RESEARCH BRIEF SERIES

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Small Businesses and the Paycheck Protection Program in the Inland Empire (Part I of III: An Overview)

We devote three issue briefs to our recent study on the allocation of the Paycheck Protection Program (PPP) in the Inland Empire. The PPP is a Small Business Administration (SBA)-backed loan program that helps businesses keep their workforce employed during the COVID-19 crisis. In Issue 1, we provide an introduction of the PPP and examine the characteristics of small businesses that have received the PPP loans. Then we look at the geographical distribution of PPP loans at the neighborhood level in Issue Brief 2. In Issue Brief 3, we address the question of what neighborhoods received more PPP loans.

QUICK FACTS:

- 119,540 loans with a total value of 7.5 billion dollars were received by 90,977 small businesses in the Inland Empire.
- 62,414 small businesses received the PPP loan once and 28,563 small businesses received the loan twice.
- In general, the greater the number of jobs reported, the larger the amount of PPP loans approved.
- The average value of the loan was about $63,000.
- Established small businesses received a large chunk of the PPP loans. While some new businesses successfully participated in the PPP, none of them received the loan twice.
- Around 36% of PPP loans were received by small businesses in low- and moderate-income (LMI) communities.

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Introduction

Small business is a key component of economic viability. In the U.S., from 2000 to 2019, small businesses created 10.5 million net new jobs, accounting for 65.1% of net new job creation. Currently, small businesses comprise 99.9% of all U.S. firms, employ 61 million (47.1%) private-sector workers (SBA, 2020). The COVID-19 pandemic triggered an unprecedented economic freeze and caused devastating losses. Among the firms most affected were the millions of small businesses that lacked access to public financial markets, nor did they have other methods to manage short-term costs. It is important for government agencies to effectively and efficiently deliver assistance programs to foster business continuity and sustainability. In this issue brief, we introduce the Paycheck Protection Program (PPP), one of the largest firm-based fiscal policy programs in U.S. history. We then look at the characteristics of PPP loans allocated to small businesses in the Inland Empire.

Paycheck Protection Program

The PPP was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was passed in March of 2020. It was designed to help small businesses, which are roughly defined as having 500 or fewer employees. By providing federally guaranteed loans to small businesses with no fees and an interest rate of 1 percent, the PPP intended to incentivize small businesses to keep their workers on payroll to stabilize the rate of small business closures, and to reverse the rise in unemployment rates. The loan has a maturity rate of two years and can be forgiven if meeting certain requirements. A small business could be eligible for applying for up to two draws of PPP loans. First Draw PPP loans made to eligible borrowers qualify for full loan forgiveness if the following requirements are satisfied during the 8- to 24-week covered period following loan disbursement: Employee and compensation levels are maintained, the loan proceeds are spent on payroll costs and other eligible expenses, and at least 60% of the proceeds are spent on payroll costs. Small businesses that have previously received a First Draw PPP loan could apply for Second Draw PPP loans. These loans qualify for full loan forgiveness if similar requirements are satisfied. A borrower can apply for forgiveness once all loan proceeds for which the borrower is requesting forgiveness have been used. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred, and borrowers will begin making loan payments to their PPP lender (SBA, 2021b). To apply to PPP, small business owners must go through an SBA 7(a) lender or through a federally insured depository institution, a federally insured credit union, or a participating Farm Credit system institution (SBA, 2020). The total amount approved was about 11.5 million PPP loans and 7.9 million forgiveness applications, as of October 23, 2021. Most of the loans were small, with the average amount being $67,647. The

PPP ultimately deployed more than $500 billion within just four months of passage, making it one of the largest firm-based fiscal policy programs in U.S. history.

