SMALL BUSINESS PERSPECTIVES ON THE PAYCHECK PROTECTION PROGRAM

Senate Financial Institutions, Economic Development & Trade Committee

May 28, 2020

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PPP loan roll-out a boon for Big Business, but a bust for small business

- "First come, first served" loan application process opened April 3; independent contractors and other self-employed small business owners not allowed to apply until April 10
- Largest banks provided **"concierge service" to private banking and large commercial customers**; some added hurdles for smaller clients

"Bank of America has been our bank since 2005. We run millions of sales, credit cards, etc. through B of A. They said we and ANY business that does not have a corporate credit card does not qualify. This seems crazy, unfair. We actually have personal Bank of America credit cards, but they have to be corporate cards. ALL our business and payroll goes through this bank." (Woodinville firm with 12 employees)

"At [JP Morgan] Chase, the nation's largest bank, nearly all private and commercial banking clients who applied for a small-business loan got one, whereas only one out of every 15 retail banking customers who sought loans was successful." (New York Times, April 22, 2020)

- Banks charged more than **$10 billion in processing fees**

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Surprising recipients of "small business" loans

- **424 publicly traded companies received $1.35 billion in PPP loans**
- More than **80 percent declined to return the money** despite public outcry
- Among those returning funds are:
  - Ruth's Chris steakhouses – $20 million
  - Shake Shack – $10 million
  - Potbelly – $10 million
  - Los Angeles Lakers (*privately held*) – $4.6 million

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CARES Act improved PPP process, results

$12 billion in PPP loans have been disbursed to

91,707 Washington businesses

Averaging **$130,945 per loan**

(*Source: SBA, May 23, 2020*)

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PPP loans now benefitting small businesses, but challenges remain

- 80% of small businesses have applied for a PPP loan
  - 90% of those have already received funds
  - 90% have already begun using PPP funds

Of those who have note yet received funds,

- 71% have NOT received confirmation whether loan was approved
- 29% have received approval confirmation

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PPP terms and conditions difficult to understand, but small-business owners optimistic about meeting forgiveness requirements

- 72% say PPP terms and conditions are somewhat or very **difficult to understand**
- 55% report **no difficulty spending entire loan amount** during eight-week forgiveness period
- 63% say spending three-quarters of loan on **payroll costs** will not be difficult
- 53% expect little difficulty getting **workforce headcount** back to pre-crisis level, although almost half have some concerns:
  - 28% somewhat difficult
  - 19% very difficult

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Most expect PPP loans to be forgiven

- 51% will expend all loan proceeds during eight-week forgiveness period
- 27% plan to keep any remaining funds to use as a loan
- 22% expect to return any unused loan proceeds left after eight-weeks

- 54% expect their entire loan to be forgiven
- 27% expect at least three-quarters of their loan will be forgiven
- 11% don't know whether their loan will be forgiven

- 73% have maintained workforce or rehired workers specifically to maximize PPP loan forgiveness

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Perspectives on PPP loans from small business owners themselves

Jeff Chambers, Owner

Visiting Angels

Tacoma

Lois Cook, Managing Member

America's Phone Guys

Vancouver

Jim Dixson, Owner

Friendly Computers

Spokane Valley

Bob Lycke, President

KR Inc.

Mountlake Terrace

Mark Peterson, Owner

H&H Furniture

Yakima

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Additional testimonials …

It's possible that we may be having a good experience with the program.

Our banker was very instrumental in getting our application processed and approved. We did receive the entire loan amount requested.

*Here's what we don't know: **How much of our loan will qualify for forgiveness is still the great unknown**. We are receiving updates as soon as they are made available from my banker and our CPA.*

We're keeping our fingers crossed.

--Paul Agather, Executive Vice President, Parts Wholesalers Inc., Spokane

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I received a PPPL on May 5th after the second round of funding.

I inquired through my bank when the initial funding was provided, but US Bank would only work with single-owner businesses at that time. They accepted my application materials … the day funding was exhausted.

Once additional funding was available, US Bank started working with two-owner businesses, which we are, and eventually [we were] successful.

***We have self-funded [paying] all our employees**. They are doing maintenance work, since sales are down 80%.*

We normally pay employees a combination of piece rate and hourly. The first week of the shutdown, they received 40 hours of hourly pay and were shocked at the reduced pay compared to normal.

I didn't know how long the pandemic would last and didn't want to lose workers to unemployment (too much benefit) or other work, so changed their hourly pay to the average they received since July 2019 to present. That is a high payrate for maintenance work, but nobody quit, and they are all available when sales increase.

Now that we have the PPP loan, there are certain pay requirements to maintain for forgiveness. Sales are starting to return, but employees are less productive on hourly pay compared with piece-rate pay.

We are closely monitoring that and may change to piece rate if it doesn't end up reducing their pay.

***My concern is: one week may be great, and the next week poor, so how does that affect my forgiveness?** I just received the forgiveness application documents and am studying those to make sure we don't run into problems.*

--Small-business owner, Olympic Peninsula

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We own two full-service restaurants with around 100 full- and part-time employees.

We reviewed the [federal] legislation to be ready to apply as soon as the PPP loans were available. Our goal was to apply early, but delay using the funds until closer to an opening date.

We intended to maximize loan forgiveness by re-employing the entire staff, returning them to work from unemployment as soon as possible. Nothing good comes from a closed restaurant – lost employees, customers, re-training costs, etc.

We received our SBA number for the PPP loan. ***After the fact, SBA guidance said funding must take place within 10 days of receiving the SBA#****, and the 56-day window started the day funds were received.*

This left a very short window to devise a plan to begin using funds. We analyzed historical hours, wages, and tips (Dec 1 – Feb 29). We sent letters to all employees and held staff meetings to explain our plan to rehire the entire staff.

We then ***started takeout operations*** *– with a full payroll – four days into the [eight-week] 56-day window.*

Overhead was a nightmare *with this 56-day window vs. our normal semi-monthly payroll. We had to use separate payroll codes for regular hours, wages, and tips for normal pay-period hours worked, and for PPP hours, wages, and tips.*

Today, ***the restaurants are still closed****. We are providing takeout, but* ***our volume is only about 15%-20% of our normal business****.*

We expect PPP funds to run out by June 10th, but our re-opening date is still unknown*.*

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There is chatter about Congress making changes to the program, but extending the timeframe to spend the funds from eight weeks to 24 only helps businesses who have not spent funds. ***It doesn't help business owners like me who followed the intent of the law****.*

The program should not only help employees by keeping them on payroll, but help restaurants stay in business *so they can keep workers employed long-term.*

Right now, ***we are faced with significant layoffs come June 10th*** *– plus the resulting* ***unemployment rate increases for years to come****.*

Because we had our act together and applied early, we are in a much worse position than someone who didn't, as well as those who did not spend PPP funds and are now looking at a potential extension of time to do so.

--JD, Restauranteur, northwest Washington

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For more information, contact NFIB Washington State Director Patrick Connor at (360) 786-8675, or by email to Patrick.Connor@NFIB.org.

NFIB Research Center's press release and a link to the full survey can be found at nfib.com/content/press-release/economy/71105/.

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