Report to Congressional Addressees

September 2021

PAYCHECK PROTECTION PROGRAM

Program Changes Increased Lending to the Smallest Businesses and in Underserved Locations

Accessible Version

A Century of Non-Partisan Fact-Based Work

GAO-21-601

GAO Highlights

Highlights of GAO-21-601, a report to congressional addressees

September 2021

PAYCHECK PROTECTION PROGRAM

Program Changes Increased Lending to the Smallest Businesses and in Underserved Locations

Why GAO Did This Study

The COVID-19 pandemic resulted in significant turmoil in the U.S. economy, leading to temporary and permanent business closures and high unemployment. In response, in March 2020, Congress established PPP under the CARES Act and ultimately provided commitment authority of approximately $814 billion for the program over three phases. When initial program funding ran out in 14 days, concerns quickly surfaced that certain businesses were unable to access the program, prompting a series of changes by Congress and SBA.

The CARES Act includes a provision for GAO to monitor the federal government's efforts to respond to the COVID-19 pandemic. GAO has issued a series of reports on this program, and has made a number of recommendations to improve program performance and integrity. This report describes trends in small business and lender participation in PPP.

GAO analyzed loan-level PPP data from SBA and county-level data from four U.S. Census Bureau products and surveyed a generalizable sample of PPP lenders, stratified by lender type and size. GAO also reviewed legislation, interim final rules, agency guidance, and relevant literature, as well as interviewed SBA officials.

View GAO-21-601. For more information, contact John Pendleton at (202) 512-8678 or pendletonj@gao.gov.

What GAO Found

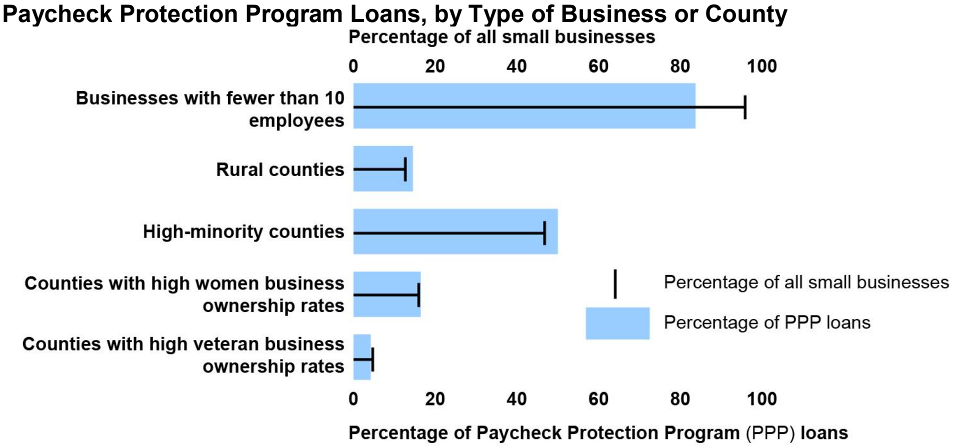
The Paycheck Protection Program (PPP) supports small businesses through forgivable loans for payroll and other eligible costs. Early lending favored larger and rural businesses, according to GAO's analysis of Small Business Administration (SBA) data. Specifically, 42 percent of Phase 1 loans (approved from April 3–16, 2020) went to larger businesses (10 to 499 employees), although these businesses accounted for only 4 percent of all U.S. small businesses. Similarly, businesses in rural areas received 19 percent of Phase 1 loans but represented 13 percent of all small businesses. Banks made a vast majority of Phase 1 loans.

In response to concerns that some underserved businesses—in particular, businesses owned by self-employed individuals, minorities, women, and veterans—faced challenges obtaining loans, Congress and SBA made a series of changes that increased lending to these businesses. For example,

- SBA admitted about 600 new lenders to start lending in Phase 2 (which ran from April 27–August 8, 2020), including nonbanks (generally, lending institutions that do not accept deposits).
- SBA developed guidance after Phase 1 helping self-employed individuals participate in the program.
- SBA targeted funding to minority-owned businesses in part through Community Development Financial Institutions in Phases 2–3. (Phase 3 ran from January 12–June 30, 2021.)

By the time PPP closed in June 2021, lending in traditionally underserved counties was proportional to their representation in the overall small business community (see figure). While lending to businesses with fewer than 10 employees remained disproportionately low, it increased significantly over the course of the program.

Paycheck Protection Program Loans, by Type of Business or County



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-601

Data table for Paycheck Protection Program Loans, by Type of Business or County

Percentage of all PPP Loans (%)	Percentage of all small businesses
83.7	96
14.5	13
50	47
16.4	16
4.2	5

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Abbreviations

CDFI	Community Development Financial Institution
Census	U.S. Census Bureau
COVID-19	Coronavirus Disease 2019
MDI	Minority Depository Institution
PPP	Paycheck Protection Program
SBA	Small Business Administration

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September 21, 2021

Congressional Addressees

Congress passed the CARES Act in March 2020 in response to the Coronavirus Disease 2019 (COVID-19) pandemic.[1] The CARES Act provided more than $2 trillion in emergency assistance and health care response for individuals, families, and businesses affected by COVID-19. Stay-at-home orders, social distancing requirements, and reduced consumer demand early in the pandemic caused both temporary and permanent business closures, particularly among small businesses. Congress included the Paycheck Protection Program (PPP) in the CARES Act, providing commitment authority of $349 billion to support small businesses affected by the pandemic and to keep small business workers employed.[2]

Administered by the Small Business Administration (SBA) through a network of participating lenders, PPP provided forgivable loans to small businesses for payroll and certain other eligible costs. To provide relief quickly, lenders began approving loans 7 days after the CARES Act was enacted. When the program's initial round of funding ran out in 14 days, policy makers and small business organizations raised concerns that the smallest businesses and those owned by minorities, women, and veterans had difficulty accessing the program. In response, Congress made program changes, renewed the program twice, and provided approximately an additional $465 billion to meet continued demand.

The CARES Act includes a provision for us to monitor and oversee the federal government's efforts to prepare for, respond to, and recover from

[1]Pub. L. No. 116-136, 134 Stat. 281 (2020).

[2]PPP was one of the programs Congress created, expanded, or funded under the CARES Act to support workers and small businesses in the economic downturn. Congress also eased borrowing requirements for the Economic Injury Disaster Loan program and created and provided appropriations for Economic Injury Disaster Loan Advances. For more information, see GAO, *Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risk*, GAO-21-589 (Washington, D.C.: July 30, 2021). In addition, the CARES Act created three federally funded temporary unemployment insurance programs that expanded benefit eligibility and enhanced benefits. This report does not assess the efficacy of PPP in addressing the needs of small businesses during the pandemic, nor does it compare outcomes of recipient businesses to nonrecipient businesses or businesses that utilized other small business lending programs during the pandemic.

COVID-19.[3] We have issued a series of reports on this program and made a number of recommendations to improve program performance and integrity. For example, in July 2021, we issued a report on the safeguards SBA put in place during the PPP loan approval and forgiveness processes and SBA's oversight of PPP loans and lenders.[4] We also included emergency loans for small businesses—which include PPP—as a new area on our High-Risk List in March 2021 because of the potential for fraud, significant program integrity risks, and need for much improved program management and oversight.[5] This report describes how small business and lender participation in PPP evolved over time.

To describe how small business and lender participation in PPP evolved over time, we analyzed loan-level PPP data from SBA for loans approved from April 3, 2020, to June 30, 2021, and county-level data from four U.S. Census Bureau (Census) products: the 2019 release of the American Community Survey 5-year estimates; the 2018 Annual Business Survey; the 2017 Nonemployer Statistics dataset; and the 2017 Statistics of U.S. Businesses dataset. Specifically, we used PPP data to describe the size, type, and sector of recipient businesses. Because SBA does not have complete data on the race, gender, and veteran status of business owners, we used Census data and estimates to describe the demographic and socioeconomic characteristics of counties in which recipient businesses were located.[6] To assess the reliability of the data sources we used in our analyses, we primarily reviewed related documentation. In some cases, we also interviewed agency officials and tested data for missing values and obvious errors. Because PPP applicants self-certified the accuracy of the information they provided to

[3]We regularly issue government-wide reports on the federal response to COVID-19. For the latest report, see GAO, *COVID-19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity*, GAO-21-551 (Washington, D.C.: July 19, 2021). Our next government-wide report will be issued in October 2021 and will be available on GAO's website at https://www.gao.gov/coronavirus.

[4]See GAO, *Paycheck Protection Program: SBA Added Program Safeguards, but Additional Actions Are Needed*, GAO-21-577 (Washington, D.C.: July 29, 2021).

