Small businesses of color are being excluded from the PPP program. Without specific reforms this will continue.

The problem: The most significant small business relief program—the SBA’s Paycheck Protection Plan (PPP)—will provide no benefit at all to the vast majority of businesses owned by people of color.

Why? This government-funded program can be accessed only through banks and other existing SBA lenders, and they are lending to existing customers, while most business owners of color do not have these relationships. Also, banks are lending to businesses receiving larger loans with payrolls larger than most businesses of color.

- On this basis, roughly 95% of Black-owned businesses, 91% of Latino-owned businesses, 91% of Native Hawaiian or Pacific Islander-owned businesses, and 75% of Asian-owned businesses stand close to no chance of receiving a PPP loan through a mainstream bank or credit union.

How big is this problem? Huge. Businesses of color account for 30% of all U.S. businesses, contributing 7.2 million jobs and $1.38 trillion in revenue to the economy (as of 2012, most recent available data)—and are a substantial source of income and employment in communities of color.

Communities of color already are bearing the harshest impacts of the COVID-19 crisis, with higher levels of job loss and illness. They must receive their fair share of COVID-19 relief and recovery.

How to fix the problem?

Require fair access through banks and credit unions: All lenders must ensure that $50 billion (20% of their lending under the expanded PPP) are made to businesses of color.

Support Community Development Financial Institutions and Minority Depository Institutions: These lenders have a strong track record of serving communities and borrowers of color. $25 Billion should be allocated to them out of the expanded PPP funds.

Provide an alternative PPP loan that better fits very small businesses: Loan amounts up to 60% of prior year’s eligible expenses (up to $100,000), forgivable to the extent spent on eligible expenses.

Adjust PPP rules to serve more small businesses and ensure equity and transparency:

- Eligible expenses should include payments to 1099 workers, on which small businesses rely
- Program to be open to all US small businesses that filed 2018 or 2019 tax returns
- Eliminate ineligibility based on criminal justice system involvement
- Increase minimum SBA-paid loan fees for smaller loans
- Require all lenders to provide data, including borrower demographics and loan amounts

Help small businesses access the program: Funding should be provided to Community Development Corporations and Community-Based Organizations for outreach and enrollment assistance for eligible businesses.
This is due to both “relationship” reasons, and because PPP loan proceeds can be used to make interest payments on pre-existing loans. (SBA Business Loan Program Temporary Changes; Paycheck Protection Program, Interim Final Rule, available at https://www.sba.gov/sites/default/files/2020-04/PPP--IFRN%20FINAL_0.pdf (“Interim Final Rule”) at 15. Therefore, lenders can improve the chances of borrowers repaying outstanding loans by facilitating the borrower’s access to PPP loans, a portion of which can be used for that purpose.

Owners of small businesses are less likely than other business owners to use debt-financing, and would not have existing commercial lender relationships. This is even more true of business owners of color. Minority Business Ownership at 9. Moreover, discrimination in access to credit is such that, in a U.S. Census survey, 30% of business owners of color reported feeling they were discouraged from seeking a loan. Id. at 9 (citing Christine Kymm, Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables, U.S. SBA (Jan. 2014)).

Lenders earn an origination fee equal to 5% of the loan balance for loans under $350,000, 3% for loans between $350,000 and $2,000,000, and 1% for loans above $2,000,000.

Allowable loan size is limited to 2.5 times monthly payroll (plus the outstanding amount of any Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020).

Michael McManus, Regulatory Economist, Minority Business Ownership: Data from the 2012 Survey of Business Owners, SBA Issue Brief No. 12 (Sept. 14, 2016) at 4, available at https://cdn.advocacy.sba.gov/wpcontent/uploads/2016/09/07141514/Minority-Owned-Businesses-in-the-US.pdf (“Minority Business Ownership”) Analyzing the U.S. Census Bureau’s 2012 Survey of Business Owners (the most recent such survey available), the paper notes that: (1) Over 95% of Black-owned firms and 91% of Latino-owned firms have no employees other than the business owner. (2) Those people of color-owned businesses that do have employees tend to have a smaller number of employees than those of white-owned businesses. Black-owned and Latino-owned firms that are employers have on average between 8 and 9 employees (8.1 for Black-owned and 8.9 for Latino-owned).

These are the businesses that have no employees at all beyond the business owner. Id.

Minority Business Ownership at 1-2.

### Table 1. Comparative Shares of Minority Business Ownership and Total Population, 2012

<table>
<thead>
<tr>
<th>Minority Group</th>
<th>Number of Businesses</th>
<th>% of U.S. Businesses</th>
<th>Population</th>
<th>% of U.S. Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black/African American</td>
<td>2,584,403</td>
<td>9.5</td>
<td>39,697,782</td>
<td>12.6</td>
</tr>
<tr>
<td>American Indian and Alaska Native</td>
<td>272,919</td>
<td>1.0</td>
<td>2,574,388</td>
<td>0.8</td>
</tr>
<tr>
<td>Asian</td>
<td>1,917,902</td>
<td>7.1</td>
<td>15,578,065</td>
<td>5.0</td>
</tr>
<tr>
<td>Native Hawaiian and Other Pacific Islander</td>
<td>54,749</td>
<td>0.2</td>
<td>530,525</td>
<td>0.2</td>
</tr>
<tr>
<td>Hispanic</td>
<td>3,305,873</td>
<td>12.2</td>
<td>52,932,483</td>
<td>16.9</td>
</tr>
<tr>
<td>Minority</td>
<td>7,952,386</td>
<td>29.3</td>
<td>116,638,306</td>
<td>37.2</td>
</tr>
<tr>
<td>Non-Hispanic White</td>
<td>19,278,260</td>
<td>70.9</td>
<td>197,275,734</td>
<td>62.8</td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100% due to those identifying as two or more races, or an “other” race.


The last recession, caused by a financial crisis, resulted in more than 8.7 million jobs lost, 8 million homes foreclosed, and 500 community banks shuttered. Since then, the recovery has largely excluded communities of color. Federal Reserve data show that families of color and Americans under 50 years old are least likely to have recovered the wealth they lost from the Great Recession. Prior recoveries likewise largely excluded families of color, and entrenched inequities that persist today. These exclusionary policies included: denying farmworkers and domestic workers protection under the Social Security Act of 1935; denying workers in predominantly Black-held jobs coverage under the Fair Labor Standards Act of 1938; Redlining by the Federal Housing Administration (created in 1934); largely excluding servicemembers of color from the benefits of the G.I. Bill (1944).