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Paycheck Protection Program for Small Businesses



The Federal Government's Economic Response
to COVID-19 Pandemic

About This Presentation

- The Paycheck Protection Program offers forgivable loans to small businesses that keep workers on the payroll during the Covid-19 crisis
- More than \$340 billion approved for applicants in less than two weeks.
 - Program's lending total is \$659 billion under interim virus aid law ([Public Law 116-139](#)) signed April 24
- Many businesses shut out of program, lobbying for rule changes.
 - Democrats pushed to set aside funds to back loans issued by community lenders.
- This presentation reviews:
 - The new small business lending program compared with traditional loans.
 - Eligibility rules for borrowers and lenders.
 - Loan approval data for the first round of funds.
 - Additional proposals to aid small businesses during the virus outbreak.



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Small Business Loans New Virus Aid Program



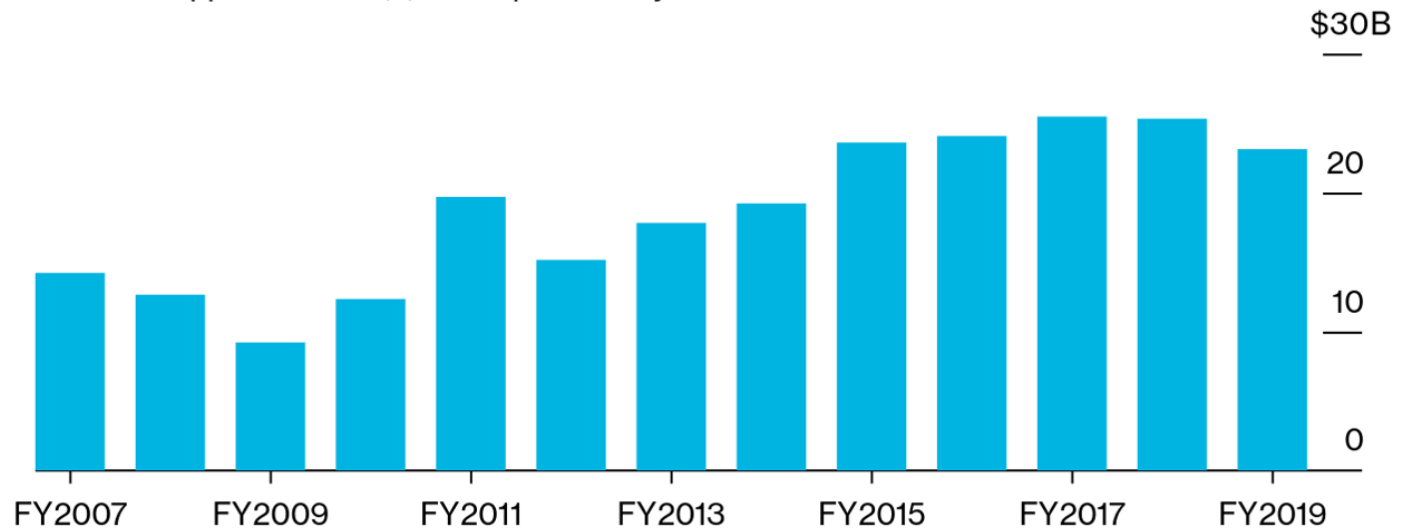
Lawmakers Offer Lifeline to Small Businesses

- Small businesses employ about half of the private workforce, and have been hit particularly hard by forced closures and stay-at-home orders.
- The Paycheck Protection Program created by the CARES Act ([Public Law 116-136](#)):
 - Offers low-interest loans to small businesses and to some borrowers that don't qualify under the Small Business Administration's flagship 7(a) lending program.
 - New program open to 501(c)(3) nonprofits, self-employed workers, large food and hotel chains.
 - Allows loans to be forgiven for eligible payroll and rent expenses over eight weeks.
 - Authorizes more lenders, including financial technology companies, to participate.
- The SBA and Treasury Department made changes to loan terms and borrower eligibility rules.
 - They reduced interest rates, shortened loan periods, set eligibility rules for hedge funds, private equity, religious affiliates, casinos, and large publicly traded companies.

