Thomas P. DiNapoli, State Comptroller
Rahul Jain, Deputy Comptroller

The Paycheck Protection Program in New York City: What's Next?

Highlights

- Although New York City was an early epicenter for COVID-19, only 45.6 percent of firms in the City received PPP loans, below the national average of 50.9 percent.
- In Phase One, a majority of loan dollars (57.5 percent) went to loans of more than $1 million. Small loans below $150,000 represented only 9.4 percent of the total.
- In Phase Two, after adjustments to target smaller businesses, the share of small loans rose to 31.6 percent of dollars disbursed.
- By neighborhood, the ratio of PPP loans as a percentage of small business payroll was highest in Lower Manhattan and Staten Island during Phase One. The distribution was more balanced in Phase Two, though the Bronx lagged overall.
- Citywide, the PPP covered the highest shares of wages in manufacturing (93.1 percent), followed by personal services (59.7 percent), construction (57.0 percent) and leisure and hospitality (50.4 percent).
- Large loans were disbursed primarily through banks that had existing financial relationships with some applicants. In Phase Two, online lenders provided new banking relationships for certain loan recipients.
- Phase Three of the program, restarted in January after Congress allocated $284 billion, has significant adjustments including possible second loans to firms where revenues declined at least 25 percent from 2019.
- Firms in accommodation and food services, other services (including personal services), educational services, and arts, entertainment and recreation are more likely to seek PPP loans given ongoing job losses, a higher likelihood of revenue declines and a greater need for additional financing.

Since March 2020, Congress has passed various laws designed to curb the spread of COVID-19 and mitigate the pandemic's damage to the nation's economy. One of the key legislative provisions was the creation of the Paycheck Protection Program (PPP), designed mainly to help small businesses and sole proprietors meet payroll commitments during the crisis. The program has been allocated a total of $953 billion in three rounds of funding in March ($349 billion), April ($320 billion), and December ($284 billion).

While many businesses have benefited from the program, the distribution of funds has generated some criticism. Various analyses have found many Black-owned and Latino-owned businesses were less likely to receive PPP loans because they have very few employees and lack significant existing banking relationships. Additionally, some PPP funds were distributed to large companies because the size requirements initially applied to firm employment at individual locations rather than for companies as a whole.

Initial data on PPP loans was released by the Small Business Administration (SBA) in July, and updated at the conclusion of the second phase of the program in August. Litigation mandated the release of a more detailed dataset in December. While the data provides valuable insight into the operation of the program, it limits other significant details such as the gender, race and ethnicity of loan recipients, and loan rejections.

This report evaluates the impact of the PPP in New York City measured against the program's objective of maintaining small-business employment during the pandemic. The analysis provides an overview of the program's operation, an evaluation of the distribution of loans contrasted with local demographics, and a discussion of issues and measures related to the new (third) round.

Enactment and Evolution of the Paycheck Protection Program

In response to the initial economic impacts of the COVID-19 pandemic and related closures, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. Among the economic stimulus measures in the legislation was the creation of the Paycheck Protection Program (PPP), designed to offer low-interest, forgivable loans for small businesses that could be used to cover payroll costs, rent and utilities. The maximum amount borrowers could request through the program was $10 million. The loans would be partially or fully forgiven if businesses kept their employee counts and wages stable. Three-quarters of loan proceeds were required to be spent on payroll costs in order to qualify for loan forgiveness.

The program was administered by the SBA, which began accepting applications on April 3, 2020. The $349 billion in funding designated for the PPP was allocated in less than two weeks, and the SBA stopped accepting applications on April 16, 2020. In response to the continuing economic impact of the pandemic, Congress passed the Paycheck Protection Program and Health Care Enhancement Act, signed into law on April 27, 2020. This legislation allocated an additional $320 billion to the PPP, and the SBA resumed accepting applications once the legislation was signed into law. This report refers to these two rounds of funding for the program as Phase One and Phase Two, and to the upcoming round funded through legislation passed in December as Phase Three (see Figure 1).

