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PAYCHECK PROTECTION PROGRAM

Program Changes Increased Lending to Smaller and Underserved Businesses

Statement of William B. Shear, Director, Financial Markets and Community Investment

GAO-22-105788

GAO Highlights

Highlights of GAO-22-105788, a testimony before the Subcommittee on Oversight, Investigations, and Regulations, Committee on Small Business, House of Representatives

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Why GAO Did This Study

The COVID-19 pandemic resulted in significant turmoil in the U.S. economy, leading to temporary and permanent business closures and high unemployment. In response, in March 2020, Congress established PPP under the CARES Act and ultimately provided commitment authority of approximately $814 billion for the program over three phases. When initial program funding ran out in 14 days, concerns quickly surfaced that certain businesses were unable to access the program, prompting a series of changes by Congress and SBA.

This testimony addresses (1) which small businesses received early PPP loans and (2) how program changes affected small business participation in PPP. It is based on GAO's September 2021 report on PPP (GAO-21-601). For that report, GAO analyzed loan-level PPP data from SBA and county-level data from the U.S. Census Bureau.

View GAO-22-105788. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

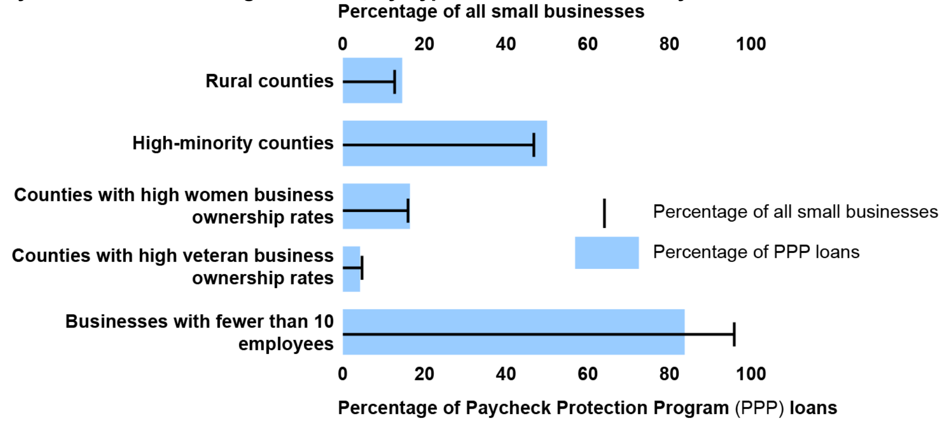
The Paycheck Protection Program (PPP) supported small businesses through forgivable loans for payroll and other eligible costs. Early lending favored larger and rural businesses, according to GAO's analysis of Small Business Administration (SBA) data. Specifically, 42 percent of early loans (approved April 3–16, 2020) went to larger businesses (10 to 499 employees), although these businesses accounted for only 4 percent of all U.S. small businesses. Larger businesses were more likely to have a preexisting lending relationship with a bank. Businesses in rural areas also received a high share of early loans despite being traditionally underserved.

Other traditionally underserved businesses—in particular, businesses owned by self-employed individuals, minorities, women, and veterans—faced challenges obtaining loans, prompting Congress and SBA to make a series of changes shortly after the program launched. For example:

- SBA admitted about 600 new lenders, including nonbanks (generally, lending institutions that do not accept deposits).
- SBA developed guidance helping self-employed individuals participate in the program.
- SBA targeted funding to minority-owned businesses in part through Community Development Financial Institutions.

Lending to traditionally underserved businesses increased noticeably after these changes were implemented. By the time PPP closed in June 2021, lending in traditionally underserved counties was proportional to their representation in the overall small business community (see figure). While lending to businesses with fewer than 10 employees remained disproportionately low, it increased significantly over the course of the program.

Paycheck Protection Program Loans, by Type of Business or County



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-22-105788

Chairman Phillips, Ranking Member Van Duyne, and Members of the Subcommittee:

I am pleased to be here today to discuss our work on the Small Business Administration's (SBA) Paycheck Protection Program (PPP). Congress passed the CARES Act in March 2020 in response to the Coronavirus Disease 2019 (COVID-19) pandemic.[1] The CARES Act provided more than $2 trillion in emergency assistance and health care response for individuals, families, and businesses affected by COVID-19. Stay-at-home orders, social distancing requirements, and reduced consumer demand early in the pandemic caused both temporary and permanent business closures, particularly among small businesses. Congress included PPP in the CARES Act, making $349 billion available to support small businesses affected by the pandemic and to keep small business workers employed.[2]

Administered by SBA through a network of participating lenders, PPP provided forgivable loans to small businesses for payroll and certain other eligible costs. To provide relief quickly, lenders began approving loans 7 days after the CARES Act was enacted. When the program's initial round of funding ran out in 14 days, policymakers and small business organizations raised concerns that the smallest businesses and those owned by minorities, women, and veterans had difficulty accessing the program. In response, Congress made program changes, renewed the program twice, and provided approximately an additional $465 billion to meet continued demand.

In September 2021, we issued a report on trends in small business and lender participation in PPP.[3] My statement today is based on that report and addresses (1) which small businesses received early PPP loans and (2) how program changes affected small business participation in PPP. For the September 2021 report, we analyzed loan-level PPP data from

[1]Pub. L. No. 116-136, 134 Stat. 281 (2020).

[2]PPP was one of the programs Congress created, expanded, or funded under the CARES Act to support workers and small businesses in the economic downturn. Congress also eased borrowing requirements for the Economic Injury Disaster Loan program and created and provided appropriations for Economic Injury Disaster Loan advances. In addition, the CARES Act created three federally funded temporary unemployment insurance programs that expanded benefit eligibility and enhanced benefits.

