with the loan application process, filing multiple applications with multiple banks and pursuing more unique funding sources such as Fintech. Respondents cite the reason for these difficulties stemming from the size of their business. For example, a business owner complained: “[I] could not get anyone’s attention or response because I am a small business.” Some respondents

¹ Demko, I., & Sant’Anna, A.C. (2021). Impact of Race, Ethnicity, and Gender on the SBA Paycheck Protection Program (PPP) Loan Amounts. Working paper available at SSRN: <https://ssrn.com/abstract=3864218>

stated that lenders could have been incentivized to work with businesses of diverse ownership and size.

Beyond the difficulty in finding a lender, many recipients of smaller PPP loans expressed frustration over loan amount limits and permitted uses. Many interview respondents did not realize that rent, mortgage, and utility payments could be included in the requested PPP amount. As a result, they missed out on the opportunity to receive higher loan amounts.

Most businesses do not have experience in doing their financials. They had a steep learning curve to understand how to apply for the loan. “For us, it was all foreign language,” said one PPP recipient.² This highlights the importance of communication strategies and free technical assistance to guarantee the success of a public policy.

From a policy perspective, if the goal is to target ethnic disparities and support inclusion in federal aid for entrepreneurs, then the program cannot be one size fits all. PPP lasted 18 weeks in 2020 and 20 weeks in 2021 (Figure 2). In 2021, SBA set aside a two-week exclusive application period for smaller businesses and non-profits with fewer than 20 employees. While a few small businesses interviewed in Northeast Ohio did mention that the exclusive application period SBA created for smaller businesses in 2021 was a valuable change, others felt that it was not enough and that more targeted outreach programs would have been beneficial.

Interview findings did not confirm biases by lenders or the SBA against minority- or female-owned businesses. By design, the interviews did not have questions on discrimination in credit access and included only one question about business certification (minority-owned, female-owned, veteran-owned). Businesses received unequal treatment from PPP lenders not based on the demographics of their ownership, but when their business was smaller and requesting a loan under \$150,000. These findings have important implications because previous literature found that minority-owned firms are substantially smaller than white-owned firms.^{3,4} Research comparing male and female business owners also found women operating smaller businesses in terms of annual turnover and employment size.⁵ As such, female- and minority-owned businesses tend to fall under the case of businesses that may have applied for smaller PPP loans.

² Demko, I., Sant’Anna, A.C., & Liang, K. (2021). An Overview of the Paycheck Protection Program (PPP) Loans and Implications to Agricultural Enterprise Recovery from COVID. *Journal of Agriculture, Food Systems, and Community Development*, 11(1), 1-8.

³ Fairlie, R.W., & Robb, A.M. (2007). Why are black-owned businesses less successful than white-owned businesses? The role of families, inheritances, and business human capital. *Journal of Labor Economics*, 25(2), 289-323.

⁴ Perry, A.M., & Romer, C. (2020). To expand the economy, invest in black business, Brookings Institute.

⁵ Carter, S. & Shaw, E. (2006). *Women’s Business Ownership: Recent Research and Policy Development*, DTI Small Business Service Research Report, London.

Figure 1. Unemployment Filings in Northeast Ohio in 2020

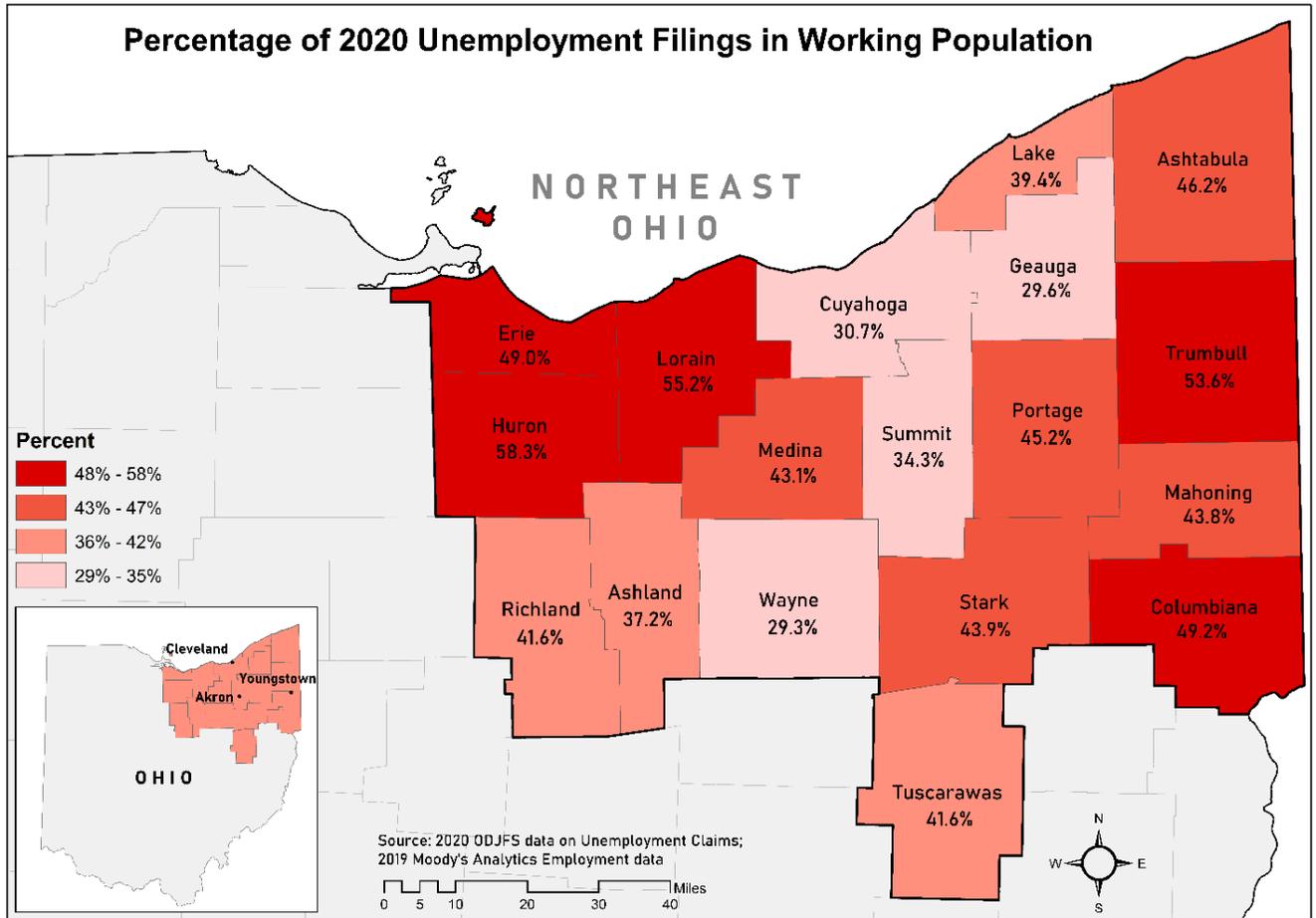


Figure 2. Paycheck Protection Program (PPP) Timeline