Congress further amended the program with the Paycheck Protection Program Flexibility Act, signed into law on June 5, 2020. Designed to address shortcomings of the original legislation in its goal of supporting small-business employment, it expanded the period of eligible costs to 24 weeks and extended the minimum loan repayment term to five years, while also offering protections for businesses that might be forced to remain closed or to close again as a result of pandemic-related restrictions. The legislation also permitted up to 40 percent of loan proceeds to be used on approved nonpayroll costs, an increase from the original 25 percent. Phase Two concluded on August 8, when the

FIGURE 1

Paycheck Protection Program Characteristics, by Legislation and Phase

Program Aspect	CARES Act (Phase One)	PPP and Health Care Enhancement Act, PPP Flexibility Act (Phase Two)	Consolidated Appropriations Act (Phase Three)
Allocated Funding	$349 billion	$320 billion	$284 billion
Loan Size	Up to $10 million	Up to $10 million	Up to $10 million; $2 million for second loans
Multiple Loans?	No	No	Yes, permitted based on revenue decline
Period of Eligible Expenses	10 weeks	10 or 24 weeks	8 to 24 weeks; 10 to 14 for second loans
Share of Expenses on Payroll	75 percent	60 percent	60 percent
Business Size Limits	500 employees	500 employees	500 employees; 300 for second loans

Note: Businesses applying for second loans must be able to demonstrate a revenue reduction of at least 25 percent in Q1, Q2, or Q3 compared to the same quarter in 2019. The second-draw loans can cover up to 10 weeks of payroll costs, though businesses in accommodation and food services (NAICS code 72) may receive loans covering up to 14 weeks of payroll costs.

SBA ceased taking applications, though $134 billion of the funds allocated for the program remained undisbursed.

On December 22, 2020, Congress passed the bill for the Consolidated Appropriations Act, 2021, which included additional funding for the PPP as well as several modifications to the program. An additional $284 billion was allocated for the program, replacing undisbursed funds from the previous round. The bill was signed into law on December 27, 2020.

The legislation expanded the permitted uses for funds received through the program. Additional uses in Phase Three include operations expenditures (e.g., costs for software, cloud computing, and other accounting or human resources needs), worker protection expenditures (costs related to personal protective equipment to comply with local health guidelines), supplier costs (to cover contractual obligations with suppliers in place prior to the pandemic), and property damage costs related to public disturbances that occurred in 2020.

In addition, the legislation allows certain businesses that have already received a PPP loan to apply for second-draw loans. These would be limited to $2 million. Second loans would generally be available for businesses with 300 employees or less that can demonstrate at least a 25 percent reduction in revenues in at least one quarter of 2020 relative to the same quarter in 2019. Borrowers may request a second-draw loan covering up to 10 weeks of payroll expenses, though businesses in accommodations and food services may have up to 14 weeks covered. These second-draw loans would be eligible for forgiveness under the same terms as the original loans, with the requirement that at least 60 percent of the loans be used to cover payroll costs.

Business eligibility has been expanded in Phase Three to include chambers of commerce and trade associations, housing cooperatives, local news organizations, and destination marketing organizations (i.e., convention and visitor bureaus). The legislation prohibits businesses from using loan dollars for lobbying activities, requires any head of an executive department or member of congress to disclose if they or their spouses have received PPP loans, and makes them ineligible for future loans.

In recent guidance, the SBA has also committed to increasing access to the PPP for businesses owned by minorities, veterans and women, and those operating in underserved communities. When the PPP application portal reopened on January 11, 2021, the first two days were dedicated to accepting applications exclusively from community financial institutions. The SBA will seek to match small businesses with certified development companies, setting aside designated hours to process the smallest loan applications, and will work with the Federal Reserve to enable PPP lenders to enhance their liquidity and expand their lending capacity.

The SBA guidance indicated above would likely be facilitated in part by specific earmarks for loans promoted through community financial institutions ($15 billion) and credit unions and small lenders ($15 billion), and to businesses with no more than 10 employees ($15 billion). Community financial institutions have played an important intermediary role in expanding access to credit in low-income communities, and credit unions have increased their lending to small businesses since 2000.[1]

Allowing for second draws from existing borrowers and establishing an earmark of $35 billion for first-time borrowers targeted in low-income communities are also intended to ensure a more equitable distribution of funds in Phase Three.

Finally, the legislation addresses some of the operational shortcomings of the program. It

[1] Federal Reserve, *Report to the Congress on the Availability of Credit to Small Businesses*, September 2017, https://www.federalreserve.gov/publications/2017-september-availability-of-credit-to-small-businesses.htm.

clarifies that eligible expenses paid with PPP loans are still considered tax-deductible even if the loan is forgiven, and ensures that the forgiveness process for loans of $150,000 or less has been simplified.

Distribution of PPP Funds in New York City

An analysis of the distribution of PPP funds by industry, geography, lender and loan size helps clarify the effects of the program's evolution on the small businesses it was designed to help. This review can then inform the distribution of funds for Phase Three of the program, particularly for second loans.[2]

Although New York City was an initial epicenter of the pandemic, only 45.6 percent of firms in the City received loans through the PPP, below the national average of 50.9 percent.[3] The average loan size to businesses in the City was $143,500, higher than the national average of $100,700. New York City businesses received a total of $18.1 billion in loans through the program so far.