[3]GAO, *Paycheck Protection Program: Program Changes Increased Lending to the Smallest Businesses and in Underserved Locations*, GAO-21-601 (Washington, D.C.: Sept. 21, 2021).

SBA and county-level data from the U.S. Census Bureau (Census) and surveyed a generalizable sample of PPP lenders, stratified by lender type and size. We also reviewed legislation, interim final rules, agency guidance, and relevant literature, as well as interviewing SBA officials.

More detailed information on our objectives, scope, and methodology for that work can be found in the issued report. We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The CARES Act, signed into law by the President on March 27, 2020, established PPP under section 7(a) of the Small Business Act to provide forgivable loans to small businesses and nonprofit organizations, referred to collectively as "small businesses."[4] Under the law, qualifying businesses could obtain loans equal to the lesser of 2.5 months of average total monthly payments for payroll costs or $10 million, and were required to self-certify their need for the loan.[5]

Congress provided commitment authority of about $814 billion to PPP in three phases (see table 1).

[4]SBA administers the 7(a) guaranteed loan program, which provides small businesses access to capital that they would not be able to access in the competitive market. In fiscal year 2019, SBA approved $23 billion in loans through the 7(a) program.

[5]In general, qualifying small businesses included those with 500 or fewer employees or that met SBA's industry-based size standard. As set forth in the CARES Act, borrowers had to certify in good faith that (1) current economic uncertainty made the loan request necessary to support the applicant's ongoing operations and (2) funds would be used to retain workers and maintain payroll or make payments for other covered expenses. Pub. L. No. 116-136, § 1102(a)(1)(B), 134 Stat. 281, 291 (2020) (codified at 15 U.S.C. § 636(a)(36)(G)(i)(I),(II)). To streamline the process, SBA required minimal review from lenders—such as confirming receipt of borrower certifications and supporting payroll documentation.

Table 1: Paycheck Protection Program (PPP) Phases

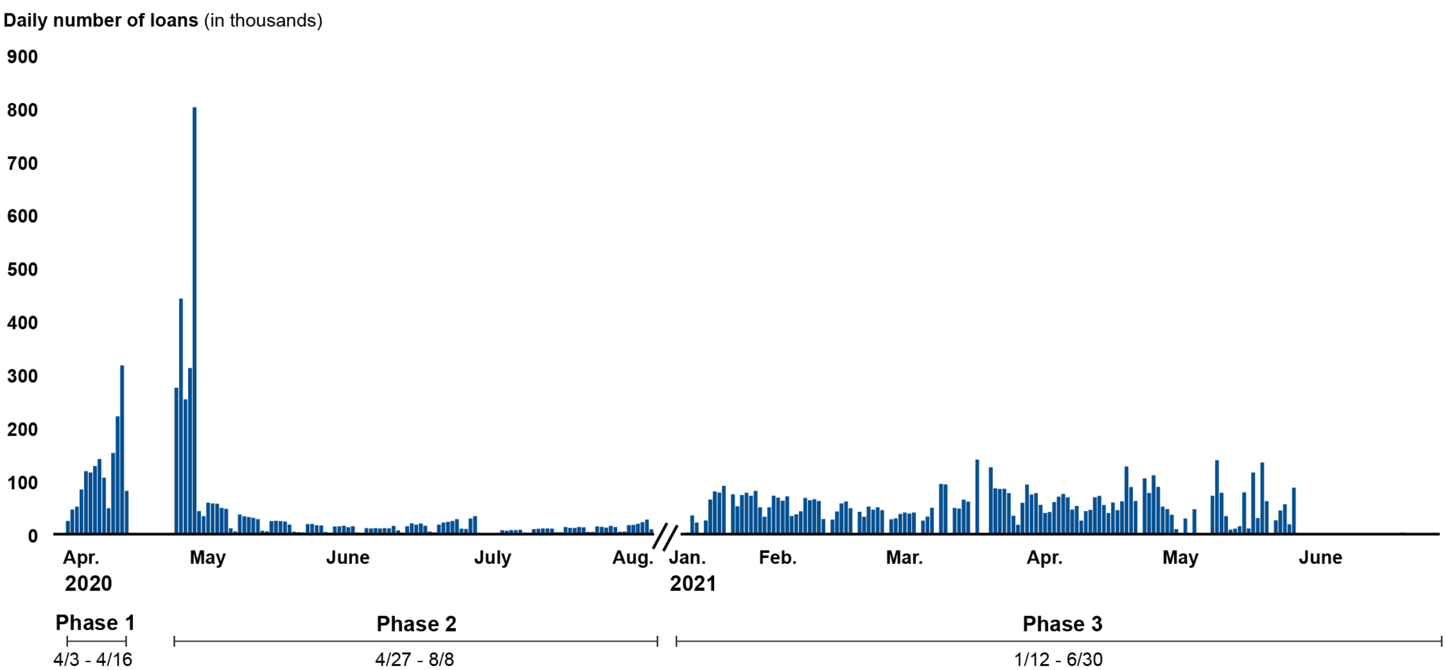
Phase	Legislation	Date enacted	Commitment authority provided	Application period
1	CARES Act	March 27, 2020	$349 billion	April 3, 2020–April 16, 2020
2	Paycheck Protection Program and Health Care Enhancement Act	April 24, 2020	$310 billion	April 27, 2020–August 8, 2020
3	Consolidated Appropriations Act, 2021	December 27, 2020	$147.45 billion	January 11, 2021–May 31, 2021[a]
	American Rescue Plan Act of 2021	March 11, 2021	$7.25 billion	

Source: GAO analysis of relevant laws. | GAO-22-105788

[a]The PPP Extension Act of 2021 extended the application period for Phase 3 from March 31, 2021, to May 31, 2021, and allowed the Small Business Administration until June 30, 2021, to process those applications. On May 4, 2021, the PPP general fund was exhausted and closed to new applications, except those processed by a community financial institution lender.

