

POLITICS

Paycheck Protection Program Closes to New Applications

The Small Business Administration must still manage outstanding PPP issues, while continuing to administer other pandemic programs




President Biden in March visited a hardware store that had received a PPP loan.

PHOTO: ADAM SCHULTZ/WHITE HOUSE/ZUMA PRESS

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The federal government's Paycheck Protection Program closed to new applications Friday as funding was on track to be exhausted. That marked the end of a \$961 billion emergency effort that helped millions of small businesses survive the pandemic but was dogged by fraud claims and criticism that it didn't reach the neediest businesses.

The program had been scheduled to end on May 31, but the Small Business

Administration on Friday said in a notice to lenders that “due to the high volume of originations today, the portal will be closing for new originations” that evening.

Created by the \$2 trillion Cares Act that became law in March 2020, the PPP offered coronavirus aid in the form of loans that could be forgiven provided recipients used the funds to retain workers and on other allowable expenses.

The SBA as of May 23 had approved 11.6 million PPP loans totaling roughly \$796 billion across the program’s first round, from April to August last year, and its second round, which began in January. Banks and other lenders issued the loans, which the SBA guaranteed.

After the program’s general funding was exhausted in early May, funds had remained only for certain community lenders to issue the loans. The SBA’s Friday notice said these lenders had submitted 125,000 origination requests in the preceding 24 hours.

Even after the program’s close, the agency will have another month to process loan applications that were already submitted. The SBA also has thousands of pending forgiveness requests, and millions more will likely follow.

Highmark TechSystems in Fort Wayne, Ind., which makes exhibits for trade shows and other events, received nearly \$1 million in PPP loans to help pay workers and cover rent and other overhead.

“PPP was an important element that helped us stay afloat,” said owner Debbie Parrott. “We were one of the first to get shut down, and we’ll be one of the last to be turned back on,” Ms. Parrott said, adding that she doesn’t anticipate events truly picking up until later this summer.

The program has transformed the SBA. Its main portfolio of loans was worth nearly \$836 billion as of the fiscal year ended September 2020, compared with \$143.5 billion the prior fiscal year, according to the agency’s annual financial report.

“There’s no going back for the SBA,” said Bill Briggs, who until January was acting associate administrator in the SBA’s Office of Capital Access, which oversees the PPP. “There’s a tremendous opportunity to expand its mission and help more small businesses for the future,” he said.



Debbie Parrott, owner of Highmark TechSystems, says, 'PPP was an important element that helped us stay afloat.'

PHOTO: HIGHMARK TECHSYSTEMS

In recent months, Congress has handed the agency even more responsibility, including new grant-relief programs for the restaurant and live-events industries and \$100 million for a pilot program to provide outreach and support to underserved small businesses.

The PPP received broad bipartisan support in Congress, but its success has been difficult to quantify. The SBA didn't answer an inquiry about how many jobs it estimates the PPP has saved or supported.

By comparing payroll data at PPP-eligible firms to ineligible firms, researchers at the Massachusetts Institute of

Technology last July estimated the program had increased employment in the U.S. by about 2.3 million jobs through the first week of June 2020. At that time, the SBA reported that it had approved about 4.5 million loans totaling \$511 billion.

A December study by Michael Faulkender, who was assistant secretary for economic policy at the Treasury Department during the Trump administration and worked closely with the SBA to administer the PPP, said the program saved 18.6 million jobs.

Mr. Faulkender and co-authors based their estimate on an analysis of county-level unemployment-insurance claims.

The Independent Community Bankers of America estimates community banks, which it defines as those with \$50 billion or less in assets, issued 4.7 million PPP loans totaling \$429 billion.

"PPP provided a bridge to help small businesses move forward," said ICBA Chief Executive Rebeca Romero Rainey. "There will be any number of studies and analyses as we go forward, but that real value was the concept of the bridge."

Still, the PPP has received its share of criticism. The SBA's inspector general has warned of signs of widespread abuse and fraud in the program.

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Mr. Faulkender said that as the nation entered a sudden economic crisis last year, the SBA and Treasury had to balance getting money to businesses quickly with fraud-prevention measures.

“When you’re launching a program in a week that’s going to get hundreds of billions of dollars out the door, there is going to be an error rate no matter what you do,” he said. “I stand by our record.”

The SBA during the 2021 PPP round implemented front-end fraud checks for applications, and both the agency’s inspector general and the Government Accountability Office recently have said the agency has adopted measures to better protect against fraud. Isabel Guzman, the SBA’s new administrator, has said combating fraud across the agency’s pandemic programs is among her priorities.

The program last year received public backlash as some large, well-known companies received the funds. Several later returned the money. Some researchers and small-business advocates have said the program’s reliance on lenders might have put at a disadvantage those less likely to have deep banking relationships, such as very small and minority-owned businesses. To address that concern, the SBA started the 2021 program with smaller community lenders issuing the loans. These lenders often specialize in servicing underserved communities.

The pace at which the agency is processing forgiveness requests, particularly for businesses that took larger loans, is another area of concern, said Michael Kennedy, general counsel of the trade group Associated General Contractors of America.

The SBA has said all PPP loans over \$2 million would be audited before receiving

forgiveness, and the agency has asked these borrowers to fill out a questionnaire justifying their need for the funds. The AGC filed a lawsuit over the agency's use of the questionnaire, and Mr. Kennedy said some of the group's members have waited upwards of five months to have their forgiveness requests processed.

"I wish we were approaching the end, but we're concerned and increasingly concerned that we won't see the end of the controversy surrounding this program for perhaps years," Mr. Kennedy said.

SBA data as of May 24 show that forgiveness applications for 145,000 loans taken in 2020 totaling \$81.5 billion were in process at the agency, and 1.7 million 2020 borrowers haven't yet submitted forgiveness applications.

Ms. Guzman in congressional testimony this month said the SBA is developing a plan to streamline the forgiveness process, particularly for loans between \$150,000 and \$2 million.

"Hopefully, we can follow up soon with some specifics," she said.