[5]See GAO, *High Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, GAO-21-119SP (Washington, D.C.: Mar. 2, 2021).

[6]As we reported in July 2021, SBA did not require demographic information—for example, the race, gender, and veteran status of the business owner—in the PPP borrower application. However, SBA revised its PPP borrower application form in January 2021 to allow for the optional disclosure of demographic information and included such a section in all subsequent revisions and an optional demographic information form as part of the PPP loan forgiveness application. See GAO-21-577.

lenders and SBA, the reliability of the PPP data depends on the accuracy of the information they provided. We determined the data sources we used for our analyses were sufficiently reliable for the purposes of describing small business and lender participation in PPP.

We did not assess PPP loans for fraud, and SBA officials told us they did not flag fraudulent loans or remove them from the PPP dataset they provided to us.[7] While the full extent of fraud in PPP is not yet known, as of March 2021, the Department of Justice had announced charges in 134 cases involving 431 loans to borrowers who were charged with fraud (such as bank fraud, wire fraud, or identity theft). Similarly, the SBA Office of Inspector General found that, of the 5.2 million total loans made from April 3 to August 9, 2020, lenders made more than one loan each to 4,260 borrowers and 57,473 loans to individuals on the Department of the Treasury's "Do Not Pay" list.[8]

We also surveyed a generalizable sample of 1,383 PPP lenders, stratified by lender type and size, to obtain their perspectives on the program.[9] We administered the survey from February 2021 to April 2021 and received 781 responses. We obtained a weighted response rate of 57.3 percent.[10] Finally, we reviewed legislation, interim final rules, agency guidance, and relevant literature, and we interviewed SBA officials. For more information on our scope and methodology, see appendix I.

We conducted this performance audit from July 2020 to September 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

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[7]SBA officials told us they track Department of Justice cases related to PPP and the corresponding loans.

[8]Small Business Administration, Office of Inspector General, *Flash Report: Duplicate Loans Made Under the Paycheck Protection Program*, Report No. 21-09 (Washington, D.C.: Mar. 15, 2021); and *Management Alert: Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List*, Report No. 21-06 (Washington, D.C.: Jan. 11, 2021).

[9]We also used this survey to inform our July 2021 report on SBA's implementation of PPP (GAO-21-577). See app. I of that report for more details on the survey's methodology and app. II for the survey's full results.

[10]We used a weighted response rate because our survey sample incorporated strata with different probabilities of selection. A weighted response rate may more accurately reflect the level of participation. For example, large units that contribute relatively more to the estimate of a total would have a larger "weight" on the response rate.

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The CARES Act, signed into law by the President on March 27, 2020, established PPP under section 7(a) of the Small Business Act to provide forgivable loans to small businesses and nonprofit organizations, referred to collectively as "small businesses."[11] Under the law, qualifying businesses (in general, these include businesses with 500 or fewer employees or that meet SBA's industry-based size standard) could obtain loans equal to 2.5 months of average total monthly payments for payroll costs up to $10 million, and were required to self-certify their need for the loan.[12]

PPP Commitment Authority and Lending Volume

When loan approvals ended in June 2021, Congress had provided commitment authority of about $814 billion to PPP in three phases (see table 1).[13]

[11]SBA administers the 7(a) guaranteed loan program, which provides small businesses access to capital that they would not be able to access in the competitive market. In fiscal year 2019, SBA approved $23 billion in loans through the 7(a) program.

[12]As set forth in the CARES Act, borrowers had to certify in good faith that (1) current economic uncertainty made the loan request necessary to support the applicant's ongoing operations and (2) funds would be used to retain workers and maintain payroll or make payments for other covered expenses. Pub. L. No. 116-136, § 1102(a)(1)(B), 134 Stat. 281, 291 (2020) (codified at 15 U.S.C. § 636(a)(36)(G)(i)(I),(II)). To streamline the process, SBA required minimal review from lenders—such as confirming receipt of borrower certifications and supporting payroll documentation.

[13]SBA's loan-level PPP data included the date SBA approved the loan but not the date the application was received. As a result, Phase 1 data include loans approved from April 3–16, 2020, Phase 2 data include loans approved from April 27–August 8, 2020, and Phase 3 data include loans approved from January 12–June 30, 2021. The dataset includes 10 loans with approval dates on April 20-22, 2020, which we categorized as Phase 1, and one loan with an approval date of August 9, 2020, which we categorized as Phase 2.

Table 1: Paycheck Protection Program (PPP) Phases

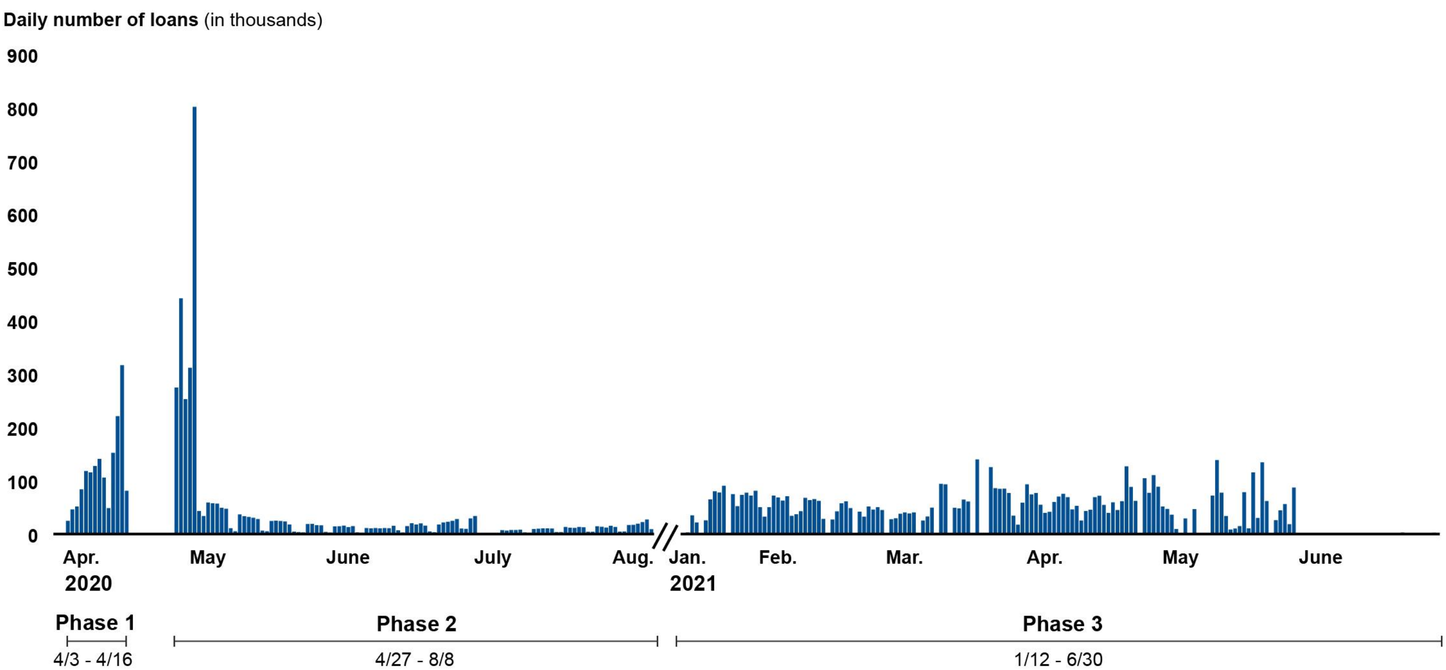
Phase	Legislation	Date enacted	Commitment authority provided	Application period
1	CARES Act	March 27, 2020	$349 billion	April 3, 2020–April 16, 2020
2	Paycheck Protection Program and Health Care Enhancement Act	April 24, 2020	$310 billion	April 27, 2020–August 8, 2020
3	Consolidated Appropriations Act, 2021	December 27, 2020	$147.45 billion	January 11, 2021–May 31, 2021[a]
	American Rescue Plan Act of 2021	March 11, 2021	$7.25 billion	January 11, 2021–May 31, 2021[a]

Source: GAO analysis of relevant laws. | GAO-21-601

[a]The PPP Extension Act of 2021 extended the application period for Phase 3 from March 31, 2021, to May 31, 2021, and allowed the Small Business Administration until June 30, 2021, to process those applications. On May 4, 2021, the PPP general fund was exhausted and closed to new applications, except those processed by a community financial institution lender.

Early demand for PPP loans was high. Daily lending volume—that is, the number of loans approved per day—was highest from April 3–May 1, 2020, when 31 percent of all PPP loans were approved (see fig. 1).

