

The 2021 Paycheck Protection Program Reboot: Loan Disbursement to Employer and Nonemployer Businesses in Minority Communities[†]

By ROBERT FAIRLIE AND FRANK M. FOSSEN*

The economic impacts of the pandemic have been especially severe for small businesses, workers, and communities of color (e.g., Couch, Fairlie, and Xu 2020; Fairlie 2020). Anticipating these potential losses, one of the stated goals in the \$2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act was to prioritize underserved markets and businesses owned by socially and economically disadvantaged individuals. A key component of the CARES Act, the Paycheck Protection Program (PPP), provided loans to small businesses to keep them afloat and retain their employees. Loans were equal to two-and-a-half months of average payroll costs and could be forgiven if businesses retained employees. The first round of the PPP provided \$342 billion, with disproportionately less going to minority communities (Grotto, Mider, and Sam 2020).

As the pandemic continued and its negative economic impacts became increasingly clear, Congress appropriated additional funds, and the PPP restarted on April 27, 2020. In this second round of \$189 billion in PPP funding, fintech lenders were more involved in making loans, and disbursement to minority businesses and communities improved (Fei and Yang 2021; Fairlie and Fossen 2021).

A few months after the PPP ended in August 2020, COVID cases began to rise sharply, and social distancing restrictions returned. Given these concerns, the PPP restarted in January 2021 with a strong emphasis on helping

eligible borrowers in underserved and disadvantaged communities. The Small Business Administration (SBA) introduced a head start for applications through community development financial institutions (CDFI) and a 2-week exclusivity application period for businesses with fewer than 20 employees. Access to loans was emphasized for sole proprietors and independent contractors without employees. Another major change was that the PPP expanded to allow small businesses to obtain a second loan. From January to May 2021, 6.7 million loans (2.9 million second-draw loans) totaling \$278 billion (\$209 billion) were provided.

Did funds in this third round and rebooted PPP get disproportionately disbursed to minority communities as intended? How did the disbursement of second-draw loans compare to first-draw loans, and how did the disbursement of loans to small businesses with employees compare to small businesses without employees (nonemployers)? Equitable disbursement of employer business loans has implications for community impacts on not only owners but also jobs and broader economic activity. Finally, how does loan disbursement across minority communities in the third round compare with disbursement in earlier rounds? This paper provides the first exploration of these important unanswered questions (see Fairlie and Fossen 2022 for more details).

I. Data

We use SBA administrative microdata covering the universe of PPP loans. We also use newly available information on first- versus second-draw loans and on exact loan amounts for all loans. The loan microdata include addresses, industry, business type, self-reported jobs retained, and lender. Information on the race, ethnicity, gender, and veteran status of the owner is mostly missing.

* Fairlie: University of California, Santa Cruz, and NBER (email: rfairlie@ucsc.edu); Fossen: University of Nevada, Reno, and IZA (email: ffossen@unr.edu). We thank Jason Grotto, Zach Mider, Karen Mills, Javier Miranda, Gagandeep Sachdeva, Cedric Sam, and participants at the AEAs and other workshops.

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We distinguish between loans to employer businesses and loans to nonemployers. The share of PPP loans going to nonemployers increased from 4 percent in the first round to 24 percent in the second round and 84 percent in the third round; the average loan amount to nonemployers was 43 percent of the average loan amount to employers. We classify all self-employed individuals and independent contractors, as well as sole proprietorships reporting only one person working, as nonemployer businesses.

To normalize the number of PPP loans to employer businesses by zip code, we divide by number of employer businesses in that zip code. We use data from County Business Patterns and add US Department of Agriculture farm data. To normalize loan amounts, we calculate average loan amounts per employee in each zip code.

To normalize the number of PPP loans and loan amounts to nonemployer businesses, we use the 2018 Nonemployer Statistics (NES), which are only available at the county level. A caveat with this normalization is that as long as the business produces \$1,000 or more in annual revenues, the NES include all consultants, side businesses, and contract or gig work, which are generally ineligible for PPP loans.

II. Results

We analyze how PPP loan receipt was distributed across minority communities, measured as the minority share of the population at the zip code or county level. The following four column charts describe the first draw of the third round. They show mean normalized numbers of loans or loan amounts in zip codes or counties in bins of minority population shares of 5 percentage points, weighted by the population in the zip code or county. The figures also include plotted weighted quadratic regression curves. The double arrow on each y-axis indicates the range of half a standard deviation from the median across zip codes or counties to provide a sense of relative scale of the relationships.

