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Second round of PPP promises to prioritize underserved businesses. Is it working?

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By

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When the Paycheck Protection Program launched through the CARES Act in March, Chris Short received promises that the program would save small businesses with skepticism.

He needed the money to keep his business — Billionaire's Barbershop in Cary — afloat. But the program's rules kept changing, and he was worried he wouldn't be able to get the loan forgiven.

"I wanted to make sure that if I was applying, I was eligible and that I had the right documentation, you know," Short told The News & Observer. "No one wants to go into debt during a pandemic."

After reading more about the program, he said, he decided to apply. But by that point the money had run out, and banks had stopped taking applications. "I called everybody that was offering it," he said, maybe seven or eight banks, with no luck.

The barbershop, which Short opened in 2009, has been able to stay open with roughly half of its pre-pandemic business. But it's been difficult: The shop shut down altogether for most of the spring, leaving Short to draw on his savings to pay his bills. The savings were "enough to withstand the storm, but that's almost gone," he said. He and his wife were both diagnosed with COVID-19 in November, and the two weeks he spent out of work to quarantine cut even deeper into his income.

So when the second round of PPP opened in January, he was eager for another shot. The instructions this time around are far more straightforward, he says, and unlike last time have remained unchanged. He's in the process of applying, and he hopes he'll be eligible for \$40,000 or \$50,000 — "a nice cushion," for his payroll expenses.

But he said some of his friends who also own barbershops remain nervous about the program and have decided not to apply. He understands their hesitation.

"It's a mental thing, it's a fear ... as a Black person I felt like if I went to the bank and asked for something I would get declined," he said. "That's the part that affects you as an African-American where you didn't get that information early on and then you don't have the resources, or know who to ask."

Changes from the SBA

After the first PPP rollout left out struggling business owners across the country, the Small Business Administration made numerous efforts to bring people like Short into the program's second round.

While the program did not track the race of loan applicants, [studies have shown](#) that Black business owners were more likely than white business owners to be denied a loan in the first round.

An Associated Press [analysis](#) of loans made in the first round found that in the 20% of ZIP codes with the greatest proportions of white residents, six loans were approved for every 1,000 people. That was nearly twice the rate of loans approved for people living in the 20% of ZIP codes with the smallest proportions of white residents.

The disparities stemmed largely from the fact that Black business owners are less likely to have an existing relationship with the traditional financial institutions that made the majority of PPP loans. In the last five years, 46% of white-owned businesses accessed credit from a bank, while just 23% of Black-

owned businesses and 34% of Latino-owned firms had done so, according to [research from the Federal Reserve Banks](#).

To try to address these disparities in the second round, the SBA issued [guidance](#) to lenders encouraging them to lend to business owners in underserved communities and instituted a minimum fee for lenders to incentivize them to make even the smallest loans.

In the first round, the smallest businesses — sole-proprietors — couldn't apply until a week after the program launched. That delay put Black business owners at a big disadvantage: Of the 2.6 million Black-owned companies in business before the pandemic, 2.1 million were non-employer firms, according to the U.S. Black Chambers.

This time, these businesses are eligible from the start. The SBA also gave an advantage to the nontraditional lenders that smaller businesses and businesses owned by people of color tend to use: It set aside \$15 billion for businesses borrowing from community financial institutions.

In the latest round of PPP, which was approved through the stimulus bill and launched on Jan. 11, the SBA has so far approved over 400,000 loans for approximately \$35 billion, [according to the SBA](#).

"I think that it is so far probably a bit more thoughtful than the other [round]," said Marquita Robertson, executive director of The Collaborative, a nonprofit that works to build wealth in financially vulnerable communities in North Carolina. But she said these fixes won't solve the hesitation many business owners of color feel about the program.

"[People] in the Black community were scared of PPP because they're scared of loans and didn't know that it would turn into a grant if you kept your folks on staff," Robertson said.

Glitches in 2nd round

Early bumps in the second round — while far fewer than in the first round — have prompted additional concerns.

In a [letter](#) to the Treasury and SBA on Jan. 25, the American Bankers Association warned that many borrowers were denied loans because of technical glitches in the application portal. One glitch denied second round applicants who hadn't yet received forgiveness for their first loan, despite SBA guidance allowing them to apply again.

The association said there also was confusion about what types of documentation would be accepted to prove revenue loss.

Tracy Ward, director of the [small business loan program](#) at Self-Help Credit Union, which serves small businesses in North Carolina, said these technical issues prevented Self-Help from making loans for the first few days that the application portal was open.

One of the biggest changes the SBA made to the program was to designate a couple of days for community development financial institutions like Self-Help, which tend to work with smaller businesses owned by people of color, to apply for loans before the program was opened up to big banks.

The glitches prevented Self-Help from taking advantage of this early start. And guidance for lenders, though more comprehensive and helpful than in the first round, Ward said, was given to community financial institutions just as the application portal opened, giving them little time to prepare.

The SBA "has done a good job scrambling and hurrying to do what they can do to get this out quickly, both last time and this time," she said. But the program leaves "big gaps where businesses need lots of other help and support that this doesn't cover," especially for the smallest businesses.

Because the loan amount is based on payroll, sole proprietor businesses often receive an "incredibly small loan," said Ward, sometimes just a couple hundred dollars. "It's just not going to provide them much help."



Zweli Williams cooks chicken during lunchtime at Zweli's, owned by she and her husband Leonardo Williams, on Tuesday, Apr. 14, 2020, in Durham, N.C. Today they announced they would stop accepting orders during lunch time, after receiving none for five days in a row. Casey Toth ctoth@newsobserver.com

PPP doesn't solve all problems

Leonardo Williams, who runs the restaurant Zweli's in Durham, said another round of PPP money would help.

But the program requires that 60% of the loan amount be used for payroll to be fully forgiven, meaning that he'll still be behind on rent.

"Labor is not our biggest expense," he said, especially in a time when everyone prefers take out and delivery. "Our biggest expense is food cost and rent."

On top of that, he said, the process to get an application is overwhelming. He barely has enough time to run a restaurant. Now he's confronted with hours of complicated paperwork.

"Honestly, we opened the application up two days ago and we couldn't get through it. They are asking for so much more information," he said. "You have to show how you used money from the last PPP and that is really tough. It's going to take so much time to document."

That has given businesses that can afford to have accountants on staff a huge leg up, he said. Zweli's is dependent on him and wife deciphering exactly how to qualify for a grant and not just more debt.

Time is precious as well. After being behind months on rent, his landlord recently told him that he couldn't wait much longer.

"It is traumatic," Williams said of being a small business owner right now. "It is stress on our family. It is stress on us individually. The business is where we put all of our energy into and it is our breadwinner. It is how we live."

The second round of PPP is already too late for many businesses.

Many minority-owned firms floundered during the pandemic because they are primarily in industries that need in-person interactions, like barber shops and restaurants, said Henry McKoy, director of entrepreneurship at North Carolina Central University.

Ultimately, that will exacerbate the racial wealth gap, McKoy said.

"The fact that so many Black businesses disappeared," he said, "is going to have a huge impact on the overall social mobility of the Black community."