Figure 1: Paycheck Protection Program Lending Volume by Approval Date, April 2020–June 2021



Source: GAO analysis of Small Business Administration data. | GAO-21-601

Data table for Figure 1: Paycheck Protection Program Lending Volume by Approval Date, April 2020–June 2021

Date	Number of loans (in thousands)
4/3/20	23,536
4/4/20	44,940
4/5/20	50,426
4/6/20	82,816
4/7/20	117,211
4/8/20	114,423
4/9/20	126,449
4/10/20	139,959
4/11/20	104,680
4/12/20	47,475
4/13/20	151,424
4/14/20	220,184
4/15/20	315,720
4/16/20	79,948
4/17/20	0
4/18/20	0
4/19/20	0
4/20/20	3
4/21/20	4
4/22/20	3
4/23/20	0
4/24/20	0
4/25/20	0
4/26/20	0
4/27/20	273,785
4/28/20	441,184
4/29/20	251,947
4/30/20	310,861
5/1/20	800,530
5/2/20	42,158
5/3/20	32,673
5/4/20	58,080
5/5/20	56,576
5/6/20	55,813
5/7/20	48,220

Date	Number of loans (in thousands)
5/8/20	46,319
5/9/20	9,732
5/10/20	4,067
5/11/20	35,827
5/12/20	32,327
5/13/20	30,892
5/14/20	29,463
5/15/20	26,975
5/16/20	5,394
5/17/20	3,928
5/18/20	23,436
5/19/20	24,064
5/20/20	23,498
5/21/20	22,499
5/22/20	16,624
5/23/20	3,423
5/24/20	2,403
5/25/20	1,985
5/26/20	17,703
5/27/20	18,046
5/28/20	15,538
5/29/20	15,275
5/30/20	2,899
5/31/20	1,773
6/1/20	13,229
6/2/20	13,405
6/3/20	14,494
6/4/20	11,955
6/5/20	13,665
6/6/20	1,837
6/7/20	1,355
6/8/20	10,058
6/9/20	9,401
6/10/20	10,052
6/11/20	9,869
6/12/20	14,165
6/13/20	6,005

Date	Number of loans (in thousands)
6/14/20	1,748
6/15/20	13,745
6/16/20	19,278
6/17/20	16,674
6/18/20	18,804
6/19/20	14,694
6/20/20	3,658
6/21/20	2,145
6/22/20	16,781
6/23/20	20,594
6/24/20	21,898
6/25/20	23,779
6/26/20	26,918
6/27/20	9,183
6/28/20	8,473
6/29/20	28,066
6/30/20	32,784
7/1/20	1
7/2/20	0
7/3/20	0
7/4/20	188
7/5/20	0
7/6/20	6,132
7/7/20	5,137
7/8/20	6,373
7/9/20	6,339
7/10/20	6,925
7/11/20	1,958
7/12/20	1,396
7/13/20	8,264
7/14/20	8,978
7/15/20	9,462
7/16/20	9,398
7/17/20	9,224
7/18/20	2,548
7/19/20	2,673
7/20/20	12,154

Date	Number of loans (in thousands)
7/21/20	10,794
7/22/20	10,511
7/23/20	12,096
7/24/20	11,588
7/25/20	3,052
7/26/20	3,295
7/27/20	13,303
7/28/20	12,571
7/29/20	10,908
7/30/20	14,229
7/31/20	12,213
8/1/20	3,329
8/2/20	3,615
8/3/20	15,867
8/4/20	16,228
8/5/20	18,342
8/6/20	21,359
8/7/20	25,962
8/8/20	7,937
8/9/20	1
1/12/21	23
1/13/21	150
1/14/21	1,018
1/15/21	1,947
1/16/21	34,000
1/17/21	20,620
1/18/21	0
1/19/21	24,437
1/20/21	63,893
1/21/21	79,212
1/22/21	76,683
1/23/21	89,400
1/24/21	0
1/25/21	73,596
1/26/21	51,255
1/27/21	72,345
1/28/21	76,425

Date	Number of loans (in thousands)
1/29/21	70,972
1/30/21	80,099
1/31/21	49,405
2/1/21	31,476
2/2/21	49,204
2/3/21	71,140
2/4/21	67,494
2/5/21	61,718
2/6/21	69,832
2/7/21	32,875
2/8/21	36,057
2/9/21	41,764
2/10/21	66,872
2/11/21	62,449
2/12/21	64,481
2/13/21	61,015
2/14/21	27,201
2/15/21	0
2/16/21	26,053
2/17/21	41,603
2/18/21	56,669
2/19/21	60,137
2/20/21	47,501
2/21/21	0
2/22/21	40,999
2/23/21	31,451
2/24/21	50,606
2/25/21	44,677
2/26/21	49,375
2/27/21	43,945
2/28/21	0
3/1/21	26,555
3/2/21	28,402
3/3/21	36,972
3/4/21	39,317
3/5/21	37,614
3/6/21	39,304

Date	Number of loans (in thousands)
3/7/21	0
3/8/21	24,166
3/9/21	31,883
3/10/21	48,520
3/11/21	0
3/12/21	93,140
3/13/21	92,015
3/14/21	0
3/15/21	48,170
3/16/21	46,905
3/17/21	63,631
3/18/21	60,015
3/19/21	0
3/20/21	138,762
3/21/21	0
3/22/21	0
3/23/21	124,321
3/24/21	84,918
3/25/21	83,810
3/26/21	83,939
3/27/21	75,971
3/28/21	33,202
3/29/21	16,546
3/30/21	57,786
3/31/21	92,214
4/1/21	73,061
4/2/21	75,722
4/3/21	53,872
4/4/21	38,405
4/5/21	40,450
4/6/21	58,902
4/7/21	69,177
4/8/21	74,417
4/9/21	68,071
4/10/21	45,024
4/11/21	51,744
4/12/21	24,404

Date	Number of loans (in thousands)
4/13/21	41,951
4/14/21	44,339
4/15/21	67,965
4/16/21	70,618
4/17/21	53,474
4/18/21	38,370
4/19/21	58,405
4/20/21	43,858
4/21/21	60,406
4/22/21	126,043
4/23/21	87,253
4/24/21	61,048
4/25/21	0
4/26/21	103,661
4/27/21	76,104
4/28/21	109,471
4/29/21	87,544
4/30/21	50,542
5/1/21	45,857
5/2/21	35,156
5/3/21	8,223
5/4/21	0
5/5/21	28,302
5/6/21	0
5/7/21	45,619
5/8/21	0
5/9/21	0
5/10/21	0
5/11/21	70,900
5/12/21	137,787
5/13/21	76,539
5/14/21	32,738
5/15/21	7,449
5/16/21	9,059
5/17/21	13,632
5/18/21	77,225
5/19/21	9,508

Date	Number of loans (in thousands)
5/20/21	114,479
5/21/21	29,106
5/22/21	133,369
5/23/21	60,679
5/24/21	0
5/25/21	24,939
5/26/21	43,239
5/27/21	55,041
5/28/21	17,378
5/29/21	86,137
5/30/21	0
5/31/21	0
6/1/21	0
6/2/21	0
6/3/21	0
6/4/21	0
6/5/21	0
6/6/21	0
6/7/21	0
6/8/21	0
6/9/21	0
6/10/21	0
6/11/21	0
6/12/21	0
6/13/21	0
6/14/21	0
6/15/21	542
6/16/21	1
6/17/21	0
6/18/21	0
6/19/21	0
6/20/21	0
6/21/21	0
6/22/21	1,721
6/23/21	0
6/24/21	0
6/25/21	0

Date	Number of loans (in thousands)
6/26/21	0
6/27/21	0
6/28/21	0
6/29/21	1,369
6/30/21	62

PPP Lenders

The CARES Act authorized SBA to use lenders already approved to participate in the 7(a) program and permitted SBA and Treasury to approve new lenders to issue PPP loans, provided they met certain requirements.[14] Participating lenders included depository institutions (for example, banks and credit unions) and non-depository institutions (for example, nonbanks) (see fig. 2).[15] For the purposes of this report, we refer to depository institutions as "banks" and characterize them by size:

- large banks: total assets of $10 billion or more;
- medium banks: total assets from $1 billion to $10 billion; and
- small banks: total assets of less than $1 billion.