\$659 Billion Makes 7(a) Program About 30 Times Larger

7(a) Lending Program Provided About \$23 Billion in Fiscal 2019

■ Amount approved for 7(a) loans per fiscal year



Source: "[Small Business Administration 7\(a\) Loan Guaranty Program](#)," Congressional Research Service

More Businesses Can Apply for Loans in New Program

	Standard 7(a) Loans	Paycheck Protection Program
Eligible borrowers	For-profit businesses that qualify as small under SBA industry standards; typically based on average annual receipts or employee count	Businesses, nonprofits, veterans groups, and tribal businesses with no more than 500 employees, or number set by SBA for relevant industry
		Sole proprietors, independent contractors, and self-employed workers
		Food and hotel chains with 500 or fewer employees per location
Affiliation rules	Affiliates of businesses can count for size determinations	Affiliation rules waived for franchises, restaurants or hotels with 500 or fewer employees, and businesses supported by small business investment companies
Applications	Borrowers must submit detailed applications and documentation	Limited documentation and "good faith" certification that borrowers will use loans for eligible costs



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Bigger Loans, Lower Interest Rates Offered

	Standard 7(a) Loans	Paycheck Protection Program
Maximum loan amount	\$5 million	\$10 million or 250% of average eligible monthly payroll costs, whichever is less
Maximum interest rate	Caps on fixed and variable interest rates, depending on loan size; current variable caps about 6% to 8%	1% under SBA rule; can increase to 4% under law
Maximum loan period	10 years, with some exceptions	2 years under SBA rule; can increase to 10 years under law
Maximum SBA guarantee	75% or 85%, depending on loan size	100%
Borrower collateral	Required for some larger loans	Not required
Fees	SBA collects various fees from lenders and borrowers	Waives fees for guarantees, servicing, prepayments, and secondary market sales

Sources: "[Small Business Administration 7\(a\) Loan Guaranty Program](#)," Congressional Research Service; SBA [interim final rule](#)



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Borrowers Can Use Funds Mostly for Payroll Costs

	Standard 7(a) Loans	Paycheck Protection Program
Eligible use of funds	Acquiring land and improving sites	Employee compensation of as much as \$100,000; includes salary and tips
	Buying, renovating, or constructing buildings	Standard paid leave
	Acquiring and installing fixed assets	Health-care and retirement benefits
	Purchasing inventory, supplies, or raw materials	No more than 25% for nonpayroll costs, including mortgage interest, rent, and utilities
	Financing working capital	
	Refinancing some debts	

Sources: [“Small Business Administration 7\(a\) Loan Guaranty Program,”](#) Congressional Research Service; SBA [interim final rule](#)



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Loans Can Be Forgiven If Workers Kept on Payroll

	Standard 7(a) Loans	Paycheck Protection Program
Loan forgiveness	Loans typically repaid with interest	Full principal and accrued interest can be forgiven for covered expenses incurred over eight weeks At least 75% of forgiveness has to cover eligible payroll costs Forgiveness reduced for employers that cut workforce or payroll; maintained for employers that rehire workers
Payment timing	Payments typically due each month	SBA pays lenders for forgiven amounts Deferred for six months, though interest will accrue

Sources: "[Small Business Administration 7\(a\) Loan Guaranty Program](#)," Congressional Research Service; SBA [interim final rule](#)



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SBA Relying on Additional Lenders to Approve Loans

	Standard 7(a) Loans	Paycheck Protection Program
Eligible lenders	Includes lenders regulated by federal or state banking agencies or supervised by SBA	Federally insured banks and credit unions Other lenders that issued more than \$50 million in commercial loans over recent 12 months Existing 7(a) lenders automatically approved; SBA and Treasury can approve additional lenders
Delegated authority	Some lenders have delegated authority to approve loans with limited SBA review	All lenders have delegated authority
Lender requirements	Assess creditworthiness of applicants and provide detailed documentation	Can rely on applicant certifications; required to comply with anti-money laundering rules

Sources: [“Small Business Administration 7\(a\) Loan Guaranty Program,”](#) Congressional Research Service; SBA [interim final rule](#)