Data and Methodology

Our data source about the PPP loans in the Inland Empire is the micro PPP loans data (one record for each PPP loan). The data set is made available to the public by SBA and covers the entire lifecycle of the PPP loan program with loans starting on April 3, 2020, and ending on May 31, 2021. A total of 119,540 loans valued at 7.5 billion dollars were received by businesses located in Inland Empire. Many characteristics of the loan and the receiving business are available, including loan amount, approval date, First or Second Draw, the street address of the business, number of employees, industry type, whether the business is in an urban or rural area, and whether it is in low- and moderate-income (LMI) communities. These characteristics are further examined with statistical methods to reveal patterns of interest. One of the methods adopted is the Pearson's correlation coefficient, which is a widely used measure of linear correlation between two sets of data. It has a range of [-1,1], with -1 indicating strong negative correlation, 0 indicating no correlation, and 1 indicating strong positive correlation.

Results and Conclusions

119,540 loans with a total value of 7.5 billion dollars were received by 90,977 small businesses in the Inland Empire. While 62,414 small businesses received the PPP loan once, 28,563 small businesses received the loan twice. The average value of the loan is about $63,000 and the largest loan of 9.8 million dollars was received by River Springs Charter School at the City of Temecula. All these small businesses reported being in urban areas.

Jobs and PPP

59.12% of First Draw and 48.55% of Second Draw PPP loans went to small businesses that reported to only have one job. While this seems quite encouraging, it ignores the fact that 81.6% of total small business establishments were nonemployers based on the Census Nonemployer Statistics (NES) 2018. 14.21% of the First Draw went to businesses with only 2-4 paid employees, 24% went to businesses with only 5-49 paid employees, and 2.68% went to businesses with at least 50 paid employees. The number of jobs reported is positively associated with the amount of PPP loans approved (Pearson's correlation coefficient = 0.763, p-value=0). In other words, businesses that received a PPP loan were more likely to be approved for a larger loan if more jobs were reported.

Business age and PPP

Businesses existing for more than 2 years accounted for 86.43% of First Draw loans, whereas only 9.65% (8,780) of newer businesses (defined as existing less than 2 years) received First Draw loans. 14 small businesses have successfully used this opportunity to finance business openings with an average loan value of $44,723. However, none of the new businesses received a second loan.

Communities and PPP

32,788 (36%) small businesses that received First Draw loans reported being in low- and moderate-income (LMI) communities. A similar pattern holds for the Second Draw–out of all small businesses receiving Second Draw, about 34% reported to be located at LMI communities. The average value of loans reaching businesses in LMI communities was $68,102, which was slightly higher than the loan value ($60,656) given to recipients from other communities. Experiences of previous natural disasters suggest that vulnerable communities face significant challenges in access to resources for recovery and building resilience. During COVID-19, both the public and academic research have expressed concerns about equity in distribution and efficiency of government assistance.

In the next brief, we focus on communities and look at the geographical distribution of PPP loans at the neighborhood level. Then in Issue Brief 3, we compare neighborhoods' socioeconomic characteristics with the number of PPP loans to address the question of what neighborhoods received more PPP loans.

References

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Appendix

Table 1 Characteristics of First Draw and Second Draw PPP loans

		PPP loans	
		First Draw	**Second Draw**
Aggregate Number		90977	28563
Urban		90977 (100%)	28563 (100%)
Jobs Reported	**1**	53785 (59.12%)	13867 (48.55%)
	2-4	12924 (14.21%)	4408 (15.43%)
	5-49	21831 (24%)	9575 (33.52%)
	50+	2437 (2.68%)	713 (2.5%)
Business Age	**Existing or more than 2 years old**	77720 (85.43%)	28563 (100%)
	New Business or 2 years or less	8780 (9.65%)	0
	Startup, Loan Funds will Open Business	14 (0.015%)	0
	Change of Ownership	8 (0.009%)	0
	Unanswered	4455 (4.9%)	0
Low- and moderate-income (LMI) communities	**Loans**	32788 (36.04%)	9779 (34.24%)
	Loan values	$2,163,199,242 (38.63%)	$735,701,416 (37.37%)