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 all sizes owned by people of color, including sole proprietorships, accounted for 30% of all U.S. businesses, contributing 7.2 million jobs and $1.38 trillion in revenue to the economy in 2012. And the sector is growing rapidly. By 2016, there were over 1.1 million employer businesses owned by people of color, accounting for 8.7 million jobs, $280 billion in payroll, and $1.3 trillion in total annual receipts—and this is on top of millions of sole proprietorships. Between 2014 and 2016, employer businesses owned by people of color grew 13% compared to just a 1% increase in white-owned employer businesses.

Communities of color already are bearing the harshest impacts of the COVID-19 crisis, with higher levels of job loss, illness, and losses of life. 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: They have a strong track record of serving communities 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 “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.

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

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

“Employer businesses” are businesses that have one or more employees in addition to the business owner.


The Great Recession 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, according to Federal Reserve data. Prior recoveries likewise largely excluded families of color, fueling 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).