Will the federal government’s lifeline to small businesses be enough?

Most Americans know about the Coronavirus Aid, Relief, and Economic Security (CARES) Act: a $2.2trn stimulus package designed to curtail the economic fallout from Covid-19. However, shortfalls in funding are beginning to surface as small businesses struggle to stay afloat.

With up to 95% of the US under lockdown\(^1\)— small businesses are relying on a Paycheck Protection Program (PPP) loan, designed to keep their employees on payroll as many are required to temporarily cease operations.

The forgivable loans undergo a quicker and more lenient approval process than their traditional counterparts to ensure ease of access at a time when businesses are under unforeseen pressure. While employers must have fewer than 500 employees to qualify, a wide range of small businesses are covered including Limited Liability Companies (LLCs), independent contractors and even nonprofits and veteran organizations.\(^2\)

Although Congress didn’t take long to approve the initial round of funding, the capital ultimately turned out to be inadequate, according to Chris Lucas, director of government affairs at BNY Mellon:

“I give a lot of credit to the federal government for putting together such a complicated plan in such a short period of time. But whenever you have something like this, there will be kinks that need to be worked out.

“Unfortunately, it wasn’t enough because state-mandated lockdowns extended while there was still such high demand. We’re looking at a situation where it was inevitable that funds would run out,” Lucas says.

The Small Business Administration reported there had been 1.6 million loan applications for roughly $339bn approved as of April 16, and disclosed it would not be able to accept new loan applications because it had run out of funds.\(^3\) In total, it took 13 days to exhaust the initial amount set aside for the program.\(^4\) As a result—Congress approved $484bn of additional stimulus, which includes $25bn for testing, $75bn for hospitals and healthcare workers, $310bn to replenish the PPP program and $60bn for a separate small business emergency loan and grant program.\(^5\)

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\(^1\) Business Insider: About 95% of Americans have been ordered to stay at home. This map shows which cities and states are under lockdown. April 7, 2020.

\(^2\) Small Business Association: Paycheck Protection Program information sheet. April 3, 2020


\(^4\) PBS: It took 13 days for the Paycheck Protection Program to run out of money. What comes next? April 16, 2020

Similar to original funding for the CARES act\textsuperscript{6} — the additional stimulus stalled due to an impasse on partisan negotiations before it was approved. Whether or not small businesses now have what they need, remains to be seen. But if more is needed and newly-proposed funding undergoes the same false starts, it may become less clear as to whether or not money will come quick enough to keep businesses open.

“For the time being, if small businesses can furlough their employees and pay rent, they’re taking care of the two largest cost drivers, and hopefully the combination of those actions and working with their loan officer will enable them to stay afloat,” Lucas says.

While the PPP loan is mainly for addressing payroll needs, up to 25% can be used for mortgage interest, rent, utilities and interest on pre-existing loans.\textsuperscript{7} So to Lucas’s point, if companies can meet those expenses—they should survive in the near-term. However, will the additional stimulus be sufficient or will the Senate need to propose another round of stimulus on a later date? Some economists and business lobbyists have reportedly projected it would take at least $1trn to meet the needs of small businesses throughout the lockdown.\textsuperscript{8}

“It’s tough for the Senate to know how much it’s going to need until it knows when this is going to be over. Since certain states have already drafted plans to reopen, maybe the additional aid will be sufficient,” Lucas says.

\textsuperscript{7}Smart Asset: Paycheck Protection Program (PPP) Loans. April 16, 2020.
\textsuperscript{8}New York Times: Small-Business Aid Funds Run Dry as Program Fails to Reach Hardest Hit. April 15 2019.
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