Early demand for PPP loans was high. Daily lending volume—that is, the number of loans approved per day—was highest from April 3 through May 1, 2020, when 31 percent of all PPP loans were approved (see fig. 1).

Figure 1: Paycheck Protection Program Lending Volume by Approval Date, April 2020–June 2021



Source: GAO analysis of Small Business Administration data. | GAO-22-105788

The CARES Act authorized SBA to use lenders already approved to participate in the 7(a) program and permitted SBA and the Department of the Treasury to approve new lenders to issue PPP loans, provided they met certain requirements.[6] Participating lenders included depository institutions (for example, banks and credit unions) and nondepository institutions (for example, nonbanks).[7] For the purposes of this statement, we refer to depository institutions as “banks” and characterize them by size:

- large banks: total assets of $10 billion or more
- medium banks: total assets from $1 billion to $10 billion
- small banks: total assets of less than $1 billion

Further, some lenders are designated Community Development Financial Institutions (CDFI) and Minority Depository Institutions (MDI). CFDIs and MDIs target loans to businesses and individuals in traditionally underserved areas with the goal of expanding economic opportunity. CDFIs include both banks and nonbanks, while MDIs include only banks.

As PPP was initially implemented, small businesses or nonprofit organizations were generally eligible for PPP loans if they had 500 or fewer employees.[8] Businesses that may not have paid employees (sole

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[6]Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 290 (2020) (codified at 15 U.S.C. § 636(a)(36)(F)(iii)). In an interim final rule published April 2, 2020, SBA announced that any federally insured depository institution, credit union, or farm credit institution in good standing with its regulator would automatically qualify to participate in PPP upon submission of SBA’s PPP Lender Agreement. 85 Fed. Reg. 20,811, 20,815 (Apr. 15, 2020). SBA and the Department of the Treasury were jointly responsible for approving lenders new to SBA to issue PPP loans. According to SBA officials, SBA approved new federally regulated lenders, and only new non-federally regulated and insured lenders required joint SBA and Treasury approval.

[7]In general, nonbanks provide lending services but do not accept deposits. Nonbanks include SBA Small Business Lending Companies, SBA Microlenders, SBA Certified Development Companies, state-regulated financial companies, Business and Industrial Development Corporations, and Farm Credit System lenders.

[8]Under the CARES Act, eligible borrowers included (1) businesses that are small under SBA’s size standards (either the industry size standard or the alternative size standard); (2) any business, 501(c)(3) nonprofit organization, 501(c)(19) veterans organization, or tribal business concern with 500 or fewer employees or that meets the applicable SBA industry size standard if more than 500; (3) any business in the accommodations and food services sector that has more than one physical location and employs not more than 500 employees per physical location; and (4) sole proprietors, independent contractors, and eligible self-employed individuals.

proprietors, independent contractors, self-employed individuals, qualified joint ventures, and single-member limited liability companies) were eligible for a PPP loan. For the purposes of this statement, we refer to these business types collectively as "self-employed individuals."

Finally, the CARES Act included a Sense of the Senate statement noting the Senate's preference that SBA should issue guidance to lenders to ensure that processing and disbursement of loans prioritized businesses in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in operation for less than 2 years.[9] For the purposes of this statement, we use "traditionally underserved businesses and counties" more broadly to refer to very small businesses; those owned by minorities, women, or veterans; or those located in rural counties or counties with high minority populations.[10]

Larger and Rural Businesses Received Early Loans

Larger businesses. Larger businesses—small businesses with 10 to 499 employees—received a higher share of loans in Phase 1 relative to their share of all small businesses. Specifically, 42 percent of loans in Phase 1 went to these larger businesses, despite their accounting for only 4 percent of all small businesses in the U.S. The share of loans to these businesses decreased over time, suggesting that much of their demand for loans was met early in the program.[11] Further, because the loan amount for each recipient business was based on average payroll, larger

[9]Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 293 (2020) (codified at 15 U.S.C. § 636(a)(36)(P)(iv)).

[10]In our analyses, we used businesses with fewer than 10 employees and those owned by self-employed individuals to represent very small businesses. To represent minority-, women-, and veteran-owned businesses, we used counties with high shares of minority residents and high shares of women- and veteran-owned businesses.

[11]As we reported in September 2020, during Phases 1–2, a larger share of loans over $2 million were canceled compared to smaller loans following reports that publicly traded companies had received loans and SBA's subsequent guidance clarifying the economic necessity requirements. As a result, the demand for larger loans may have diminished over time because of increased scrutiny from the public, Treasury, and SBA. See GAO, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Action*s, GAO-20-701 (Washington D.C.: Sept. 21, 2020).

businesses generally received larger loans, likely precipitating the exhaustion of Phase 1 funding after just 2 weeks.[12]

Research on small business lending and PPP suggests businesses with preexisting relationships with banks were able to access PPP earlier than businesses without such relationships. For example, one study on PPP found that among businesses that applied for PPP loans from banks, approval rates were generally higher for businesses with a preexisting relationship with a bank.[13] Also, larger businesses were more likely to have these relationships than the smallest businesses.[14] Other research found that the smallest businesses were less aware of PPP and less likely to apply early in the program.[15] If they did apply, the smallest businesses applied later, faced longer processing times, and were less likely to have their applications approved, which may also partly explain why early lending skewed toward larger businesses during Phase 1.

