



PAYCHECK PROTECTION PROGRAM LOANS

NORTHERN VIRGINIA ANALYSIS

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BACKGROUND

SMALL BUSINESS PAYCHECK PROTECTION PROGRAM

Small businesses have been hard hit by the COVID-19 pandemic. A small business in general is defined by the Small Business Administration (SBA) as a business with less than 500 employees. The Paycheck Protection Program (PPP) was a small business loan program enacted by Congress for relief from the COVID-19 pandemic's economic fallout. Loans were distributed from April 3 through August 8. It provided \$525 billion in forgivable loans for firms to cover payroll and some operational costs. Business loan amounts were based on the payroll of employees.

Eligibility requirements for a PPP loan required that a business met the SBA's definition of small business. A business had to attest that there was economic uncertainty in their business. The loan was forgivable if the business rehired all furloughed and laid off staff and held on to all staff during the borrower's loan forgiveness period of eight or the earlier of December 31st or 24 weeks from the date of the loan. These were generally the only eligibility requirements for the PPP loan program.

The loose requirements lead many franchise firms with multiple locations to get loans, so long as the funds were being used for specific locations with less than 500 employees. A business had to attest that there was economic uncertainty in their business, but they were not required to show a significant loss of revenue for loan forgiveness. Requiring information on loss of revenue would have made the program far more reaching to those small businesses most in need of funds to stay afloat. Targeting specific industries, such as the smallest of small

More financial resources are needed for the smallest of small businesses and minority businesses.

restaurants and arts and entertainment that were greatly affected due to social distancing restrictions would have made the program far more reaching



to those small businesses in need of funds to stay afloat. Due to these loose requirements, funding for the smallest of small businesses was only a small percentage of all funds distributed and minority communities only received a small proportion of loans as well. The loan program was intended to be a short-term relief measure to get through the pandemic. However, the pandemic is outlasting the PPP. Once the loan forgiveness period began expiring for businesses, many businesses began to furlough and lay off employees.

In addition to the PPP loans there are other federal, state, and Northern Virginia regional locality programs that have been providing small businesses with financial relief during the coronavirus pandemic. Researching and analyzing those programs is beyond the scope of this study. With all the funding support available through the multitude of loan programs there is and will continue to be a substantial financial support need in 2021 for small businesses so that they do not have to close shop or lay off employees.

ISSUES

Hard hit industries, including restaurants, mom-and-pop retail, and arts and entertainment have claimed that the PPP loan program was ill-suited. The emphasis on pre-pandemic staff levels and payroll made the loans ill-suited for these businesses because they have had to operate at reduced capacity due to social distancing restrictions.

Maintaining neighborhood businesses is essential to healthy economies and community culture.

Keeping neighborhoods intact and providing accessible jobs is critical.

To get through this next year, a dedicated federal relief fund, as well as state and local relief funds, are critical for hard hit restaurants, mom-and-pop businesses, arts and entertainment businesses and minority owned businesses whose revenue has been shown to be deeply impacted from pandemic-related social and economic restrictions.

Nationally and regionally, because of the loose rules of the first PPP loan program, these businesses were underserved significantly by the PPP loan program. Maintaining these types of businesses is essential to healthy neighborhood economies and cultures. Keeping neighborhoods intact and providing accessible jobs is critical.

ANALYSIS

PPP DATABASE RELEASED DECEMBER 2, 2020

The U.S. Treasury Department's first release of the PPP loan database had many inconsistencies and incomplete data in the first release. The SBA's first release withheld exact business loan amounts for loans above \$150,000, and instead reported the amounts in ranges. On December 2, 2020, an updated database was released with more complete data on businesses and full disclosure of business funding amounts. This updated database allowed for a detailed analysis of Northern Virginia's PPP loan funding activity that was previously unachievable. There were still some shortcomings in the second database and those shortcomings were with the reported jobs retained and race/ethnicity of the business owner data. The reported jobs retained and race/ethnicity data were optional on the loan application form.

The reported jobs retained was an optional piece of information on the loan application form. This reported data appears to have many inconsistencies. NVRC determined that it was unreliable. For instance, there were several businesses that reported retaining zero jobs, when in actuality all loan recipients had to retain at least one job. To be eligible for loan forgiveness a business is required to report the exact number of jobs retained. The loan forgiveness application deadline is December 31st. Business are required to report the exact number of jobs retained when submitting their loan forgiveness application. Once the data for the loan forgiveness applications is released, a detailed analysis of jobs retained may be performed.