For the City as a whole, PPP loans covered 20.2 percent of wages (see Figure 2). Businesses in Brooklyn received PPP loans that covered 41.1 percent of wages, the highest of any borough. Manhattan had the lowest share at 15.5 percent. Many businesses in Manhattan may not have been eligible to receive loans from the program, either because they were too large or because they were able to continue normal operations during the pandemic. For example, 36.3 percent of Manhattan workers are employed at firms with more than 500 employees, which are generally ineligible for PPP assistance.

Restrictions designed to halt the spread of the virus had the largest impact on businesses that rely on face-to-face interactions with customers, such as restaurants and travel accommodations, personal services, and retail operations.[4] These industries accounted for 22 percent of employment in the City in 2019. When looking only at these industries, a higher share of wages was covered by loans, and the distribution of loans was more equitable across the boroughs (see Figure 2). Brooklyn was the borough with the highest share of wages covered at these businesses, at 59.7 percent.

FIGURE 2

Share of Wages Covered by PPP Loans, All Industries and Face-to-Face-Dependent

Borough	All Industries	Face-to-Face Dependent
Bronx	25.4%	49.6%
Brooklyn	41.4%	59.7%
Manhattan	15.5%	43.4%
Queens	31.7%	52.2%
Staten Island	32.7%	54.5%
Citywide Average	**20.2%**	**46.9%**

Sources: U.S. Department of the Treasury, SBA Paycheck Protection Program Loan Level Data; NYS Department of Labor, Quarterly Census of Employment and Wages; New School Center for New York City Affairs; OSC analysis

Neighborhood Distribution

In the first phase of PPP loan disbursements, 7.0 percent of all firms in the City received loans through the program, though the share varied widely by neighborhood (see Figure 3).

[2] The PPP program was initially designed to allow borrowers to receive funds covering up to 10 weeks of their payroll costs (which was expanded to 24 weeks in early June). To examine how the funds were disbursed while accounting for the relative number and size of businesses, this report highlights the share of wages that the loans covered over the 10-week period.

[3] For the purposes of this report, the "share of businesses" figure reflects the share of total businesses in the City, including those that do not meet the eligibility criteria for the PPP program.

[4] Based on a definition from The New School Center for New York City Affairs, *The COVID-19 New York City Economy Three Months In: Reopening and a Continuing Low-Wage Worker Recession*, James A. Parrott and Lina Moe, June 29, 2020, www.centernyc.org/reports-briefs/2020/6/29/the-covid-19-new-york-city-economy-three-months-in-reopening-and-a-continuing-low-wage-worker-recession.

Neighborhoods in New York City are designated by the U.S. Census Bureau as Public Use Microdata Areas (PUMAs).[5]

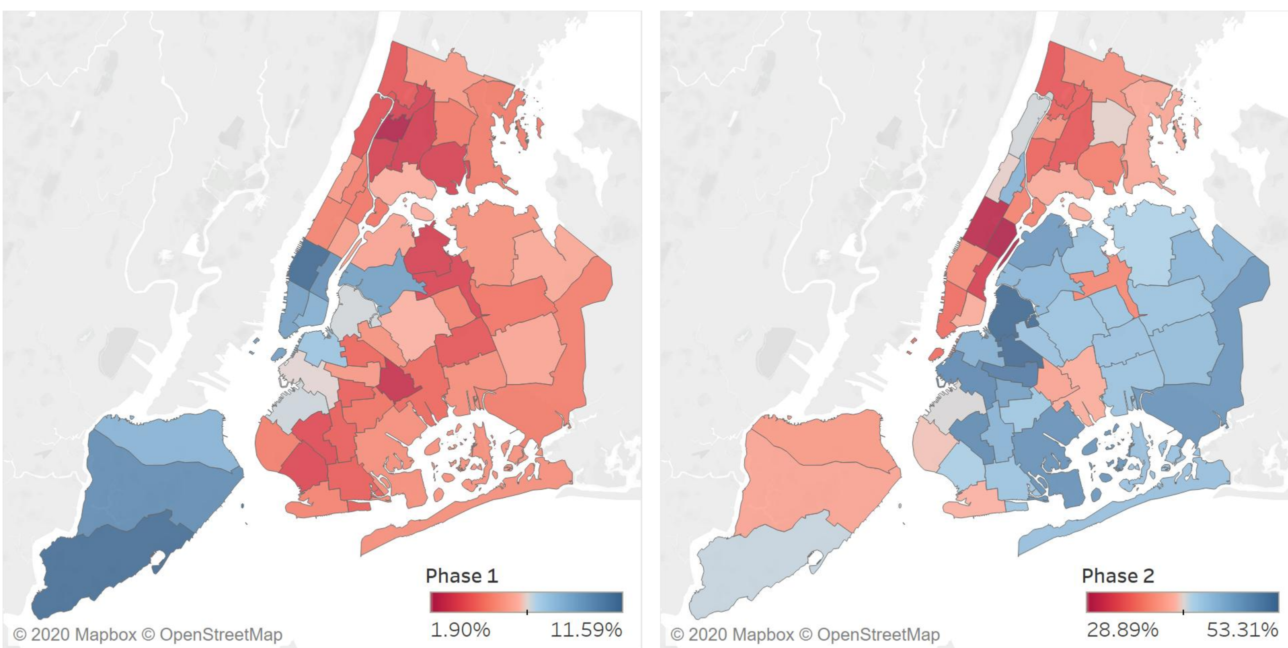
Only three neighborhoods had more than 10 percent of their businesses receive loans: Chelsea, Clinton and Midtown in Manhattan, and in Staten Island, both Tottenville, Great Kills and Annadale and New Springville and South Beach. In Brooklyn, only Brooklyn Heights/Fort Greene was above the citywide average at 7.7 percent, while in Queens, only Sunnyside and Woodside surpassed the average, with 9.3 percent of businesses receiving loans in Phase One.

