

As part of the federal response to the coronavirus pandemic, the CARES Act included a forgivable loan program for small businesses that agreed to use the stimulus money to keep employees on the payroll during the pandemic's massive economic impact. The Paycheck Protection Program (PPP), despite these intentions, has failed to assist the vast majority of small businesses, including in North Carolina. Alarming, an extremely small percentage of minority-owned businesses have gotten PPP money due to existing inequities in banking, while large corporations with hundreds of employees managed to secure loans. Lawmakers must fix the broken Paycheck Protection Program to ensure as many small businesses as possible have a chance of surviving the economic toll of the coronavirus pandemic.

BACKGROUND: NC SMALL BUSINESSES

There are [890,000](#) small businesses in North Carolina with fewer than 500 employees. Meanwhile, North Carolina has received just [66,677](#) loans from the Paycheck Protection Program.

There are [183,000](#) minority-owned small businesses in North Carolina.

[1.6 million](#) employees in North Carolina, over 44 percent, work for a small business.

PPP SENDS MONEY TO LARGE COMPANIES

As of May 1, publicly traded companies have received more than [\\$1 billion](#) in funds meant for small businesses from the federal government's coronavirus relief efforts.

Despite the fact that the average loan size from the first round of the Paycheck Protection Program was \$206,000, [\\$124 billion](#) more went to loans worth \$350,000 or more compared to smaller loans. **More than double was spent on the larger loans.**

- Even as the [second round](#) of PPP funding saw the average loan size shrink and more smaller lenders providing loans to smaller companies, the problem of larger businesses taking loan money is still there.

PPP FAILS SMALL BUSINESSES

During the first round of PPP funding, **80 percent** of small businesses that have applied for relief money received none.

North Carolina ranks **42nd** in the nation for the percentage of eligible small businesses getting grants from the Paycheck Protection Program.

- Only 22.7 percent of companies in North Carolina got loans, while the national average is over 27 percent.

North Carolina has only received **2.5 percent** of the nearly \$189 billion lent through the Paycheck Protection Program.

Roughly **95% of Black-owned businesses, 91% of Latino-owned businesses, 91% of Native Hawaiian or Pacific Islander-owned businesses, and 75% of Asian-owned businesses** **failed to secure loans** from the Paycheck Protection Program.

- The main obstacle: banks participating in the program are only issuing loans to **existing clients** to speed up the approval process that grants access to the money,” which are overwhelmingly not businesses run by people of color or women.
- On average, “minority-owned businesses often have **weaker banking relationships** than their white-owned counterparts — one legacy of the practice of redlining, or refusing to lend to people in communities of color.”
- **Even outside of the PPP, black and Latino business owners are denied loans at higher rates.**

Businesses of color account for **30 percent** of all U.S. businesses.

The second round of PPP funding set aside **\$30 billion** for lending institutions with less than \$10 billion in assets to help smaller businesses secure loans, but there was no other attempt to rectify inequities in the loans.

- **Still, during the second round of PPP funding, more than half of the loan money was given through banking institutions with more than \$50 billion in assets.**

BANKS THAT ISSUE THE LOANS PROFITED

Banks that offered PPP loans, including Bank of America, JPMorgan Chase and Wells Fargo, prioritized larger loan applications in order to [maximize loan-origination fees](#) and their own profits. Banks charged [higher fees](#) when processing the bigger loan applications, which was more faster and more profitable than processing multiple smaller loans. Several class-action lawsuits have been filed by small businesses still waiting for their approved funding.

- The banks [did not disclose](#) to the public their intention to focus on larger loans during the loan application process in order to maximize profits.
- The vast majority of minority-owned small businesses have not received PPP loans because the funds had run out by the time their applications were processed.

SOLUTION: NEW PPP FUNDS

According to a director at the Center for Responsible Lending, [the solution](#) is for the Small Business Administration to allocate “\$10 billion of new PPP funds for Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs).”

- “It’s the only way that black, Latino, Asian, and other small business owners of color can have an equal chance to receive pandemic relief as wealthier bank clients.”
- Nationwide, CDFIs and MDIs have received just over [103,000](#) PPP loans compared to over 2,500,000 loans being issued in total.