

**The Small Business Administration Paycheck Protection Program (PPP) has failed to fairly serve businesses owned by people of color, causing spill-over harms throughout communities of color, states, and regions.** Businesses owned by people of color are a substantial source of income and employment—accounting for more than 8.7 million jobs at total annual payroll of \$280 billion, and \$1.3 trillion in revenue<sup>i</sup>—yet many were excluded from the first round of funding in the PPP. The scarcity of funding relative to the demand strongly favored relatively well-connected, well-resourced businesses with existing commercial lending relationships with a bank or credit union. These entities were able to get their application accepted and processed quickly to claim their share while the funding lasted. This strongly disfavored businesses owners of color, who generally do not have these relationships and access. Moreover, the program incentivizes lenders to favor larger loans, which yield larger fees, and these require payrolls larger than those of the vast majority of businesses of color. This first-come, first-served model privileges businesses and financial institutions that have more resources and are better prepared to move. Even though some changes were made during the second round of the PPP, much more must be done to ensure essential relief reaches small businesses owned by people of color.

### **Ensure funding gets to the businesses that were excluded from PPP.**

- Reserve \$10 billion of PPP small business loan funding for loans by community development financial institutions (CDFIs) and minority-depository institutions (MDIs) (not to include bank-affiliated CDFIs), of which \$5 billion is reserved for loans of up to \$75,000.
- Make a \$1 billion emergency allocation to the CDFI Fund.
- Reserve 30% of any new small business loan funding (other than the \$10 billion for CDFIs/MDIs) for businesses with fewer than 10 employees located in low- and moderate-income census tracts. These terms should apply:
  - Maximum loan amount: \$75,000
  - Eligible expenses/expenses counted in determination of permitted loan size, uses and forgiveness amount:
    - Expanded to include necessary businesses expenses, as described below.
    - For sole proprietorships, include 6 months of profits (as reflected in 2018 or 2019 tax return).
  - Outreach and enrollment assistance: \$30 million funding for grants to Community Development Corporations and Community-Based Organizations for outreach, enrollment assistance, and technical support for compliance and loan forgiveness, for eligible businesses.

### **Reform PPP Program rules applicable to all round-3 loans to enhance efficacy.**

- Fee increase for small loans: Eliminate disincentive for lenders to make small loans, by setting minimum origination fee at the lesser of \$2,500 or 50% of loan amount.
- Maximum loan amount: \$2,000,000.
- Eligibility:
  - Streamline know-your-customer requirements for businesses without existing banking relationships with the lender.
  - Expand the list of eligible expenses that can be used to determine loan amount and forgiveness: Include necessary ongoing business costs, such as business insurance, inventory, costs associated with vehicles and equipment (loan payments, insurance, maintenance), costs needed to adapt to pandemic, including safety equipment, retrofitting spaces, and payments to 1099 workers, on whom small businesses rely.
  - Eliminate ineligibility based on criminal records.
  - Open program to all US small businesses that filed 2018 or 2019 tax returns, regardless of citizenship status.

### **Improve accountability and transparency.**

- Require lenders to collect and report to SBA information on race, national origin, and gender of principal owners of each applicant and each approved loan, and require SBA to publicly release data on applications and approvals by race, national origin, and gender by lender.

<sup>i</sup> Census Bureau's Annual Survey of Entrepreneurs, 2016. These numbers reflect the payrolls and revenues of "employer businesses" only; there are also millions of sole proprietorships owned by men and women of color.