Small Business Loans Round One Lending Data





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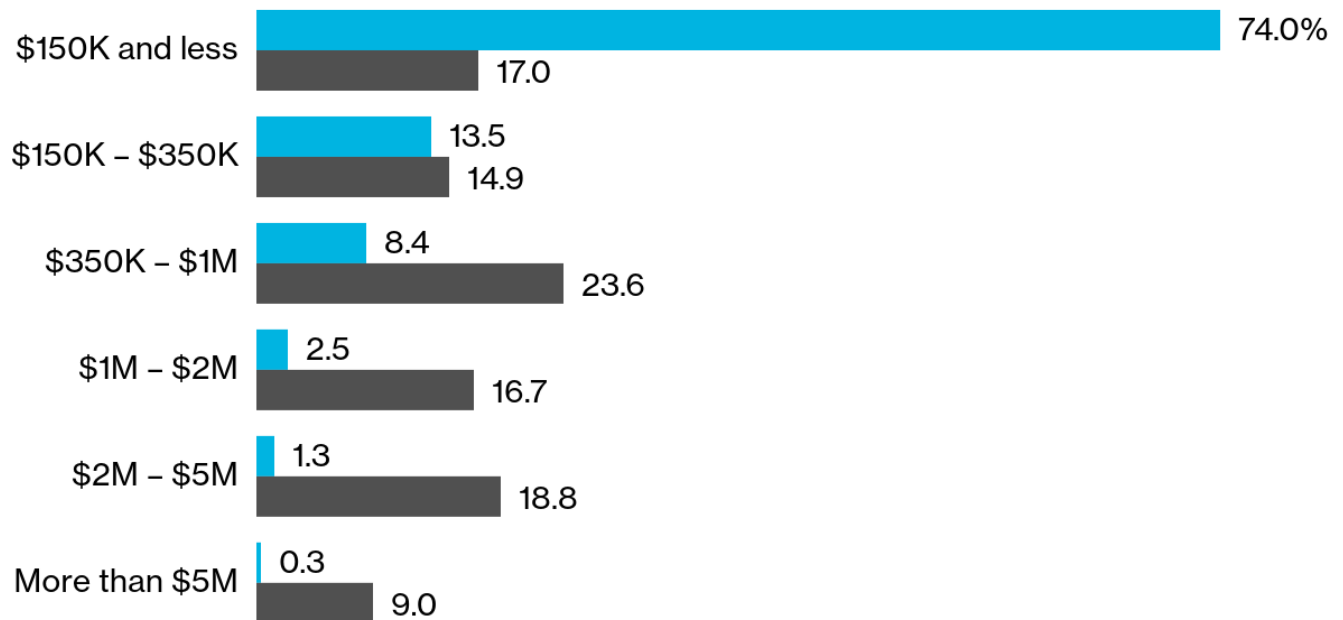
\$349 Billion Was Exhausted Within Two Weeks

- The Paycheck Protection Program went live April 3.
 - First-come, first-served funding was exhausted on April 16.
- The Small Business Administration worked with almost 5,000 lenders to approve 1.6 million loans totaling \$342.3 billion.
 - About \$6.7 billion was used to pay processing fees to lenders.
- Other highlights from SBA [data](#) as of April 16:
 - Average loan size was \$206,000.
 - Loans of \$150,000 or less accounted for about 74% of total number of loans.
 - About 2% of borrowers received nearly 30% of approved dollars.
 - Borrowers in Nebraska got the [most money](#) relative to eligible payroll costs (81%).
 - California had the most dollars approved overall (\$33.4 billion).
 - Texas had the most approved applicants (134,737).
 - Top industries include construction, professional services, manufacturing, health care.

Most Approved Loans Were for \$150,000 or Less

Breakdown of Loan Size for Paycheck Protection Program

■ Percentage of approved loans ■ Percentage of approved dollars



Source: Small Business Administration [data](#)