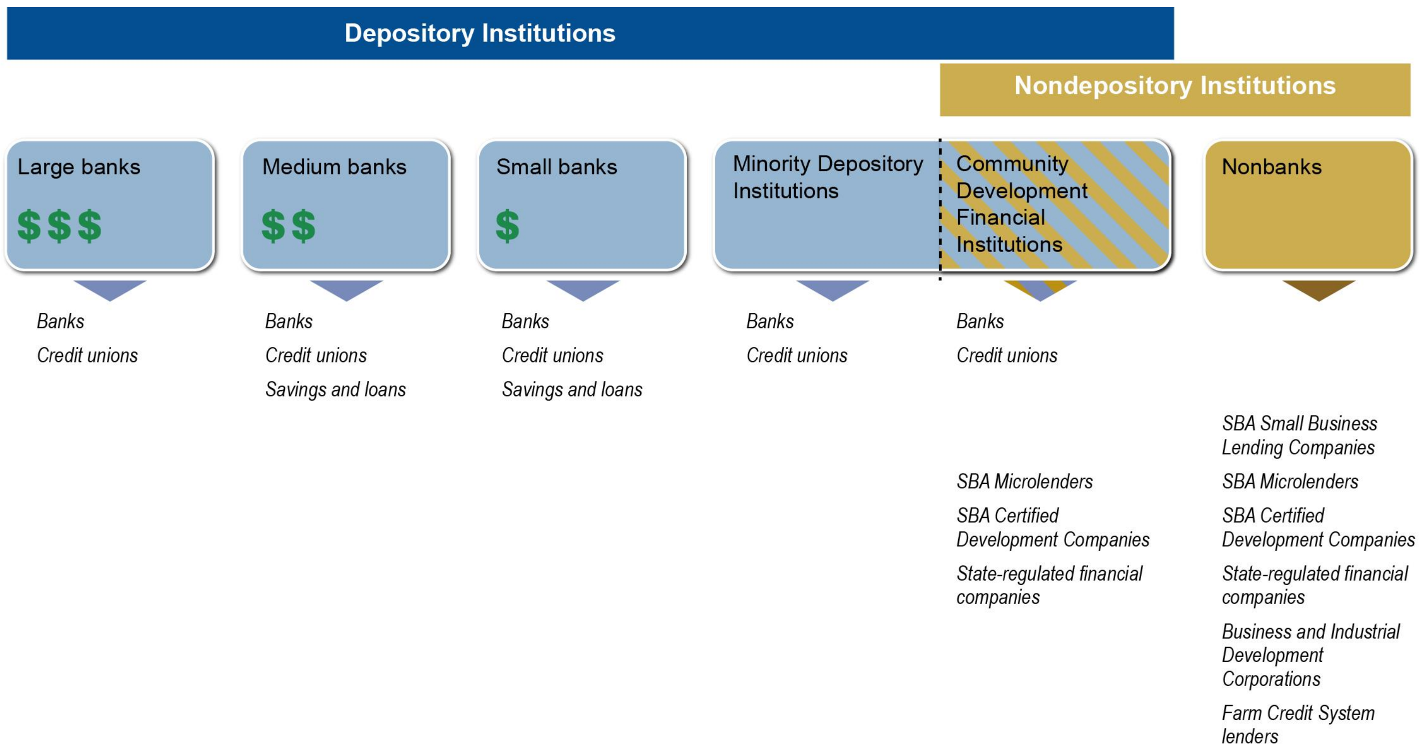
Further, some lenders are designated Community Development Financial Institutions (CDFI) and Minority Depository Institutions (MDI). CFDIs and MDIs target loans to businesses and individuals in traditionally underserved areas with the goal of expanding economic opportunity.

[14]Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 290 (2020) (codified at 15 U.S.C. § 636(a)(36)(F)(iii)). In an interim final rule published April 2, 2020, SBA announced that any federally insured depository institution, credit union, or farm credit institution in good standing with its regulator would automatically qualify to participate in PPP upon submission of SBA's PPP Lender Agreement. 85 Fed. Reg. 20,811, 20,815 (Apr. 15, 2020). SBA and the Department of the Treasury were jointly responsible for approving lenders new to SBA to issue PPP loans. According to SBA officials, SBA approved new federally regulated lenders, and only new non-federally regulated and insured lenders required joint SBA and Treasury approval.

[15]In general, nonbanks provide lending services but do not accept deposits. Nonbanks include SBA Small Business Lending Companies, SBA Microlenders, SBA Certified Development Companies, state-regulated financial companies, Business and Industrial Development Corporations, and Farm Credit System lenders.

CDFIs include both banks and nonbanks, while MDIs include only banks.[16]

Figure 2: Overview of Paycheck Protection Program Lenders



Source: GAO analysis of Small Business Administration data and guidance. | GAO-21-601

[16]The Department of the Treasury administers the CDFI Fund, which certifies lenders as CDFIs that share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses. MDIs are defined as depositories that (1) if a privately owned institution, 51 percent is owned by socially and economically disadvantaged individuals; (2) if publicly owned, 51 percent of the stock is owned by socially and economically disadvantaged individuals; and (3) in the case of a mutual institution where the majority of the board of directors, account holders, and the community that the institution serves is predominantly minority. The term “minority” means any Black American, Native American, Hispanic American, or Asian American. 12 U.S.C. § 1463 note; 15 U.S.C. § 636(a)(36)(A)(xi)(II). We assigned to the CDFI/MDI group all lenders SBA flagged as CDFIs, MDIs, or both, and all remaining lenders to one of the other groups.

Text of Figure 2: Overview of Paycheck Protection Program Lenders

Depository Institutions

- Large banks
- Medium banks
- Small banks
- Minority depository institutions

Nondespository institutions

- Community development financial institutions (some are also depository institutions)
- non banks

Note: All lenders that the Small Business Administration (SBA) flagged as Minority Depository Institutions, Community Development Financial Institutions, or both, were assigned to the Community Development Financial Institutions/Minority Depository Institutions group, and all remaining lenders were assigned to one of the other groups.

PPP Borrowers

As PPP was initially implemented, small businesses or nonprofit organizations were generally eligible for PPP loans if they had 500 or fewer employees.[17] These businesses comprise approximately 99 percent of businesses of all sizes.[18]

Businesses that may not have paid employees (sole proprietors, independent contractors, self-employed individuals, qualified joint ventures, and single-member limited liability companies) were eligible for a PPP loan. For the purposes of this report, we refer to these business types collectively as "self-employed individuals." Based on the statutory

[17]Under the CARES Act, eligible borrowers included: (1) businesses that are small under SBA's size standards (either the industry size standard or the alternative size standard); (2) any business, 501(c)(3) nonprofit organization, 501(c)(19) veterans organization, or Tribal business concern with 500 or fewer employees or that meets the applicable SBA industry size standard if more than 500; (3) any business in the accommodations and food services sector that has more than one physical location and employs not more than 500 employees per physical location; and (4) sole proprietors, independent contractors, and eligible self-employed individuals.

[18]U.S. Census Bureau, *Nonemployer Statistics*, 2017; and *Statistics of U.S. Businesses*, 2017.

definition of payroll costs for self-employed individuals, the calculation of loan amounts for these businesses differed from the calculations used by other businesses, and the program requirements related to these calculations changed over the course of the program.[19]

We used information from the 2020 Bureau of Labor Statistics's Business Response Survey to identify six "hardest-hit sectors," or sectors that were most likely to experience adverse effects to business operations as a result of the pandemic.[20] These six sectors are (1) accommodation and food services; (2) arts, entertainment, and recreation; (3) educational services; (4) health care; (5) manufacturing; and (6) retail trade.[21]

Finally, the CARES Act included a Sense of the Senate statement noting the Senate's preference that SBA should issue guidance to lenders to ensure that processing and disbursement of loans prioritizes businesses in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, women, and businesses in operation for less than 2 years.[22] For the purposes of this report, we refer to "traditionally underserved businesses and counties" more broadly as very small businesses; those owned by minorities, women, or veterans; or those located in rural counties, counties with high minority populations, or Tribal areas.[23]

[19]15 U.S.C. § 636(a)(36)(A)(viii)(I)(bb).

[20]Adverse effects to business operations included a shortage of supplies or inputs, decreased demand for products or services, difficulty moving or shipping goods, and government-mandated closure of a business location.

[21]Sector names refer to their classification codes within the North American Industry Classification System, which is the standard used by federal statistical agencies in classifying business establishments according to industry.