Businesses in rural areas. While rural counties are traditionally underserved, businesses in rural counties obtained a higher number of loans per small business in Phase 1 than businesses in metro counties

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[12]The average (median) loan size for recipient businesses with fewer than 10 employees was $21,697 ($18,115), compared to $296,292 ($146,000) for recipient businesses with 10 to 499 employees.

[13]Alexander W. Bartik et al., "The Targeting and Impact of Paycheck Protection Program Loans to Small Businesses" (working paper 27623, National Bureau of Economic Research, July 2020). Additionally, as we found in a July 2021 report, because lenders were required to apply relevant Bank Secrecy Act program requirements, they had to collect additional information from PPP loan applicants with which they did not have a preexisting relationship. Because preexisting clients required the lender to conduct less due diligence, their applications could be processed more quickly. The Bank Secrecy Act requires banks and other financial institutions to take precautions against money laundering and other illicit financial activities by conducting due diligence activities and informing Treasury of suspicious activity by their customers. See GAO, *Paycheck Protection Program: SBA Added Program Safeguards, but Additional Actions Are Needed*, GAO-21-577 (Washington, D.C.: July 29, 2021).

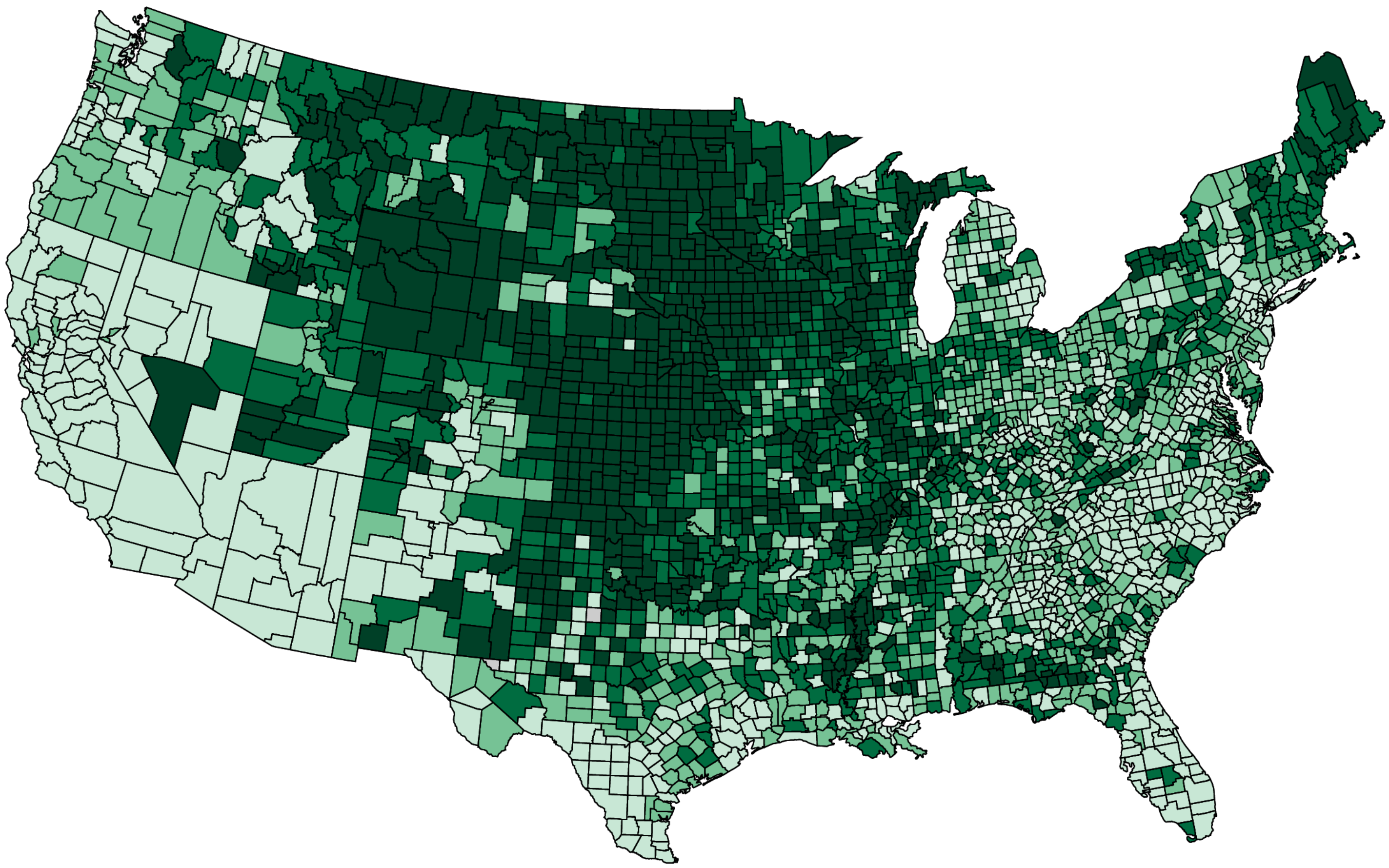
[14]According to the Federal Reserve Banks' 2020 Small Business Credit Survey, larger businesses (those with annual revenue greater than $1 million) were more likely to have existing banking relationships. See Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, and San Francisco, *Small Business Credit Survey: 2020 Report on Employer Firms* (New York, NY: 2020).

[15]Christopher Neilson, John Eric Humphries, and Gabriel Ulyssea, "Information Frictions and Access to the Paycheck Protection Program" (working paper 27624, National Bureau of Economic Research, July 2020).

(see fig. 2).[16] Specifically, 13 percent of small businesses are located in rural counties, but 19 percent of all Phase 1 loans went to businesses in these counties.