The PPP database only provides race and ethnicity data for a small number of businesses that received the loans. In Northern Virginia only 5% of loans had the race and ethnicity of business owner reported. The lack of PPP loan data on race and ethnicity make this data piece unusable for analysis. Despite this shortcoming, data on minority communities exists that can be used to evaluate minority communities receiving small business PPP loans.

NATIONAL DISTRIBUTION OF LOANS

Nationally, the Government Accountability Office (GAO) found that most of the large loans (above \$2 million) were made in the first phase of the program and 60% of the smallest loans (under \$50,000) were made in the second phase and later phases.¹ The loans were not distributed equally among minority communities. According to Brookings Institute, "Neighborhoods of color with the most cash-constrained small businesses received PPP loans last".² Also, self-employed businesses with no employees were not allowed to apply for a PPP loan until after the program had been open for a week. After a week of lending a large amount of funds were depleted. Loans were initially delivered by traditional banks and later, after the first round of funding was nearly depleted, is when online lenders could provide loans. In general, bank financing for black and Hispanic owned businesses tends to be half what white owners receive and black and Hispanics tend to rely much more heavily on online lending companies.³ Brookings Institute's research indicated that those businesses that were disfavored by the PPP loan program included small businesses with less than 10 employees, self-employed business owners with no employees, and black and minority owned businesses. Favored businesses were existing customers at large banks and those with access to traditional banks.

NORTHERN VIRGINIA ANALYSIS AND KEY FINDINGS

The PPP loan data was used in conjunction with U.S. Census Bureau, 2018 County Business Patterns and Non-Employer Survey data to assess the business environment. Using these data sources, business statistics on business with less than 500 employees was compiled. U.S. Census Bureau, 2015-2019 American Community Survey Five-Year Estimates were used to assess racial and ethnic minority neighborhoods that did or did not receive PPP loans. The business addresses of PPP loans were mapped to identify loans that were made to businesses within Northern Virginia.