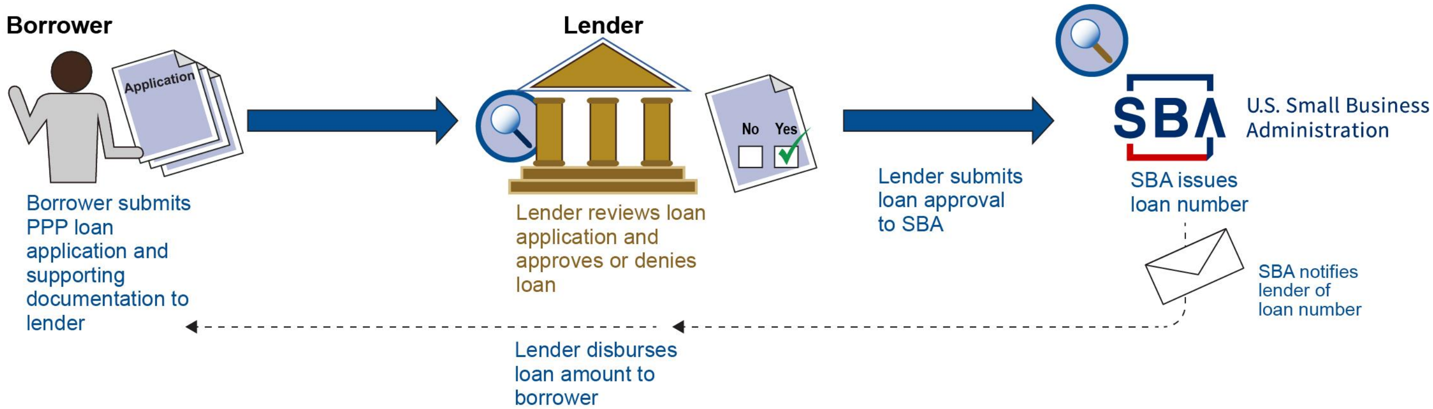
[22]Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 293 (2020) (codified at 15 U.S.C. § 636(a)(36)(P)(iv)).

[23]In our analyses, we used businesses with fewer than 10 employees and those owned by self-employed individuals to represent very small businesses. To represent minority-, women-, and veteran-owned businesses, we used counties with high shares of minority residents and high shares of women- and veteran-owned businesses. We include Tribal areas when collectively referring to traditionally underserved counties.

Application and Lending Processes

To apply for a PPP loan, potential borrowers first submitted applications directly to a participating lender (see fig. 3). The lender then reviewed the application documentation and submitted its loan approval decision to SBA through SBA's loan processing portal.[24] Once received, SBA issued a loan number to the lender.[25] The lender then disbursed the loan amount to the borrower.

Figure 3: Overview of the Paycheck Protection Program (PPP) Application Process



Source: GAO analysis of Small Business Administration information. | GAO-21-601

Text of Figure 3: Overview of the Paycheck Protection Program (PPP) Application Process

- **Borrower**: submits PPP loan application and supporting documentation to lender.
- **Lender**: reviews loan application and approves or denies loan
- If approved, lender submits loan approval to SBA
- **SBA:** issues loan number; and notifies lender of loan number;
- Then the lender disburses loan amount to borrower

[24]SBA guidance stated that PPP was "first come, first served." 85 Fed. Reg. 20,811, 20,813 (Apr. 15, 2020).

[25]SBA issued a loan number when it agreed to guarantee the loan. Initially, SBA reviewed loan and borrower information to look for duplicate applications before issuing a loan number to the lender. For Phase 3, SBA began conducting upfront compliance checks before issuing a loan number to the lender. For more information, see GAO-21-577.

Key Program Changes

As the program continued, Congress and SBA made a series of changes to PPP to increase lender participation and availability, target funding, and modify loan calculations (see table 2). In addition, for Phase 3, Congress allowed certain businesses that had already received a PPP loan to receive a second loan, referred to throughout this report as "second draw" loans.

Table 2: Key Paycheck Protection Program Changes, by Program Phase

Phase	Legislation or program guidance and date	Description of change
1	Technical event (April 8, 2020)	The Small Business Administration (SBA) released the nonbank lender application form allowing new nonbank lenders to participate in the Paycheck Protection Program (PPP).
2	Interim final rule (April 20, 2020)	SBA provided instructions for self-employed individuals filing a Form 1040 Schedule C to apply by calculating the loan amount based on the business's net profit from 2019.
	Guidance (April 23, 2020)	SBA issued clarifying guidance stating that public companies with access to capital markets would be unlikely to have made a certification of need for a PPP loan in good faith, and allowed companies 2 weeks to return loan funds if they applied for the loan prior to the issuance of the guidance.
	Interim final rule (April 30, 2020)	SBA adjusted portfolio requirements for Community Development Financial Institutions (CDFI), majority minority-, women-, or veteran/military-owned financial institutions, and certain other nonbank lenders, which allowed smaller lenders to participate in PPP.
	Technical event (May 28, 2020)	SBA established a $10 billion set-aside for businesses that applied through CDFIs to target lending to minority-owned businesses and underserved communities.[a]
3	Consolidated Appropriations Act, 2021 (December 27, 2020)	Congress allowed some businesses to receive a second loan and targeted eligibility for second loans to businesses that met certain criteria, including having 300 or fewer employees and documenting revenue losses in 2020.
	Guidance (January 11, 2021)	SBA dedicated the first few days of Phase 3 to processing loans made through community financial institutions, which include CDFIs, Minority Depository Institutions, Certified Development Companies, and Microloan Intermediaries.
	Guidance (February 22, 2021)	SBA established a 14-day loan application period exclusively for businesses or nonprofits with fewer than 20 employees.
	Interim final rule (March 4, 2021)	SBA revised the maximum loan amount calculation for self-employed individuals filing a Form 1040 Schedule C based on either gross income or net profit, which allowed for larger loans.

Source: GAO analysis of SBA guidance and relevant laws. | GAO-21-601.

Note: Phase 1 includes the application period from April 3–16, 2020, Phase 2 from April 27–August 8, 2020, and Phase 3 from January 11–May 31, 2021.

[a]Congress established additional set-asides throughout the course of the program. These included a total $60 billion set-aside for businesses that applied through community financial institutions, certain small insured depository institutions, and certain small credit unions established under the Paycheck Protection Program and Health Care Enhancement Act as well as $15 billion for lending by community financial institutions and $35 billion to new first draw PPP borrowers established under the Consolidated Appropriations Act, 2021.

Program Changes Increased Lending to the Smallest Businesses and in Underserved Locations

PPP lending in Phase 1 of the program favored larger and rural businesses, and banks made the vast majority of Phase 1 loans. Partly as a result of program changes made by Congress and SBA, the share of loans to most traditionally underserved businesses and counties we analyzed substantially increased in Phases 2 and 3, and generally was proportional to their representation in the overall small business community when the program closed in June 2021.

Phase 1 Loans Flowed to Larger Businesses and Rural Areas Primarily through Banks

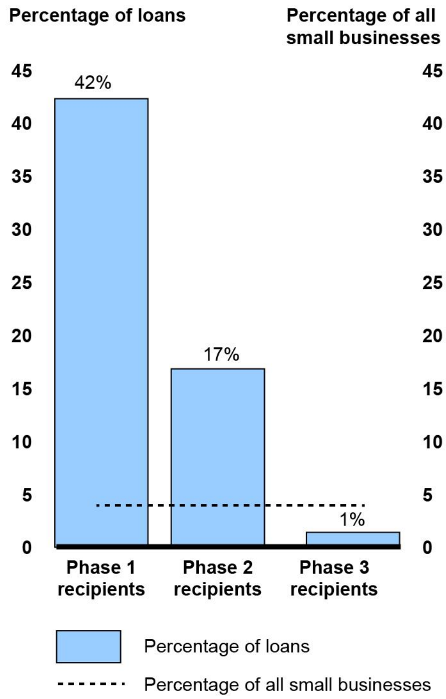
Larger, Rural, and Certain Hardest-Hit Businesses Received Early Loans

Larger businesses. Larger businesses—small businesses with 10 to 499 employees—received a higher share of loans in Phase 1 relative to their share of all small businesses. Specifically, 42 percent of loans in Phase 1 went to these larger businesses, despite accounting for only 4 percent of all small businesses in the U.S. (see fig. 4). The share of first draw loans to these businesses decreased over time, suggesting that much of their demand for loans was met early in the program. Further, as we reported in September 2020, during Phases 1–2, a larger share of loans over $2 million were canceled compared to smaller loans following reports that publicly traded companies had received loans and SBA's subsequent guidance clarifying the economic necessity requirements. As a result, the demand for larger loans may have diminished over time because of increased scrutiny from the public, the Department of the Treasury, and SBA.[26] Finally, because the loan amount for each recipient business was based on average payroll, larger businesses generally received larger

[26]GAO-20-701.

loans, likely precipitating the exhaustion of Phase 1 funding after just 2 weeks.[27]

Figure 4: Percentage of First Draw Paycheck Protection Program Loans to Larger Businesses Relative to Percentage of All Small Businesses, by Program Phase



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-601

Data table for Figure 4: Percentage of First Draw Paycheck Protection Program Loans to Larger Businesses Relative to Percentage of All Small Businesses, by Program Phase

	Loans	All small businesses
Phase 1 |recipients	42.3	4
Phase 2 |recipients	16.82	4
Phase 3 |recipients	1.4	4

Note: Larger businesses are those with 10 to 499 employees. This analysis excludes loans that were approved and subsequently canceled, and second draw loans. Generally, Phase 1 data include loans approved from April 3–16, 2020, Phase 2 data include loans approved from April 27–August 8, 2020, and Phase 3 data include loans approved from January 12–June 30, 2021.