[16]We used data from the Department of Agriculture's Economic Research Service to classify counties as "metro" if they have one or more high-density urban areas with 50,000 or more residents or are outlying counties that are economically tied to these central counties, as measured by the share of workers commuting on a daily basis to the central counties. Rural counties are outside the boundaries of metro areas and have no cities with 50,000 or more residents.

Figure 2: Paycheck Protection Program Loans per Small Business in Phase 1, by County



Number of Paycheck Protection Program loans per small business

- 0.046 or fewer
- 0.047 to 0.068
- 0.069 to 0.094
- 0.095 or more
- Not available

Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-22-105788

Note: This analysis excludes loans that were approved and subsequently canceled. Generally, Phase 1 data include loans approved from April 3 through April 16, 2020.

Businesses in rural counties also received loans earlier on average than businesses in metro areas. Specifically, in the period from April 3 through May 1, 2020, when loan volume was at its highest, loans were approved an average of 3 days earlier for businesses in rural areas than loans for businesses in metro areas. Businesses in rural counties received a high share of Phase 1 loans potentially because many of their loans were approved by small banks, which approved loans earlier than large banks. For example, of all loans approved by small banks from April 3 through May 1, 2020, 59 percent were approved before initial funding ran out on April 16, 2020. Conversely, of all loans approved by large banks from April 3 through May 1, 2020, only 34 percent were approved before initial funding ran out. In total, 44 percent of loans approved by small banks went to businesses in rural areas compared to 6 percent of loans approved by large banks.

Although large banks made more loans than all other lender types in Phase 1, researchers found they underperformed compared to small banks—with underperformance defined as having made a smaller share of PPP loans relative to their share of non-PPP small business loans.[17] Further, bank performance affected whether PPP borrowers were able to access loans before funding ran out at the end of Phase 1. Specifically, only 25 percent of all PPP borrowers located in areas with underperforming banks (regardless of size) obtained PPP approval prior to the end of Phase 1. By contrast, approximately 42 percent of all PPP borrowers in areas with banks that overperformed (or made more PPP loans than their share of other small business loans) had access to funds in Phase 1.

Small banks may have been more experienced with small business lending, and therefore better equipped to process PPP applications than other lenders, according to researchers and our analysis. For example, research from the Federal Deposit Insurance Corporation found that community banks (which are generally smaller banks) held a high share of small business loans before the COVID-19 pandemic.[18] It also found that community banks' participation in PPP was proportionately larger than their size in the banking industry, meaning that community banks made a larger share of PPP loans than other types of loans. Further,

[17]João Granja et al., "Did the Paycheck Protection Program Hit the Target?" (working paper 27095, National Bureau of Economic Research, November 2020).

[18]Margaret Hanrahan and Angela Hilton, "The Importance of Community Banks in Paycheck Protection Program Lending," *FDIC Quarterly*, vol. 14, no. 4 (2020). For the purposes of this research, community banks include banks with assets less than $1 billion, banks that primarily engage in basic banking activities rather than specialty activities, and banks that operate within a limited geographic scope.

based on results from our survey of PPP lenders, small banks approved the highest percentage of PPP applications on average (approximately 96 percent), compared to an estimated 93 percent for large and medium banks and an estimated 86 percent for CDFIs and MDIs.[19]

Program Changes, Including Lender Pool Expansion, Increased Lending to Traditionally Underserved Businesses and Counties

Congress and SBA Implemented Changes Shortly after PPP Launched to Increase Lending to Underserved Borrowers

Following concerns raised by small business associations that some traditionally underserved businesses faced challenges accessing loans in Phase 1, Congress and SBA modified PPP to increase participation among certain businesses, such as self-employed individuals, women-owned businesses, and businesses in minority counties. Many of these changes were implemented shortly after the start of the program and included increasing the number of lenders, targeting funding to certain businesses, and expanding program eligibility (see table 2).

[19]We surveyed a generalizable sample of 1,383 PPP lenders, stratified by lender type and size, to obtain their perspectives on the program. The survey closed on April 15, 2021, and we received 781 responses. We obtained a weighted response rate of 57.3 percent. The 95 percent confidence intervals for these estimates are (95, 97) for small banks, (91, 94) for medium and large banks, and (84, 89) for CDFIs and MDIs.

Table 2: Key Paycheck Protection Program Changes, by Program Phase

Phase	Legislation or program guidance	Date	Description of change
1	Technical event	April 8, 2020	The Small Business Administration (SBA) released the nonbank lender application form allowing new nonbank lenders to participate in the Paycheck Protection Program (PPP).
2	Interim final rule	April 20, 2020	SBA provided instructions for self-employed individuals filing a Form 1040 Schedule C to apply by calculating the loan amount based on the business's net profit from 2019.
	Guidance	April 23, 2020	SBA issued clarifying guidance stating that public companies with access to capital markets would be unlikely to have made a certification of need for a PPP loan in good faith, and allowed companies 2 weeks to return loan funds if they applied for the loan prior to issuance of the guidance.
	Interim final rule	April 30, 2020	SBA adjusted portfolio requirements for Community Development Financial Institutions (CDFI), majority minority-, women-, or veteran/military-owned financial institutions, and certain other nonbank lenders, which allowed smaller lenders to participate in PPP.
	Technical event	May 28, 2020	SBA established a $10 billion set-aside for businesses that applied through CDFIs to target lending to minority-owned businesses and underserved communities.[a]
3	Consolidated Appropriations Act, 2021	December 27, 2020	Congress allowed some businesses to receive a second loan and targeted eligibility for second loans to businesses that met certain criteria, including having 300 or fewer employees and documenting revenue losses in 2020.
	Guidance	January 11, 2021	SBA dedicated the first few days of Phase 3 to processing loans made through community financial institutions, which include CDFIs, Minority Depository Institutions, Certified Development Companies, and Microloan Intermediaries.
	Guidance	February 22, 2021	SBA established a 14-day loan application period exclusively for businesses or nonprofits with fewer than 20 employees.
	Interim final rule	March 4, 2021	SBA revised the maximum loan amount calculation for self-employed individuals filing a Form 1040 Schedule C based on either gross income or net profit, which allowed for larger loans.