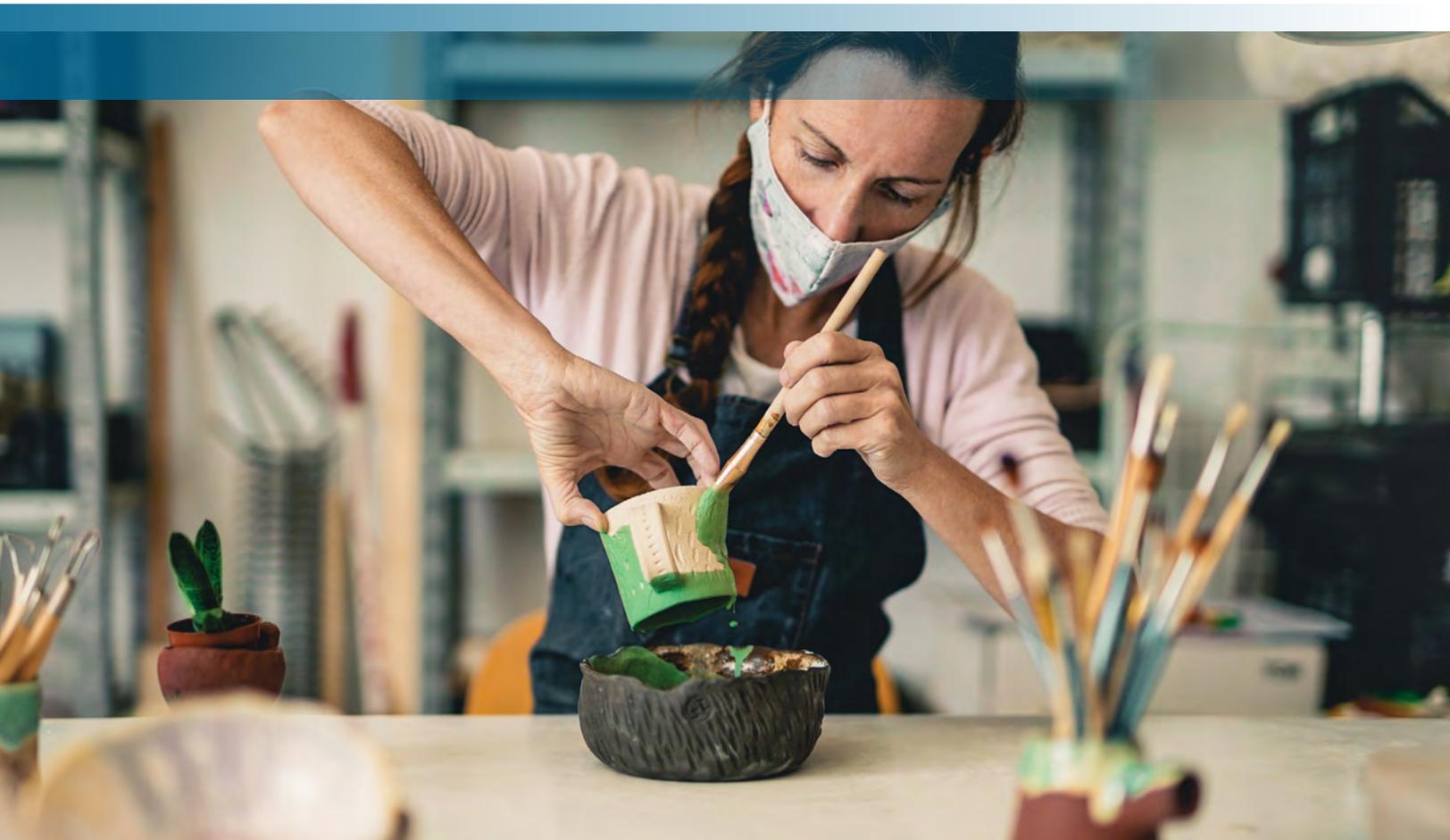
Key findings from Northern Virginia Regional Commission's analysis of small businesses under 500 employees indicate how Northern Virginia fared. Northern Virginia's economy fared better than the country overall with respect to the number of PPP loans distributed to businesses and the amount of funds distributed.

Number of Businesses Receiving Loans

In Northern Virginia 40,743 businesses received loans. This was approximately 13% of small businesses in Northern Virginia. Nationally, approximately 9% of small businesses received loans.

Number of Jobs per Loan

Until accurate jobs data is released from the PPP loan forgiveness, it will be unknown how many jobs were retained from the loan programs. As an alternate measure, the number of overall jobs in small businesses was assessed. In Northern Virginia, there were an estimated 1.4 million jobs in small businesses under 500 employees. Nationally, there are an estimated 195 million jobs in small businesses. In Northern Virginia there were 35 small business employees per loan, and the nation is similar with 37 small business employees per loan.





Loaned Amount

Northern Virginia small businesses received \$5.5 Billion in loans.

Average Loan Amount

The average loan in Northern Virginia was \$135,111. This was 34% higher than the national average of \$100,729.

Average Loan Amount per Job

As previously mentioned, Northern Virginia has an estimated 1.4 million jobs in small businesses under 500 employees. Nationally, there are an estimated 195 million jobs in small businesses. The average loan amount per small business employee was \$3,800 in Northern Virginia compared to \$2,700 nationally.

Distribution of Loans by Loan Amount

In Northern Virginia, 89% of businesses received loans in the amount of \$250,000 or less. However, only 30% of funds (\$1.65 billion) went to these businesses. The remaining funds, \$3.85 billion, went to 11% of businesses. Because funding was based on payroll, those businesses receiving the largest amount of funds likely have a sizeable employee base rather than being the smallest of small businesses.

Minority Racial/Ethnic Communities

On the PPP Loan Dashboard is a map of majority-minority area overlaid with the number of PPP loans and the amount loaned by area. Out of the region's 520 census tracts, 216 (42%) were majority-minority. These same 212 tracts contained 45% of businesses receiving loans

and 46% of the total loaned amount in Northern Virginia. What is not known from the PPP data is how many of the loans went to minority business owners. However, similar to the nation, the most cash strapped minority business owners are the ones that likely did not receive loans in our region. It is important that minority business owners are treated equally.