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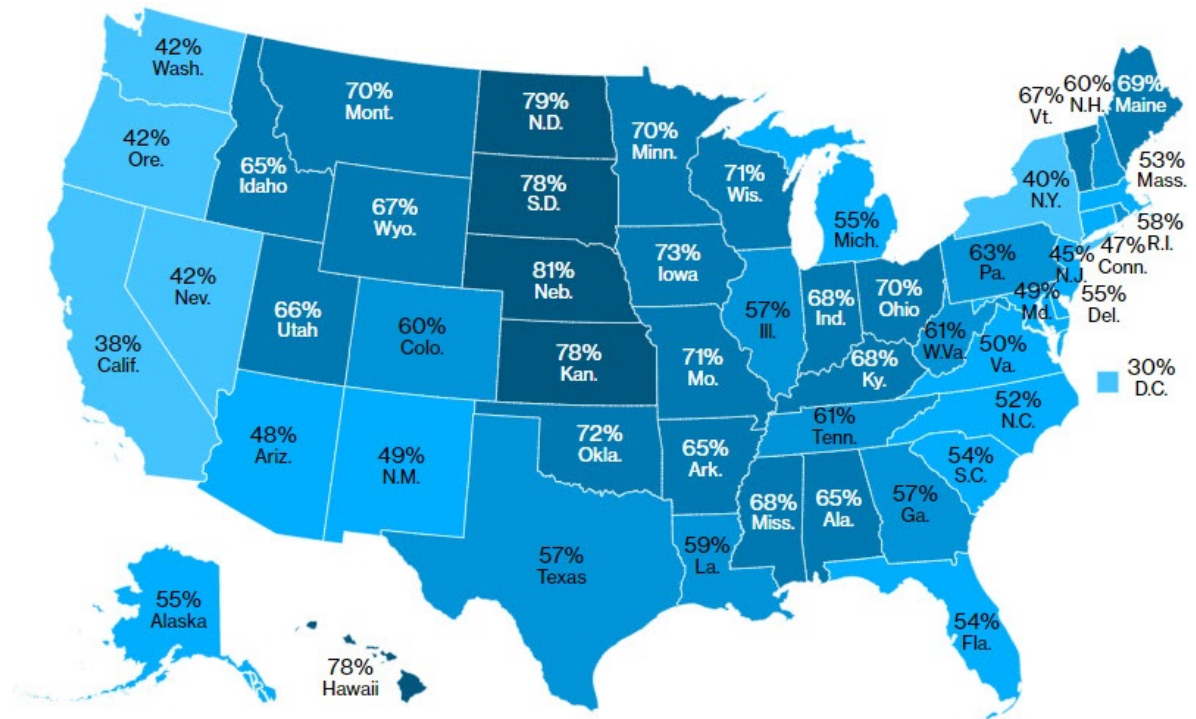
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Nebraska Got the Most Funds Relative to Payroll Costs

Loan Amount as a Percentage of Eligible Payroll

Approvals through April 16

■ 45% or less ■ 45-55% ■ 55-65% ■ 65-75% ■ 75% or more



Note: Eligible payroll based on calculations of average monthly 2019 payroll of businesses with fewer than 500 employees in each state, multiplied by 2.5

Sources: Small Business Administration, Evercore ISI, Census Bureau

\$45 Billion for Construction; Hotels & Restaurants No. 5

Construction Industry Got the Most Funds

■ Approved loan totals



Note: Industries sorted by North American Industry Classification System subsectors
Source: Small Business Administration [data](#)

Small Business Loans Other Policy Proposals





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More Businesses Clamoring for Access to Program

- The Small Business Administration waived or clarified some of its eligibility rules to let additional borrowers qualify, including:
 - Affiliated churches and [religious groups](#).
 - Legal [gambling](#) businesses, which previously had to fall below revenue cap to qualify.
 - Hospitals owned by state or local governments that receive at least half of their funding from other sources.
 - Agricultural producers, farmers, and ranchers, including cooperatives.
- It also made the program off-limits to hedge funds, private equity funds.
- Other businesses that remain ineligible under broader 7(a) program:
 - State-approved cannabis companies and related businesses.
 - Additional tax-exempt groups, such as 501(c)(6) trade associations.
 - Financial businesses primarily involved in lending, including payday lenders.
 - Lawmakers, lending trade associations have called for expansion to cover more lenders.



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Policymakers, Participants Eye Other Changes

- Smaller and community lenders guaranteed at least \$60 billion under measure to replenish the program ([Public Law 116-139](#)).
 - Democrats said provision would ensure funds reach underserved business owners.
 - SBA separately capped loans from each lender to prevent big banks from dominating.
- Future virus aid packages or agency rules could restrict larger or wealthier businesses from accessing loans.
 - Some loans in first round went to large, publicly traded restaurant chains including Potbelly Corp., Ruth's Hospitality Group Inc., and Shake Shack Inc.
 - Several business pledged to return loans following controversy.
 - SBA [guidance](#) said it's unlikely a company with substantial market value and access to capital markets could certify in good faith that it needs new loans.
- Lawmakers may be under pressure to replenish funds again soon.
 - Lenders said \$310 billion infusion could be exhausted in a matter of days.
 - Treasury Secretary Steven Mnuchin said latest round of funding would be the last, because small businesses can also access disaster loans, Federal Reserve facility.



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