Source: GAO analysis of SBA guidance and relevant laws. | GAO-22-105788

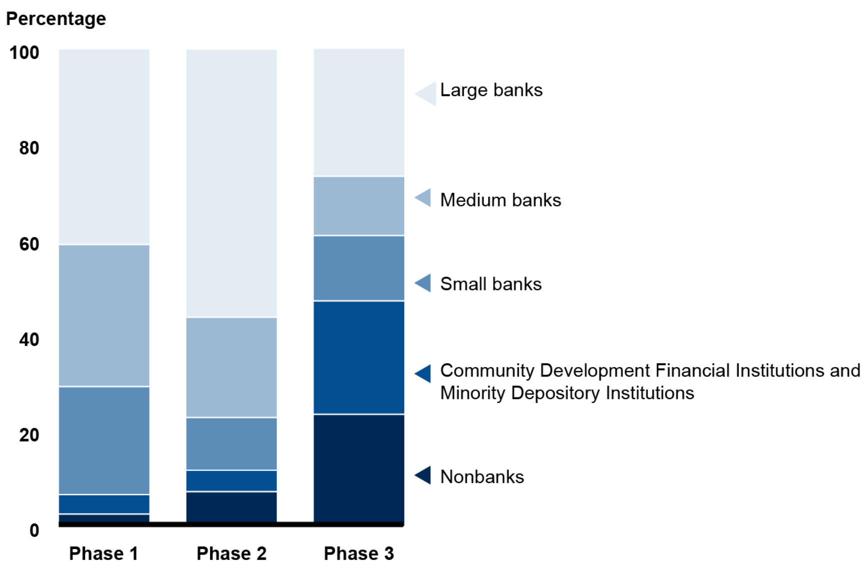
Note: Phase 1 includes the application period from April 3 through April 16, 2020; Phase 2 from April 27 through August 8, 2020; and Phase 3 from January 11 through May 31, 2021.

[a]Congress established additional set-asides throughout the course of the program. These included a total $60 billion set-aside for businesses that applied through community financial institutions, certain small insured depository institutions, and certain small credit unions established under the Paycheck Protection Program and Health Care Enhancement Act, as well as $15 billion for lending by community financial institutions and $35 billion to new PPP borrowers established under the Consolidated Appropriations Act, 2021.

To increase lending to traditionally underserved businesses and counties, Congress and SBA modified PPP to allow for greater participation by financial institutions that lend to traditionally underserved businesses.

Nonbanks, CDFIs, and MDIs each made a greater percentage of PPP loans in Phases 2 and 3 than they did in Phase 1 (see fig. 3). Specifically, the percentage of loans made by nonbanks increased significantly, from 3 percent of loans in Phase 1 to 23 percent of loans in Phase 3. In addition, the percentage of loans made by CDFIs and MDIs rose from 4 percent of loans in Phase 1 to 24 percent of loans in Phase 3. Further, beginning in Phase 2, SBA approved 623 new lenders to make PPP loans, increasing the total number of lenders from 4,837 to 5,460. CDFIs, MDIs, and nonbanks made 97 percent of the nearly 1.5 million loans issued by new lenders in the last two phases of the program.

Figure 3: Percentage of Paycheck Protection Program Loans, by Lender Type and Program Phase



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-22-105788

Note: For this analysis, all depository lenders are categorized as “banks,” including banks, credit unions, and savings and loan associations. Large banks are those with at least $10 billion in assets, medium banks are those with $1 to $10 billion, and small banks are those with less than $1 billion, based on publicly available call reports. All nondepository lenders are categorized as “nonbanks,” including SBA Small Business Lending Companies, SBA Certified Development Companies, SBA Microlenders, Business and Industrial Development Corporations, Farm Credit System lenders, and state-regulated financial companies. This analysis excludes loans that were approved and subsequently canceled. Generally, Phase 1 data include loans approved from April 3 through April 16, 2020, Phase 2 data include loans approved from April 27 through August 8, 2020, and Phase 3 data include loans approved from January 12 through June 30, 2021.

Available data suggest the changes SBA and Congress made to increase lending to traditionally underserved businesses helped these businesses better access PPP. Nonbanks, CDFIs, and MDIs made a higher proportion of loans to traditionally underserved businesses and counties than other types of lenders, particularly small banks. For example, self-employed individuals received 85 percent of nonbanks' loans but only 47 percent of loans overall, which suggests that nonbank lenders' increased participation over time could have helped increase lending to these borrowers. In addition, 21 percent of loans made by CDFIs or MDIs and 23 percent of loans made by nonbanks went to businesses in counties with large shares of women-owned businesses, compared to 4 percent of loans made by small banks.[20] Similarly, 64 percent of loans made by nonbanks and 69 percent of loans made by CDFIs and MDIs went to businesses in high-minority counties, compared to 22 percent of loans made by small banks.[21]