Immigrant Communities

On the PPP Loan Dashboard is a map of foreign born (immigrants) population overlaid with the number of PPP loans and the amount loaned by area. The loans appear to have been distributed fairly among immigrant and non-immigrant communities. Out of the region's 520 census tracts, 86 (16%) had high concentration of foreign born (40%+ foreign born). These same 86 tracts contained 17% of businesses receiving loans and 20% of the total loaned amount in Northern Virginia. What is not known from the PPP data is how many of the loans went to immigrant business owners. However, similar to the nation, the most cash strapped businesses are the ones that likely did not receive loans in our region. It is important that immigrant business owners are treated equally. The immigrant population is essential to our country's rapid COVID-19 response efforts. Out of all entrepreneurs in the Northern Virginia region, 42.5% are immigrants.⁴ Between one-quarter and one-half of all entrepreneurs in the non-essential industries of retail trade, healthcare and social services, educational services, professional services, and manufacturing are foreign born.⁵



We're Open

Wear Mask

Industry Distribution

There was unequal distribution in Northern Virginia by industry sector with respect to distribution of funds. The average loan amount by industry also varied considerably.

- **Professional/Scientific/Technical Services**

This sector received the most loans and most funds. The sector had 22.1% of loans, which is fairly similar to the share of small businesses in the sector (26.2%). However, this sector received 39.5% of Northern Virginia's distributed funds.

- **Utilities**

The average loan amount was \$442,000. This was nearly twice the average of the next highest industry. The Utilities sector comprises establishments engaged in the provision of electric power, natural gas, steam supply, water supply, and sewage removal. Those companies that are plumbing, heating, and air conditioning contractors should be classified under the construction industry, which was the case for most loan recipients in Northern Virginia. However, some were misclassified as utilities. The industry of a company is determined by the federal government and not the loan applicant. The largest loan amount in the utility sector went to Northern Virginia Electric Cooperative (NOVEC). With NOVEC excluded this industry's average loan amount would have been \$186,000.

- **White-collar Office Industries**

Industries include management of companies and enterprises, information, and professional/scientific/technical services. These three industries were ranked second, third, and fourth in average loan amount. They had a significantly higher average loan amount than other industries. This indicates that other industries, including those hit hardest by the pandemic, were underserved, such as restaurants, retail, and arts and entertainment.

Accommodation and Food Industry

This industry has been greatly affected by the social and economic restrictions placed on businesses. Small businesses in this industry need much more financial assistance. In Northern Virginia there are an estimated 9,492 businesses in this sector, yet only 588 businesses received loans.

Retail Trade Industry

Small mom-and-pop retail has been greatly affected by the social and economic restrictions placed on businesses. They need much more financial assistance. In Northern Virginia there are an estimated 19,325 businesses in this sector, yet only 2,419 businesses received loans. How many of these are mom-and-pop retail is unknown, but it is likely a large percentage.

PPP LOANS DASHBOARD

The NVRC PPP loans dashboard contains maps and charts that provide a detailed analysis and portrait of Northern Virginia’s PPP loan distribution. It is part of the coronavirus section of the [NOVA Region Dashboard](#).⁶ The maps show where the business loans were distributed across the region. The maps also show where minority and foreign born communities are located. Overlaying these two data pieces provides an understanding of how under-represented the businesses in minority communities were for the PPP loan program. The charts provide a means for comparing Northern Virginia’s localities. The charts also provide a means for comparing industries.



NOTES

- ¹ Government Accountability Office, COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions (GAO-20-70), September 21, 2020.
- ² Brookings Institute, New Data Shows Small Businesses in Communities of Color Had Unequal Access to Federal COVID-19 Relief, September 17, 2020.
- ³ Federal Reserve Banks, Small Business Credit Survey: 2020 Report on Employer Firms.
- ⁴ New American Economy, One Region: Welcoming New Americans to Northern Virginia, March 2020. (<https://www.novaregiondashboard.com/immigration-study>)
- ⁵ New American Economy, Immigrants in Northern Virginia: Data Relevant to the COVID-19 Crisis Response, November 2020. (<https://www.novaregiondashboard.com/immigration-study>)
- ⁶ Northern Virginia Region Dashboard, <https://www.novaregiondashboard.com/coronavirus>.



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