We do not report confidence intervals, because we use the universe of PPP loans and businesses. We also focus on the raw relationship between PPP loan receipt and minority share of the population without controlling for other factors, because we are trying to capture the influences of these neighborhood characteristics. For example, if minority communities

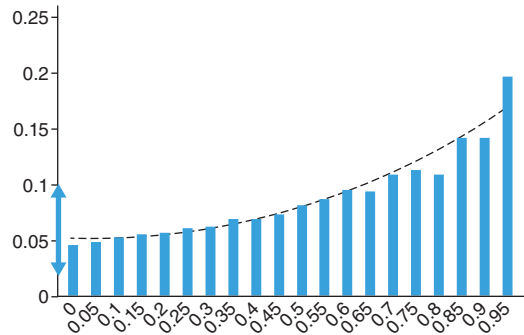


FIGURE 1. NUMBER OF PPP LOANS TO EMPLOYER BUSINESSES PER EMPLOYER BUSINESS BY MINORITY SHARE IN THIRD ROUND 2021 (FIRST DRAW)

have higher poverty rates and that is correlated with receipt of PPP loans, then we want to include that in our measurement, not control for it. Even if the driver of loan receipt is income, it is reflected in race and that is what we are trying to capture.

We begin with PPP loan receipt to employer businesses per employer business in zip codes by minority share of the population. Figure 1 displays the relationship in the third round of the PPP in 2021 for first-draw loans. Loan receipt per business can be interpreted as the percentage of employer businesses receiving PPP loans in each zip code, but note that not all employer businesses qualify for loans or necessarily want loans, and thus, we do not expect the measure to ever reach 1. The figure exhibits a positive relationship between loan receipt per employer business and the minority share of the population across zip codes. In all regressions, the coefficients of the linear and squared terms of the minority share are jointly significantly different from zero. Additional charts in Fairlie and Fossen (2022) show a weaker positive relationship for second-draw loans and that there was already a positive but weaker relationship in round 2. However, the first round shows the opposite pattern: there was a strong negative relationship between loan receipt and minority population share.

Turning to loan amounts instead of number of loans, Figure 2 displays average loan amounts to employer businesses per business employee in zip codes by minority share of the population in the third round (first draw). These can be interpreted as the unconditional average PPP

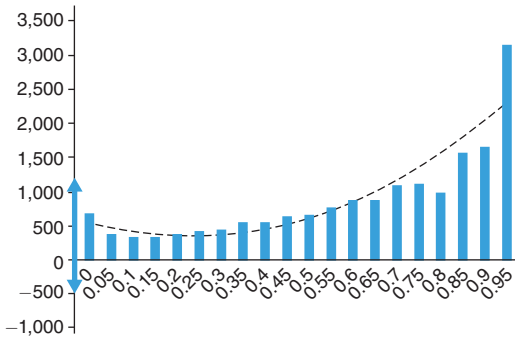


FIGURE 2. PPP LOAN AMOUNTS TO EMPLOYER BUSINESSES PER EMPLOYEE BY MINORITY SHARE IN THIRD ROUND 2021 (FIRST DRAW)

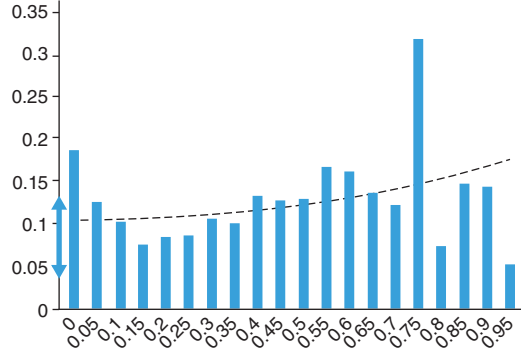


FIGURE 3. NUMBER OF PPP LOANS TO NONEMPLOYER BUSINESSES PER NONEMP. BUSINESS BY MINORITY SHARE IN THIRD ROUND 2021 (FIRST DRAW)

loan amount per employee in a zip code, but not all employer businesses and employees qualify for loans. We find an upward relationship of PPP loan amounts per employee with minority share for first-draw loans and a flat association for second-draw loans. For third-round first-draw loans, moving from the first quartile in minority share of the population (16 percent minority) to the third quartile (59 percent minority) is associated with an increase from \$349 to \$775 in average loan amount per employee. There was already a positive but less pronounced relationship in the second round, and a negative relationship in the first round, similar to what we found for loan numbers. Similar patterns are also found when using the minority share of businesses in a community instead of the minority share of the population.

