

What to Expect From the Next Round of PPP Loans

The Paycheck Protection Program is expected to get an infusion of \$320 billion in funding this week.

While more relief is welcome, the problems that came with the initial rollout are not.

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The [Paycheck Protection Program](#) was supposed to bring fast financial relief in the form of \$349 billion in potentially forgivable loans to a large swath of the country's small businesses. In reality, the relief was neither as fast nor as far-reaching as initially hoped. The money ran out in about two weeks, leaving out thousands--if not millions--of [small businesses](#). Even those who applied early and received approvals are still waiting on funds.

Now that a second funding deal totaling \$484 billion is expected to hit President Trump's desk and receive his signature this week, the big question is whether the program can avoid the problems that plagued its initial rollout. The new measure allocates \$320 billion specifically to the PPP.

Joe Manganelli, founder of the New York City-based strategic advisory and financial management firm Calculate, isn't optimistic. He helped 40 of his small-business clients submit PPP applications during the first week and still only had a 25 percent success rate. While some of those applications are still in the queue and may yet receive approvals once the [PPP is officially replenished](#), Manganelli says he's frustrated by the lack of coordination between the government and the banks and the number of business owners who have been unable to land funding.

"Ultimately, it's the people who don't have the resources--the ones who need the money most--who were coming up short," he says.

Manganelli's clients aren't the only ones. A recent survey of nearly 1,000 [small-business owners](#) shows that larger businesses had better luck than their smaller counterparts. While 52 percent of surveyed companies with 20 or more employees said they received approvals, just 18 percent of the U.S.'s smallest businesses--those with 10 or fewer employees--were approved for PPP loans. The survey was conducted by the National Small Business Association, a small-business advocacy group in Washington, D.C., between April 15 and 18.

The Problems With PPP

There are a number of reasons why money didn't make it into the hands of the smallest companies. For starters, the application for self-employed individuals and independent contractors didn't even become available until April 10, less than a week before the program ran out of money.

Second, banks tended to provide loans to their existing customers, and many of them added restrictions on top of that requirement. Bank of America, for instance, required its PPP borrowers to have both a checking and credit account with the lender. Manganelli described the experience of one client who had a checking account at Bank of America and a credit card at Chase. "Neither one of those banks [accepted the] applications, so the [client] had to find a third bank they had no relationship with and put in an application in there. But obviously that bank is going to prioritize their existing relationships."

While plenty of smaller businesses have checking accounts with a bank, often they don't carry a credit line or other forms of debt. So those business owners were forced to try elsewhere, which as Manganelli points out, only exacerbated the problem.

Finally, the program's original design--which made accommodations for restaurants and some hospitality businesses regardless of their size--meant the program ran out of money even faster.

An investigation of Securities and Exchange Commission filings from *The Washington Post* found that as many as [70 publicly traded companies](#) reported receiving PPP funds. While the fast casual chain Shake Shack on Sunday night said it will give back its \$10 million in PPP funding, it's unclear whether others will too. Ruth's Chris Steak House, a chain with 150 locations, received \$20 million in PPP funds. The sandwich chain Potbelly, which has more than 400 locations, reported receiving \$10 million.

What to Expect From Round 2

To be sure, this next tranche of funding may not address these specific issues, despite calls to improve the transparency of the program. While the U.S. Small Business Administration did release information regarding the [number of businesses receiving PPP funding](#), individual company information isn't reported. As of April 16, nearly 5,000 banks approved 1.6 million PPP loans.

In reference to the news that publicly traded restaurant chains landed PPP funding, Senator Marco Rubio (R-FL), chairman of the committee overseeing small businesses,

tweeted Monday that the program was not intended to aid subsidiaries of a national brand. He added that administrative regulations "should be corrected."

Even so, Ami Kassir, the founder and CEO of MultiFunding, a small-business loan adviser based in Ambler, Pennsylvania, doesn't expect to see many changes. Adding complexity, he says, could detract from the efficacy of the program. "It'll just make it way too complicated from a processing point of view. Now you've got one set of borrowers with one rule," he says, adding that if the PPP changed "you'd have another set of borrowers with another set of rules."

The new stimulus measure will allot around \$60 billion to smaller financial institutions. Those with \$10 billion or fewer in assets will get \$30 billion and another \$30 billion will go to banks with \$10 billion to \$50 billion in assets, according to Paul Merski, group executive vice president of congressional relations and strategy at the Independent Community Bankers of America, a small-bank trade organization.

That's good news for smaller companies, adds Merski, as "smaller banks tend to do smaller loans and serve the smaller businesses." And they tend to be more geographically dispersed. There are around 10,000 community banks in the U.S., says Merski.

What's more, among Manganelli's clients who successfully landed funding during the first round of PPP, roughly half got their loans from a community bank. "Since they were a bit smaller and more nimble, those community banks were actually pretty helpful," Manganelli says.