In all other neighborhoods in Manhattan, Brooklyn and Queens, as well as all neighborhoods in the Bronx, a lower-than-average share of businesses received loans in Phase One of the program. Of the 55 neighborhoods in the City, 46 had below-average shares of businesses receive loans, underscoring how heavily concentrated the loan disbursements were in one-fifth of the City's neighborhoods.

In Phase Two, 38.6 percent of businesses received loans through the program. In addition, the distribution of loans was much more even throughout the City, with 40 neighborhoods above the citywide average. A significant number of neighborhoods in Brooklyn and Queens received a larger-than-average share of loans. While the Bronx also received more loans in Phase Two, seven of the 10 neighborhoods there were still below average.

FIGURE 3

Share of Businesses to Receive a Loan, for All Industries, by Neighborhood



[5] Neighborhoods, in this report, refer to the 55 U.S. Census-defined PUMAs for New York City. For 2019 demographic data, the neighborhoods match the geographic PUMA boundaries. For data reported by ZIP Code, e.g., PPP information, data was allocated to neighborhoods using a crosswalk between ZIP Codes and PUMAs (referred to as "PUMAs by ZIP Code" in the footnotes). For comparability purposes, firm data by ZIP Code was drawn from the State Department of Labor's 2019 QCEW (Quarterly Census of Employment and Wages).

FIGURE 4

Top 10 and Bottom 10 Neighborhoods by Share of Wages Covered by PPP Loans and Hispanic or Non-White Share of Population

Borough	Neighborhood	Share of Wages Covered by Loans	Hispanic or Non-White Share of Population
Queens	Ridgewood, Glendale & Middle Village	54.1%	48.0%
Brooklyn	Bensonhurst & Bath Beach	53.8%	61.7%
Brooklyn	Greenpoint & Williamsburg	53.0%	38.9%
Queens	Astoria & Long Island City	51.9%	50.4%
Brooklyn	Borough Park, Kensington & Ocean Parkway	51.4%	28.1%
Brooklyn	Crown Heights S., Prospect Lefferts & Wingate	51.0%	**74.7%**
Brooklyn	Park Slope, Carroll Gardens & Red Hook	49.8%	32.2%
Brooklyn	Sunset Park & Windsor Terrace	48.6%	**76.3%**
Queens	Far Rockaway, Breezy Point & Broad Channel	47.4%	67.8%
Brooklyn	Canarsie & Flatlands	47.2%	**78.5%**
	Citywide Average	**20.2%**	**68.1%**
Manhattan	Battery Park City, Greenwich Village & Soho	17.4%	31.6%
Bronx	Morris Heights, Fordham South & Mount Hope	16.3%	**98.2%**
Brooklyn	Brownsville & Ocean Hill	16.2%	**96.4%**
Bronx	Bedford Park, Fordham North & Norwood	15.5%	**93.9%**
Manhattan	Washington Heights, Inwood & Marble Hill	15.3%	**80.7%**
Brooklyn	East Flatbush, Farragut & Rugby	15.0%	**97.4%**
Manhattan	Chelsea, Clinton & Midtown Business District	14.8%	41.6%
Manhattan	Murray Hill, Gramercy & Stuyvesant Town	14.4%	33.8%
Manhattan	Hamilton Heights, Manhattanville & West Harlem	13.4%	64.6%
Manhattan	East Harlem	10.8%	**86.2%**