The 2021 reboot of the PPP (third round) emphasized supporting nonemployer businesses. Figure 3 shows that the number of PPP loans to nonemployer businesses per nonemployer business in the county has a positive relationship with minority share in 2021 (first-draw loans). Different from what we find for employer businesses, the positive relationship is also very strong for second-draw loans, which might reflect more continuing struggles to find work among minority independent contractors and small sole proprietors in the pandemic in comparison to minority-owned stores, restaurants, and other employer businesses. The column for the 75–80 percent bin of minority share of the population is an outlier: its 20 counties are dominated by Hinds County, Mississippi, with 240,000 inhabitants. In general, bins in the

right half of the county-level charts only contain comparably small numbers of counties (a minimum of five), so the dashed weighted regression curves are more informative than focusing on individual columns.

The association between nonemployer loans per nonemployer business and the minority share in the county was essentially flat in the second round but clearly negative in the first round. This pattern of results is similar to what we found for employer businesses. The PPP evolved over time for not just employer businesses but also smaller nonemployers.

Finally, we analyze PPP loan amounts to nonemployers per nonemployer business in the county. In this case, we view the owner’s job as the sole worker for normalization, and as noted above, the use of all nonemployer business entities in the county is likely to be overinclusive. The results for the first draw in the third round appear in Figure 4. We find a similar pattern: the relationship between loan amounts to nonemployers with minority share is strongly positive in 2021 (also for second-draw loans), more weakly positive in the second round in 2020, and strongly negative in the first round.

III. Discussion

In the face of rising COVID-19 cases, the PPP was rebooted in early 2021, but with an emphasis on helping eligible borrowers in underserved and disadvantaged communities. Analyzing administrative data on the universe of PPP loans providing nearly \$300 billion, we find substantial evidence that the program disbursed funds to

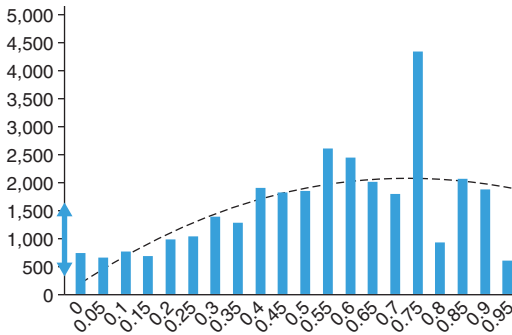


FIGURE 4. PPP LOAN AMOUNTS TO NONEMPLOYER BUSINESSES PER NONEMP. BUSINESS BY MINORITY SHARE IN THIRD ROUND 2021 (FIRST DRAW)

minority communities in 2021. The relationship between loan receipt or amounts and minority share of the population is generally strong and positive. The positive relationship is stronger for first-draw loans than for second-draw loans for employer businesses. For both first- and second-draw loans, demand is likely to be higher in disadvantaged communities, as small business continued to struggle, and the major structural changes to the program are likely to have increased the supply of loans to those same communities. But eligibility for a second-draw loan depended on receipt of a loan in 2020 when relatively fewer businesses in minority communities were served, thus causing some persistence in loan inequities.

We also find strong positive relationships between loan receipt or amounts and minority share for nonemployer businesses, which have been especially targeted in the third round. Concerning second-draw loans, the relationship is even stronger for nonemployer businesses than for employer businesses. These findings suggest that program funds were distributed, as intended, to minority owners of businesses of all sizes and their employees.

There is a clear evolution of PPP funding to minority communities across rounds of the PPP from a negative relationship in the first round to the strong positive relationship in the third round. Applying for PPP loans very early in the pandemic favored having long-established relationships with banks, which minority businesses were less likely to have. Minority-owned businesses also tend to be smaller than non-minority-owned businesses, and smaller businesses often took

longer to complete required paperwork due to a lack of resources and experience. Fintech lenders became increasingly involved over time and served many minority businesses (Liu and Parilla 2020; Fei and Yang 2021). In 2021, the SBA also explicitly promoted involvement of CDFIs. The nonprofit CDFI Prestamos, for example, was only ranked 4274th out of lenders in the first round in 2020, but it moved up to rank 325th in the second round and became the number-one lender in the third round and overall. The 14-day exclusivity application period for businesses with fewer than 20 employees in early 2021 may also have helped disburse PPP loans to disadvantaged businesses.

The patterns that we find for loan receipt by minority share of communities are mostly consistent with recent studies that use proxies for owner's race to identify minority-owned businesses (Fei and Yang 2021; Howell et al. 2021). More research is needed on the circumstances that led to second-draw loans in 2021; on the dynamics of PPP receipt over the three rounds of funding, including on the relative importance of bank relationships, business size, fintech, and CDFIs; and on the consequences of the delay in receiving loans for minority businesses and communities.

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