[27]The average (median) loan size for recipient businesses with fewer than 10 employees was $21,697 ($18,115), compared to $296,292 ($146,000) for recipient businesses with 10 to 499 employees.

Research on small business lending and PPP suggests businesses with pre-existing relationships with banks were able to access PPP earlier than businesses without such relationships. For example, one study on PPP found that among businesses that applied for PPP loans from banks, approval rates were generally higher for businesses with a pre-existing relationship with a bank.[28] Also, larger businesses were more likely to have these relationships than the smallest businesses.[29]

Other research found that the smallest businesses were less aware of PPP and less likely to apply early in the program.[30] If they did apply, the smallest businesses applied later, faced longer processing times, and were less likely to have their applications approved, which may also partly explain why early lending skewed toward larger businesses during Phase 1.

Businesses in rural areas. Rural counties generally received a higher number of loans per small business in Phase 1 than metro counties (see fig. 5).[31] Additionally, while only 13 percent of small businesses are

[28]Alexander W. Bartik et al., "The Targeting and Impact of Paycheck Protection Program Loans to Small Businesses," (working paper 27623, National Bureau of Economic Research, July 2020). Additionally, as we found in GAO-21-577, because lenders were required to apply relevant Bank Secrecy Act program requirements, they had to collect additional information from PPP loan applicants with which they did not have a pre-existing relationship. Because pre-existing clients required the lender to conduct less due diligence, their applications could be processed more quickly. The Bank Secrecy Act requires banks and other financial institutions to take precautions against money laundering and other illicit financial activities by conducting due diligence activities and informing the Department of the Treasury of suspicious activity by their customers.

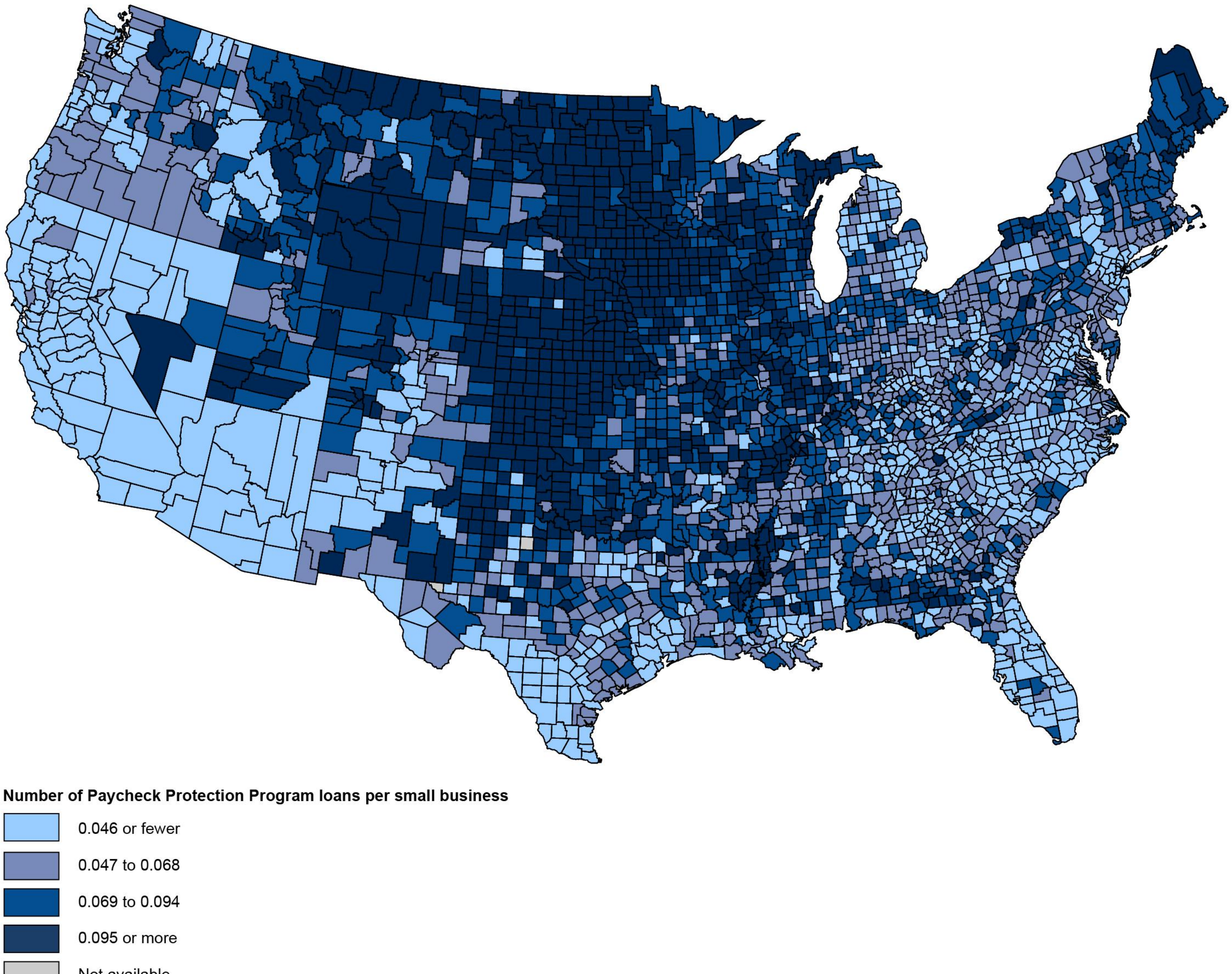
[29]According to the Federal Reserve Banks' 2020 Small Business Credit Survey, larger businesses (those with annual revenue greater than $1 million) were more likely to have existing banking relationships. See Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, and San Francisco, "*Small Business Credit Survey: 2020 Report on Employer Firms* (New York, NY: 2020). The survey was conducted in the third and fourth quarters of 2019 and yielded 5,514 responses from small employer firms with one to 499 full or part-time employees, in the 50 states and the District of Columbia.

[30]Christopher Neilson, John Eric Humphries, and Gabriel Ulyssea. "Information Frictions and Access to the Paycheck Protection Program," (working paper 27624, National Bureau of Economic Research, July 2020).

[31]We used data from the Department of Agriculture's Economic Research Service to classify counties as "metro" if they have one or more high-density urban areas with 50,000 or more residents or are outlying counties that are economically tied to these central counties, as measured by the share of workers commuting on a daily basis to the central counties. Rural counties are outside the boundaries of metro areas and have no cities with 50,000 or more residents.

located in rural counties, 19 percent of all Phase 1 loans went to businesses in these counties.

Figure 5: Paycheck Protection Program Loans per Small Business in Phase 1, by County



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-601

Note: This analysis excludes loans that were approved and subsequently canceled. Generally, Phase 1 data include loans approved from April 3–16, 2020.

Businesses in rural counties also received loans earlier on average than businesses in metro areas. Specifically, in the period from April 3–May 1, 2020, when loan volume was at its highest, loans were approved an average of 3 days earlier for businesses in rural areas than loans for businesses in metro areas.

Additionally, we found that businesses in rural counties collectively received a higher share of loans in Phase 1 than the share of small businesses in rural counties, even in high-minority rural counties and rural counties with poorer socioeconomic outcomes.[32] More specifically, businesses in rural counties received a high share of Phase 1 loans potentially because many of their loans were approved by small banks, which approved loans earlier than large banks. For example, of all loans approved by small banks from April 3–May 1, 2020 (when daily approvals were highest), 59 percent were approved before initial funding ran out on April 16, 2020. Conversely, of all loans approved by large banks from April 3–May 1, 2020, only 34 percent were approved before initial funding ran out. In total, 44 percent of loans approved by small banks went to businesses in rural areas compared to 6 percent of loans approved by large banks.

Businesses in hardest-hit sectors. Collectively, businesses in the hardest-hit sectors—accommodation and food services; arts, entertainment, and recreation; educational services; health care; manufacturing; and retail trade—received a higher share of loans early in the program, as well as a high share of second draw loans in Phase 3, than the share of small businesses in those sectors.[33] Specifically, businesses in these sectors received 40 percent of loans in Phase 1, and account for 27 percent of all small businesses nationwide. Moreover, like loans to larger businesses, the share of loans to businesses in hardest-hit

[32]For this analysis, we define minority counties as those in which the percentage of minority residents was higher than the national share of 27.5 percent. To determine a county's socioeconomic status relative to the national estimate, we used five indicators: median household income, unemployment rate, use of public assistance income, poverty rate, and no internet access. Among all five indicators, small businesses in rural counties with a county-level estimate worse than the national estimate still received a relatively high share of loans compared to small businesses in those counties. Based on 2015–2019 5-year estimates from Census's American Community Survey data, median household income was $62,843, the national unemployment rate was 5.3 percent, the national share of households receiving public assistance income was 2.4 percent, the national poverty rate was 12.9 percent, and the national share of households without internet access was 13.9 percent.