Note: For both phases of the PPP. Values in red are higher than the citywide average.
Sources: U.S. Department of the Treasury, SBA Paycheck Protection Program Loan Level Data; NYS Department of Labor, Quarterly Census of Employment and Wages; OSC analysis

In general, outer-borough businesses may have faced more obstacles in obtaining loans because they did not already have strong ties to the banking sector and were relatively smaller by employment size. Prior to the pandemic, the JPMorgan Chase Institute found that businesses in communities of color were the most cash-constrained and the least likely to have existing relationships with large banks.[6] Many major lenders (i.e., TD Bank, Citibank, Bank of America, Capital One, and Wells Fargo) only accepted applications for the PPP program from customers with existing accounts. Further, while most records in the PPP loan dataset did not contain information on the race and ethnicity of business owners, it is worth noting that Bronx neighborhoods have higher concentrations of Hispanics and African Americans than Manhattan and Staten Island neighborhoods. Although population demographics are not a perfect proxy for the race or ethnicity of small-business owners, they are useful given the lack of direct

[6] JPMorgan Chase, "Place Matters," September 2019, www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-place-matters.pdf.

demographic information in the PPP data. Figure 4 (previous page) shows the top 10 and bottom 10 neighborhoods by share of wages covered by PPP loans, and the share of the population that is Hispanic or non-White in each, highlighting reduced loan uptake in communities with higher concentration of minorities.

Some small businesses may not have sought loans because the loan structure prevented them from effectively utilizing the loans. The program initially required that 75 percent of loan funds be used to cover payroll costs (later lowered to 60 percent) in order to qualify for forgiveness. For smaller family-run businesses, payroll can often be a much smaller share of operating costs, making it difficult for these companies to have their loans forgiven. In New York City, four-fifths of businesses have fewer than 10 employees, with slightly higher shares in Brooklyn and Queens.

Loan Distribution

Loans by Sector

Businesses in the manufacturing sector had the highest share of wages covered by PPP loans at 93.1 percent (see Figure 5), and also had the highest participation rate in the program, with 84.1 percent of firms receiving loans. Manufacturing firms in New York City received a much larger share of loans and loan dollars than in the nation as a whole, although manufacturing firms at the national level had a much larger average loan size. The sector's high participation rate in the program resulted in manufacturing firms receiving 4.6 percent of total PPP funds disbursed in the City, with an average loan size of $187,300. For comparison, manufacturing firms make up 1.9 percent of all firms in the City.

In personal services firms, 59.7 percent of wages were covered by the PPP, though only

FIGURE 5

Share of Wages Covered by PPP Loans and Share of Businesses to Receive Loans, by Industry Sector

Industry Sector	Share of City's Total Wages	Share of Loan Dollars Disbursed	Share of Wages Covered by Loans	Share of Businesses to Receive Loans	Average Loan Size
Manufacturing	1.0%	4.6%	93.1%	84.1%	$187,300
Personal Services	2.2%	6.6%	59.7%	32.4%	$100,700
Construction	3.1%	8.7%	57.0%	48.2%	$214,300
Leisure & Hospitality	5.1%	12.7%	50.4%	50.8%	$146,000
Wholesale Trade	3.0%	5.6%	37.6%	47.8%	$146,900
Retail	3.7%	6.4%	34.6%	48.5%	$73,200
Health & Social Assistance	10.5%	13.1%	25.0%	47.4%	$205,300
Professional & Business	21.6%	21.9%	20.5%	51.4%	$172,000
Educational Services	6.9%	4.4%	12.9%	40.7%	$310,700
Information	7.4%	3.7%	10.2%	49.7%	$188,300
Transportation & Warehousing	3.2%	1.6%	10.0%	48.0%	$111,600
Financial Activities	26.9%	5.7%	4.3%	25.6%	$118,700
Citywide Average	**100.0%**	**100.0%**	**20.2%**	**45.6%**	**$143,500**

Sources: U.S. Department of the Treasury, SBA Paycheck Protection Program Loan Level Data; NYS Department of Labor, Quarterly Census of Employment and Wages; OSC analysis

32.4 percent of firms participated; both of these levels were significantly below the national average. This sector includes appearance-enhancement businesses such as salons and barbershops, as well as repair shops, laundry services, funeral homes, and civic and professional organizations. In the construction industry, PPP loans covered 57.0 percent of wages, while 48.2 percent of firms participated in the program. The leisure and hospitality sector, which includes restaurants and hotels, had 50.4 percent of wages covered by the program, with 50.8 percent of businesses receiving PPP loans. Both construction and leisure and hospitality were below the national averages for their sectors.