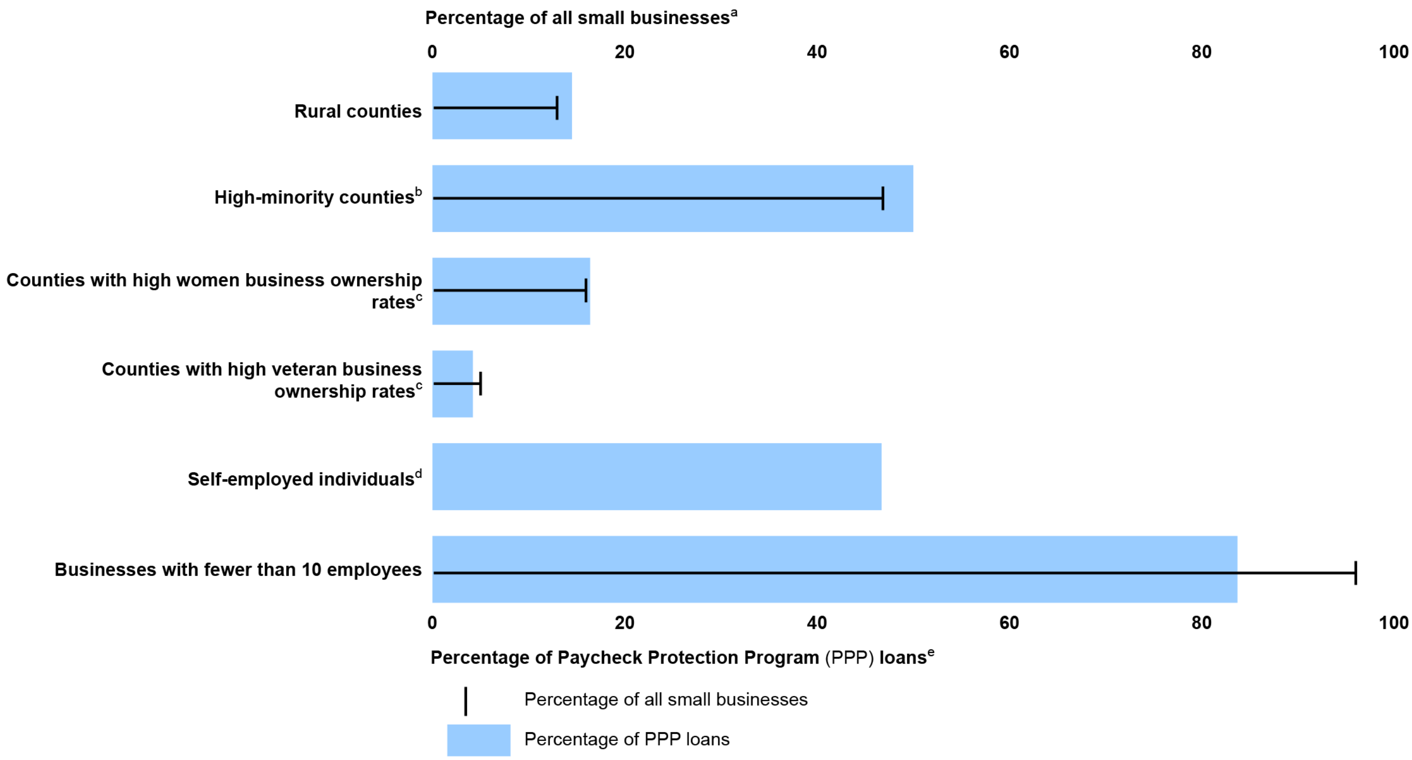
By Program Close, Lending to Traditionally Underserved Businesses and Counties Was Comparable to Their Share of Small Businesses

By the end of Phase 3, PPP lending to businesses in traditionally underserved counties was proportionate to their representation in the overall small business community, in part because of the changes Congress and SBA made to the program (see fig. 4). For example, while loans to businesses in rural counties were high from the start of the program, loans to businesses in high-minority counties and counties with large shares of women-owned businesses reached proportionate levels by the end of Phase 3. However, while lending to businesses with fewer than 10 employees increased significantly over time, it remained disproportionately low by the end of Phase 3.

[20]By comparison, 19 percent of loans made by large banks and 10 percent of loans made by medium banks went to businesses in counties with large shares of women-owned businesses.

[21]Fifty-four percent of loans made by large banks and 36 percent of loans made by medium banks went to businesses in counties with high minority populations.

Figure 4: Percentage of Paycheck Protection Program Loans Relative to the Share of Small Businesses, by Type of Business or County



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-22-105788

[a]We define all small businesses as employer businesses with fewer than 500 employees and all non-employer businesses based on 2017 data from Census's Statistics of U.S. Businesses and Non-Employer Statistics.

[b]High-minority counties include counties with a share of minority residents greater than the national share based on Census's American Community Survey.

[c]Counties with large shares of women- and veteran-owned businesses include counties in which the share of business ownership is higher than the national share at the 95 percent confidence level, based on Census's Annual Business Survey.

[d]Self-employed individuals include independent contractors, sole proprietorships, qualified joint ventures, and single-member limited liability companies. Data were not available to calculate the percentage of all small businesses that were self-employed individuals.

[e]This analysis excludes loans that were approved and subsequently canceled. For counties, loans that could not be matched to Census data were excluded.

Businesses in rural areas. As previously described, businesses in rural counties were the only traditionally underserved group that received a higher share of Phase 1 loans (19 percent) than their share of small businesses nationwide (13 percent). By the program's end, 15 percent of all loans were to businesses in rural counties.

Businesses in high-minority counties. Small businesses in high-minority counties received a relatively low share of loans in Phase 1 (36 percent), but their share increased over time (50 percent in Phase 2).[22] By the program's end, 50 percent of loans went to businesses in these counties, exceeding their share of small businesses (47 percent). This trend corresponds with a general increase in the number and types of lenders in the program after Phase 1 and program changes to target funds to lenders that lend in traditionally underserved counties in Phases 2 and 3. For example, in Phase 2, SBA established a $10 billion set-aside for businesses that applied through CDFIs, seeking to target lending to minority-owned businesses and traditionally underserved counties.