[33]Based on our analysis of data from the U.S. Bureau of Labor Statistics's 2020 Business Response Survey, businesses in these sectors were most likely to experience adverse effects to their business operations as a result of the COVID-19 pandemic.

sectors declined over time, suggesting that demand for loans among these businesses was met early in the program.

However, businesses in some of the hardest-hit sectors received a higher share of loans than others. In particular, in Phase 1, businesses in the retail trade, health care, accommodation and food services, and manufacturing sectors received a higher share of loans relative to the number of small businesses in those sectors (see fig. 6). Conversely, businesses in the arts, entertainment, and recreation and educational services sectors received a lower share of Phase 1 loans than the share of small businesses in those sectors.

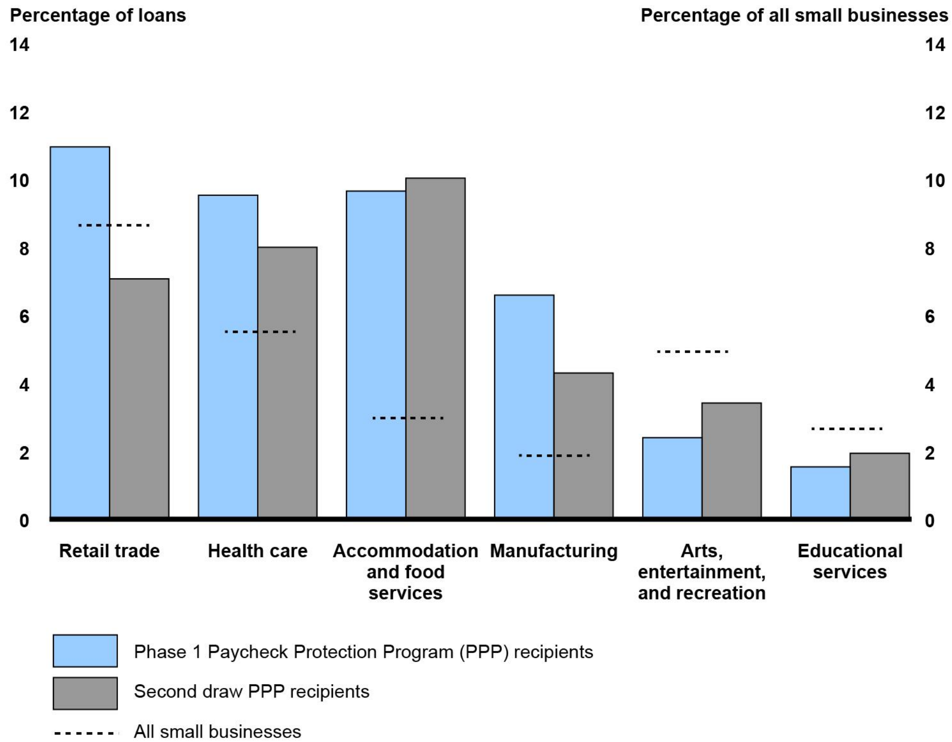
Businesses in the retail trade sector that received loans in Phase 1 were more concentrated in rural areas, and businesses in the educational services sector were less concentrated in rural areas than recipient businesses overall. Because businesses in rural counties received a higher share of Phase 1 loans than businesses in metro counties, location may partly explain the higher share of early loans to businesses in the retail trade sector and the lower share of early loans to businesses in the educational services sector. Additionally, businesses in the accommodation and food services, educational services, and manufacturing sectors that received loans in Phase 1 were larger, on average, than recipient businesses overall, which may further explain the high share of loans to these sectors. Finally, researchers found that early application rates were particularly high in the accommodation and retail sectors, which likely resulted in higher rates of loans to businesses in these sectors.[34]

Businesses in the hardest-hit sectors also received a high share of second draw loans (35 percent) in Phase 3 than the share of small businesses in those sectors (27 percent), demonstrating their ongoing demand for financial assistance as the pandemic continued. However, as with early loans, businesses in certain hardest-hit sectors received a higher share of second draw loans than others. Businesses in the health care, accommodation and food services, and manufacturing sectors received a relatively high share of second draw loans, while those in retail

[34]Bartik et al., "The Targeting and Impact of Paycheck Protection Program Loans."

trade; arts, entertainment, and recreation; and educational services sectors received a relatively low share.[35]

Figure 6: Percentage of Paycheck Protection Program Recipients Relative to the Percentage of All Small Businesses in the Hardest-Hit Sectors



Source: GAO analysis of Small Business Administration, Census Bureau, and Bureau of Labor Statistics data. | GAO-21-601

[35]Congress created two sector-specific SBA programs to target aid to venue operators and food services businesses. The Shuttered Venue Operators Grant program, established in 2020 by the Consolidated Appropriations Act, 2021, and amended by the American Rescue Plan Act, includes over $16 billion in grants to shuttered venues. The Restaurant Revitalization Fund, established in 2021 by the American Rescue Plan Act, provides funding to restaurants and other food service establishments to compensate for pandemic-related revenue losses. Businesses eligible for these programs generally fall into the accommodation and food services and arts, entertainment, and recreation sectors. Businesses that chose to receive both a PPP loan in Phase 3 and a Shuttered Venue Operators Grant had the amount of their PPP loan deducted from their Shuttered Venue Operators Grant award.

Data table for Figure 6: Percentage of Paycheck Protection Program Recipients Relative to the Percentage of All Small Businesses in the Hardest-Hit Sectors

	Phase|1 paycheck protection program (ppp) recipients	Second draw PPP recipients	All small businesses
Retail trade	10.92	7.04	8.63
Health care	9.5	7.97	5.47
Accommodation|and food|services	9.62	10	2.96
Manufacturing	6.56	4.27	1.87
Arts,|entertainment,|and recreation	2.37	3.39	4.93
Educational|services	1.51	1.91	2.63

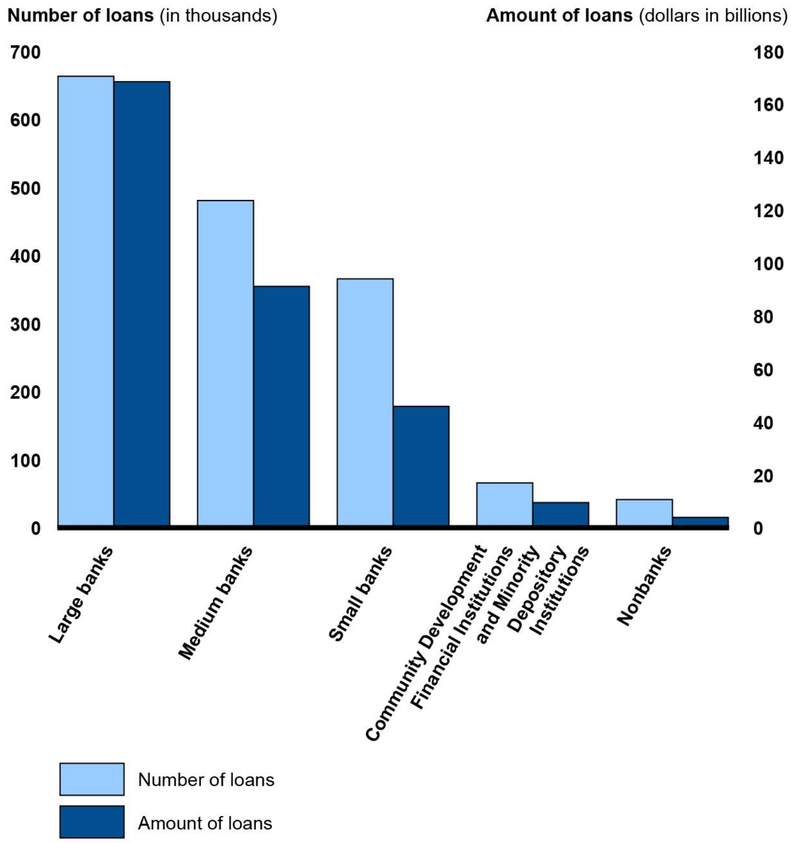
Note: This analysis excludes loans that were approved and subsequently canceled. Generally, Phase 1 data include loans approved from April 3–16, 2020, and second draw applies to Phase 3 loans (those approved from January 12–June 30, 2021).