The retail sector was also heavily impacted by the pandemic-related shutdown, and received loans covering 34.6 percent of wages, with 48.5 percent of businesses participating in the program. Though New York City retail businesses received a slightly higher share than retail firms in the nation, they had a lower share of wages covered, and had the smallest average loan size of any industry sector at $73,200.

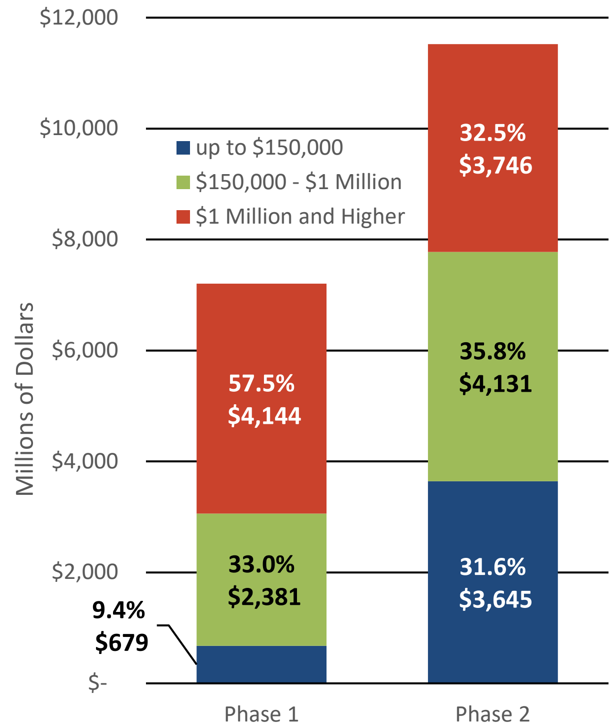
Some sectors experienced greater variations in the distribution of loans between the two phases of the program. The largest change was in health care and social assistance, which received 8.6 percent of funds disbursed in Phase One, but rose to 15.9 percent in Phase Two. The retail sector received 6.8 percent of funds disbursed in Phase Two, up 1.1 percentage points from Phase One. The largest drop was in professional and business services, which fell four percentage points to 20.3 percent. In general, firms that could operate their businesses remotely saw a shift in their use of the program between Phase One and Phase Two.

Distribution by Loan Size

The majority of loan dollars disbursed in Phase One made up large loans that exceeded $1 million (see Figure 6), representing 57.5 percent of funds distributed. Small loans, which the PPP defined as loans below $150,000, represented only 9.4 percent of the total.

In Phase Two, the distribution became more equitable among loan sizes. Small loans made up 31.6 percent of loan dollars disbursed, while large loans accounted for 32.5 percent.

FIGURE 6
Total PPP Loan Dollars Disbursed by Loan



Sources: U.S. Department of the Treasury, SBA Paycheck Protection Program Loan Level Data; OSC analysis

A possible reason that loans were weighted so heavily toward larger firms at the outset of the program is that these businesses are more likely to have firmly established banking relationships with major financial institutions. Commercial banks gave priority to their existing customers when distributing funds from the PPP. In fact, large banking firms were responsible for administering the majority of the PPP loans (see Figure 7).

FIGURE 7
10 Largest PPP Lenders by Total Dollars Disbursed

Lender	Share of Total Loan Dollars	Phase 1	Phase 2	Average Loan Size
JPMorgan Chase Bank	25.3%	$1,774,810,400	$2,961,406,800	$130,100
TD Bank	6.6%	$713,423,800	$525,691,600	$104,000
Signature Bank	6.2%	$228,316,000	$940,224,300	$341,300
Citibank	6.1%	$384,742,300	$753,327,400	$125,100
Bank of America	5.4%	$163,379,900	$853,316,400	$102,500
Cross River Bank	3.0%	$125,903,300	$426,706,100	$36,800
HSBC Bank USA	2.7%	$210,220,000	$291,532,200	$256,100
Valley National Bank	1.7%	$206,785,800	$117,581,000	$250,500
Manufacturers and Traders Trust Company	1.7%	$277,413,900	$31,712,400	$333,800
Capital One	1.6%	$19,313,900	$274,324,500	$112,400

Sources: U.S. Department of the Treasury, SBA Paycheck Protection Program Loan Level Data; OSC analysis

Some potential borrowers have also pointed out that while the SBA has considerable experience with businesses that have as many as 500 employees[7], it has less experience with companies that have fewer than 100 employees, and virtually no relationships with microbusinesses, defined as companies that employ fewer than 10 people. In New York City, four-fifths of all businesses have fewer than 10 employees. The reliance on pre-existing relationships by both the SBA and the banks tasked with loan distributions may have left the smallest businesses with the most immediate needs unable to participate.