Loans to minority-owned businesses may also have been low in Phase 1 because these businesses lacked preexisting relationships with banks, particularly small banks. According to the Federal Reserve Banks' 2019 Small Business Credit Survey, prior to the pandemic, Black and Hispanic business owners were more likely to seek financing from large banks and online lenders than from small banks.[23] The 2020 update to the survey found this trend continued during Phases 1 and 2: regardless of where businesses applied for PPP loans, those that had a relationship with a bank were more likely to apply for PPP loans than those that did not.[24] The survey also demonstrated that minority-owned businesses were less likely to have a relationship with a bank. Our survey of PPP lenders found CDFIs and MDIs were more likely than other types of lenders to report

[22]For this analysis, we define high-minority counties as counties where the percentage of minority residents was higher than the national share of 27.5 percent. Because SBA does not have complete data on the race of business owners who obtained PPP loans, we used Census's American Community Survey to measure the percentage of loans in each phase that went to businesses in high-minority counties, or counties with a share of minority residents above the national share. We used county-level 2015–2019 5-year estimates, the most recently available data at the time of our review.

[23]Federal Reserve Bank of Atlanta, *Small Business Credit Survey: 2019 Report on Minority-Owned Firms* (New York, NY: 2019). The 2018 survey was conducted in the third and fourth quarters of 2018 and generated 6,614 responses from employer firms with information on the race or ethnicity of a firm's owner(s).

[24]Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, and San Francisco, *Small Business Credit Survey: 2021 Report on Firms Owned by People of Color* (New York, NY: 2021).

that they accepted applications from borrowers with whom they had no prior relationship.[25]

Women-owned businesses. The share of loans to businesses in counties with a large share of women-owned businesses also increased, from 9 percent in Phase 1 to 18 percent in Phase 2.[26] By the program's end, 16 percent of loans went to businesses in these counties, equaling their share of small businesses. These increases corresponded with the increase in the number and types of lenders after Phase 1 and program changes to target funding to traditionally underserved businesses and communities in Phases 2 and 3. In addition, approximately 90 percent of women business owners are self-employed individuals, according to Census data.[27] As a result, program changes aimed at increasing participation among self-employed individuals likely also contributed to the increase in lending to counties with large shares of women-owned businesses.

Veteran-owned businesses. The share of loans to business in counties with a large share of veteran-owned businesses was generally consistent over time. Overall, counties with large shares of veteran-owned businesses accounted for 4 percent of loans and 5 percent of small businesses.

Self-employed individuals and businesses with fewer than 10 employees. While the share of loans to self-employed individuals was low in Phase 1, program changes helped increase their share substantially in later phases of the program, from 9 percent of all loans in

[25]Ninety percent of CDFI/MDIs reported accepting PPP applications from businesses with whom they had no prior relationship, compared to 73 percent of large banks. The 95 percent confidence intervals for these estimates are (83, 95) for CDFI/MDIs and (67, 79) for large banks.

[26]Because SBA does not have complete data on the gender of business owners who obtained PPP loans, we used estimates from Census's Annual Business Survey to assess the extent to which businesses in counties with large shares of women-owned businesses were able to access PPP. For the purposes of this analysis, we examined lending in counties with shares of women-owned businesses that were higher than the national estimate. We refer to these counties as having a "large share" of women-owned businesses. Based on data from the 2017 Annual Business Survey, approximately 20 percent of all businesses were women-owned.

[27]U.S. Census Bureau, *Number of Women-Owned Employer Firms Increased 0.6% From 2017 to 2018* (Washington, D.C.: Mar. 29, 2021).

Phase 1 to 86 percent in Phase 3.[28] This increase corresponded with SBA issuing guidance for self-employed individuals to apply for loans and increasing the number and types of lenders in the program at the end of Phase 1, and allowing for larger loan amounts for self-employed individuals in Phase 3.

Similarly, the share of loans to businesses with fewer than 10 employees increased across all three phases. However, the share of loans to these businesses remained below their share of small businesses overall, despite program changes to increase their participation over time. These businesses received 84 percent of all loans, but represent 96 percent of all small businesses. By comparison, businesses with 10 to 499 employees received 16 percent of all loans, despite accounting for just 4 percent of all small businesses.

The proportionately low program participation for self-employed individuals and businesses with fewer than 10 employees could be, in part, because they were able to obtain other forms of assistance. For example, in July 2021, we reported that businesses with fewer than 10 employees accounted for 86 percent of approved applications in the Economic Injury Disaster Loan program—an SBA-administered program that provided $230 billion in loans and advances to small businesses and nonprofits between March 2020 and May 2021.[29] Further, many self-employed individuals may have been eligible for unemployment insurance.[30]

In conclusion, our analysis suggests that program changes made by Congress and SBA helped increase lending to traditionally underserved businesses and counties.

[28]Census's Statistics on U.S. Businesses does not include data on business ownership type that are comparable to SBA's data on PPP recipients. As a result, we were not able to provide information on the share of self-employed individuals relative to all small businesses in the U.S.

[29]See GAO, *Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risk*, GAO-21-589 (Washington, D.C.: July 30, 2021).

[30]SBA has noted that a self-employed individual's participation in PPP may affect eligibility for unemployment compensation.

Chairman Phillips, Ranking Member Van Duyne, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact William B. Shear, Director, Financial Markets and Community Investment, at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Cory Marzullo (Assistant Director), Christopher Forys (Analyst in Charge), Jennifer Schwartz, and Jena Sinkfield.

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