The alterations to the program, both in Phase Two and more recently in Phase Three, reflect some recognition of these structural shortcomings and a renewed focus on serving smaller businesses. In addition, the credit market also responded, with some lenders (particularly financial technology lenders operating exclusively online) proactively seeking out new clients without established banking relationships. For lenders with an average loan size below $50,000, the vast majority (88.6 percent) of loans were disbursed in Phase Two (see Figure 8, next page), as these lenders sought to fill the gap for microbusinesses.

Paycheck Protection Program: Looking Ahead

The decision to renew the PPP comes just as the employment picture has begun to weaken again, and businesses are facing new closures and reduced traffic related to a resurgence of the pandemic. The U.S. Census Bureau's Small Business Pulse Survey, which has attempted to measure the effect of the coronavirus pandemic on small businesses, has been conducted in several phases since May 2020. Pulse survey data for week ending January 10, 2021 shows 81.5 percent of businesses in the New York/New Jersey/Pennsylvania metropolitan statistical area (the most detailed level of data available) said that the pandemic had had a moderate or large

[7] While a firm with 500 employees or less is generally considered to be a "small business," there are alternative standards for many industries.

FIGURE 8
10 Largest PPP Lenders with Average Loan Sizes Below $50,000

Lender	Phase 1	Phase 2	Average Loan Size
Cross River Bank	$125,903,300	$426,706,100	$36,800
Celtic Bank Corporation	$5,236,500	$240,712,400	$31,000
Kabbage Inc.	$0	$241,603,500	$19,000
WebBank	$10,704,400	$116,662,100	$28,300
MBE Capital Partners	$0	$31,391,100	$29,100
Fundbox Inc.	$0	$16,685,800	$23,400
Intuit Financing Inc.	$0	$15,863,000	$28,800
FC Marketplace, LLC (dba Funding Circle)	$0	$14,916,600	$43,000
Trenton Business Assistance Corporation	$93,200	$12,280,100	$40,400
Woori America Bank	$3,039,700	$6,732,000	$38,600

Sources: U.S. Department of the Treasury, SBA Paycheck Protection Program Loan Level Data; OSC analysis

negative effect on their business. More than half (57.6 percent) reported that their operating capacity had decreased compared to the prior year, and over two-fifths (40.6 percent) anticipated a need to obtain financial assistance during the next six months in order to continue operations.

A majority (55.2 percent) of the responding businesses believe it will be more than six months before they return to their normal levels of operation. This period will well outlast any support made available through the PPP, even if funds were received toward the end of the program. In addition, a larger share of respondents in the MSA reported negative impacts due to the pandemic than in the nation. In December, total employment in New York City was still down 12.2 percent compared to the same period in 2019, and face-to-face industries like leisure and hospitality and personal services are faring significantly worse. In comparison, national employment was 6.0 percent lower than before the pandemic. It is reasonable to anticipate that small businesses in New York City will take part in the PPP's Phase Three at least at the levels seen during the first two phases of the program.

Examining the eligibility parameters for second loans established for Phase Three offers an indication of whether the program will continue on its path of improving access for those small businesses that most need the relief. If the focus on businesses with 300 or fewer employees and lending of no more than $2 million is maintained for the current New York City PPP recipients, the industries that would be most likely to take advantage of second loans are accommodation and food services; educational services; arts, entertainment, and recreation; and other services (including personal services). The new qualifications also suggest that outer-borough neighborhoods would benefit, given their smaller size and typically smaller loan requests, although the majority of funds would still likely flow to jobs in Manhattan, home to the City's two main central business districts.

Second-draw loans in Phase Three will also require organizations to have reductions of at least 25 percent of revenues, on a quarterly basis, as compared to 2019, with a preference for firms reporting larger revenue decreases. This basic change will ensure funding is targeted to those businesses that were significantly impacted by the pandemic and its associated economic effects. For pulse survey phase three (ending January 10, 2021) the sectors across the U.S. with more than 40 percent of respondents reporting revenue decreases for most of the period included accommodation and food services; health care and social assistance; educational services; arts, entertainment and recreation and other services. Four of these (accommodation and food services; educational services; arts, entertainment and recreation; and other services) were among the industry sectors with highest percent of respondents most likely to request financial assistance within the next six months. This suggests that businesses in these sectors are likely to apply for additional PPP loans.

New York City metropolitan area businesses were also more likely to report higher need for additional financial assistance when compared to the national average. In January, the City launched Fair Share NYC to provide information and support to small businesses applying for federal small business relief funds.

Conclusion

The PPP has served as a lifeline for struggling small businesses affected by the coronavirus pandemic. Yet the program is not without its limitations. With the public health crisis continuing in 2021, additional funding to continue the program is welcome as another means to sustain many businesses. Based on the lessons learned from the first two phases of the program, federal lawmakers have included new enhancements in Phase Three that may improve the effectiveness of the PPP in targeting small-business employment going forward. State and local lawmakers may build on these changes with their own efforts to target the communities and industries that are most affected by the pandemic. Outreach to support establishing banking relationships now may also bear fruit for underserved communities in the future.

Demographic Data

A simple but fundamental improvement of the PPP in Phase Three is the requirement that lenders request additional data already required for other SBA loans, including gender, race, ethnicity and veteran status. This information is necessary to understand whether the programs are simply reinforcing existing banking relationships or enabling new ones. Current analyses are limited to assessing the geographic distribution of support, which is a useful but ultimately limited means for assessing distribution to certain communities. It is worth noting that the provision of this information remains voluntary for the applicant. The SBA has said it will expressly request this data for participants applying for loan forgiveness.

Focus on Underserved Borrowers

Earmarks of funds within Phase Three of the PPP may lead to greater diversity among borrowers, and to an increase in the level at which smaller businesses participate. It must be noted, however, that the success of these measures depends on the extent to which lenders, intermediaries and support organizations are able to reach potential borrowers with information on potential benefits, as well as providing assistance in navigating the program. State and City leaders may provide further incentives or technical assistance, such as the City’s Fair Share NYC initiative, to ensure outreach is successful in connecting these small businesses with lenders.

For its part, the SBA has committed to increasing access to the PPP for minority-, veteran- and women-owned businesses, and those that operate in underserved communities. When the PPP application portal reopened, the first two days were dedicated to accepting applications exclusively from community financial institutions. The SBA will seek to match small businesses with certified development companies, setting aside designated hours to process the smallest loan applications, and will work with the Federal Reserve to enable PPP lenders to enhance their liquidity and expand their lending capacity.

Second Loans

Allowing firms to access second PPP loans based on revenue losses should improve targeting of small businesses most in need, based on Census pulse data. Given the likelihood that these businesses have generally experienced more significant impacts on operations, PPP enhancements, such as the extension of applicable payroll cost windows, should help businesses stretch loans further.

The American Banking Association and the American Institute of CPAs recently sent letters to the Small Business Administration highlighting some of the complications with SBA's online portal for requesting both first and second draw loans. These included sign-up error messages and incorrect limitations that are not identified in the Act. SBA should attempt to remedy any issues that would slow or discourage those in need of second loans from tapping the program.

Provide and Encourage Technical Assistance

Because very small businesses usually do not have dedicated accounting departments or government liaisons, their proprietors may have felt that participation in the program was beyond their reach in Phases One and Two. It is important that efforts be made to reach out to these businesses to help them understand not only that the PPP exists, but also how to navigate its application process and the requirements for loan forgiveness. While third-party banks and online lending services stepped in to bridge this gap somewhat during Phase Two, which are not the SBA's typical clients, local engagement and outreach to these businesses by the City or local community organizations could go a long way toward enhancing accessibility for these businesses today and in the future.

It is also notable that while not specifically tied to the PPP, the Act also allocates $25 million for minority business development centers and $57 million for a microloan program.

With recent forecasts suggesting the City's tourism industry will take years to recover, businesses are likely to experience extended hardship. These enhancements for the next phase of the PPP should help to ensure that loan distribution is improved compared to past phases, and that loans are available for all small businesses that need them, both in New York City and across the country.

Prepared by the Office of the State Deputy Comptroller for the City of New York

Office of the New York State Comptroller
110 State Street, Albany, NY 12236
(518) 474-4015 www.osc.state.ny.us

Like us on Facebook at
facebook.com/nyscomptroller
Follow us on Twitter @nyscomptroller