Banks Made the Vast Majority of Phase 1 Loans

Banks collectively made more than 93 percent of all loans in Phase 1. Large banks made 41 percent of loans (663,577 loans), medium banks made 30 percent of loans (481,063 loans), and small banks made 23 percent of loans (366,030 loans) (see fig. 7). CDFIs and MDIs collectively made 4 percent of loans (66,419 loans) and nonbank lenders made 3 percent of loans (42,112 loans).[36] When measuring lending activity by the total dollar amount of loans made in Phase 1, the distribution among large, medium, and small banks was similar.

[36]As discussed later in this report, limited lending among CDFIs, MDIs, and nonbanks in Phase 1 corresponded with low participation among certain traditionally underserved businesses and counties during the same period.

Figure 7: Number and Total Dollar Amount of Paycheck Protection Program Loans Made in Phase 1, by Lender Type



Source: GAO analysis of Small Business Administration data. | GAO-21-601

Data table for Figure 7: Number and Total Dollar Amount of Paycheck Protection Program Loans Made in Phase 1, by Lender Type

	Number of loans	Amount of loans
Large|banks	663.58	168.583
Medium|banks	481.06	91.31
Small|banks	366.03	46.01
Community|Development|Financial|Institutions|and Minority Depository Institutions	66.42	9.67
Nonbanks	42.11	4.07

Note: For this analysis, all depository lenders are categorized as “banks,” including banks, credit unions, and savings and loan associations. Large banks are as those with at least $10 billion in assets, medium banks are those with $1 to $10 billion, and small banks are those with less than $1 billion based on publicly available call reports. All nondepository lenders are categorized as “nonbanks,” including SBA Small Business Lending Companies, SBA Certified Development

Companies, SBA Microlenders, Business and Industrial Development Corporations, Farm Credit System lenders, and state-regulated financial companies. Generally, Phase 1 data include loans approved from April 3–16, 2020.

Although large banks made more loans than all other lender types in Phase 1, researchers found they underperformed compared to small banks—with underperformance defined as having made a smaller share of PPP loans relative to their share of non-PPP small business loans.[37] Further, bank performance affected whether PPP borrowers were able to access loans before funding ran out at the end of Phase 1. Specifically, only 25 percent of all PPP borrowers located in areas with underperforming banks (regardless of size) obtained PPP approval prior to the end of Phase 1. By contrast, approximately 42 percent of all PPP borrowers in areas with banks that over-performed (or made more PPP loans than their share of other small business loans) had access to funds in Phase 1.

Small banks may have been more experienced with small business lending, and therefore better equipped to process PPP applications than other lenders, according to researchers and our analysis. For example, research from the Federal Deposit Insurance Corporation found that community banks (which are generally smaller banks) held a high share of small business loans before the COVID-19 pandemic.[38] It also found that community banks' participation in PPP was proportionately larger than their size in the banking industry, meaning that community banks made a larger share of PPP loans than other types of loans. Further, based on results from our survey of PPP lenders, small banks approved the highest percentage of PPP applications on average (approximately 96 percent), compared to an estimated 93 percent for large and medium banks, and an estimated 86 percent for CDFIs and MDIs.[39]

[37]João Granja et al., "Did the Paycheck Protection Program Hit the Target?." (working paper 27095, National Bureau of Economic Research, November 2020).

[38]Margaret Hanrahan and Angela Hilton, "The Importance of Community Banks in Paycheck Protection Program Lending." *FDIC Quarterly*, vol. 14, no. 4 (2020). For the purposes of this research, community banks include banks with assets less than $1 billion, banks that primarily engage in basic banking activities rather than specialty activities, and banks that operate within a limited geographic scope.

[39]We surveyed a generalizable sample of 1,383 PPP lenders, stratified by lender type and size, to obtain their perspectives on the program. The survey closed on April 15, 2021, and we received 781 responses. We obtained a weighted response rate of 57.3 percent. The 95 percent confidence intervals for these estimates are (95, 97) for small banks, (91, 94) for medium and large banks, and (84, 89) for CDFIs and MDIs.

Program Changes, Including Lender Pool Expansion, Increased Lending to Traditionally Underserved Businesses and Counties in Phases 2 and 3

Lending Increased to Traditionally Underserved Businesses and Counties

Following concerns raised by small business associations that some traditionally underserved businesses faced challenges accessing loans in Phase 1, Congress and SBA modified PPP to increase participation among certain businesses, such as self-employed individuals, women-owned businesses, and businesses in minority counties.[40] These changes included increasing the number of lenders in the program, targeting funding and processing timeframes to certain businesses, and expanding program eligibility (see table 3).

[40]Changes were also intended to target PPP lending to veteran-owned businesses. The share of loans to businesses in counties with large shares of veteran-owned businesses was generally consistent over time.

Table 3: Selected Paycheck Protection Program Changes

Type of change	Phase	Description of change
Lender participation	1	The Small Business Administration (SBA) released the nonbank lender application form allowing new nonbank lenders to participate in the Paycheck Protection Program.
	2	SBA adjusted portfolio requirements for Community Development Financial Institutions (CDFI), majority minority-, women-, or veteran/military-owned financial institutions, and certain other nonbank lenders, which allowed smaller lenders to participate in PPP.
Targeted funding and processing timelines	2	SBA established a $10 billion set-aside for businesses that applied through CDFIs to target lending to minority-owned businesses and traditionally underserved communities.[a]
	3	SBA dedicated the first few days of Phase 3 to processing loans made through community financial institutions, including CDFIs, Minority Depository Institutions, Certified Development Companies, and Microloan Intermediaries. SBA also established a 14-day loan application period exclusively for businesses or nonprofits with fewer than 20 employees.
Expanded business eligibility	2	SBA issued a rule instructing self-employed individuals to apply by calculating the loan amount based on the business's net profit from 2019.
	3	SBA revised the maximum loan amount calculation for self-employed individuals filing a Form 1040 Schedule C based on either gross income or net profit, which allowed for larger loans and enabled increased loan access for businesses with very little or negative net profit.

Source: GAO analysis of SBA guidance. | GAO-21-601

Note: Phase 1 includes the application period from April 3–16, 2020, Phase 2 from April 27–August 8, 2020, and Phase 3 from January 11–May 31, 2021.

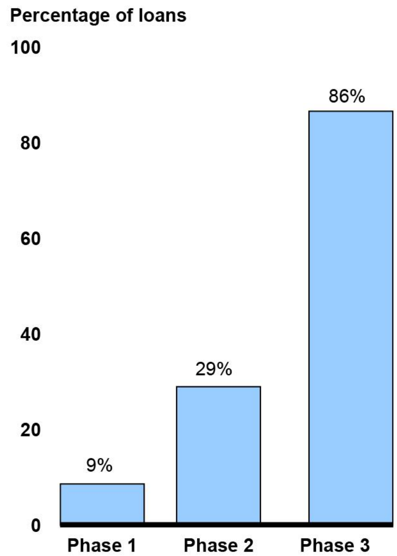
[a]Congress established additional set-asides throughout the course of the program. These included a $60 billion set-aside for businesses that applied through community financial institutions, certain small depository institutions, and certain small credit unions established under the Paycheck Protection Program and Health Care Enhancement Act as well as $15 billion for lending by community financial institutions and $35 billion to new first draw PPP borrowers established under the Consolidated Appropriations Act, 2021.

Self-employed individuals. While the share of loans to self-employed individuals was low in Phase 1, program changes helped increase their share substantially in later phases of the program. Specifically, loans to self-employed individuals increased from 9 percent of all loans in Phase 1 to 86 percent in Phase 3 (see fig. 8).[41] This increase corresponded with SBA issuing guidance for self-employed individuals to apply for loans and increasing the number and types of lenders in the program at the end of

[41]Census's Statistics on U.S. Businesses includes data on the number of small businesses based on characteristics including business size and industry sector, but it does not include data on business ownership type that are comparable to SBA's data on PPP recipients. As a result, we were not able to provide information on the share of these businesses relative to all small businesses in the U.S. The share of loans to businesses with fewer than 10 employees also increased across all three phases.

Phase 1, and allowing for larger loan amounts for self-employed individuals in Phase 3.

Figure 8: Percentage of First Draw Paycheck Protection Program Loans to Self-Employed Individuals, by Program Phase



Source: GAO analysis of Small Business Administration data. | GAO-21-601

Data table for Figure 8: Percentage of First Draw Paycheck Protection Program Loans to Self-Employed Individuals, by Program Phase

	Percentage of loans
Phase 1	8.63
Phase 2	28.94
Phase 3	86.49

Note: Self-employed individuals include independent contractors, sole proprietorships qualified joint ventures, and single-member limited liability companies. This analysis excludes loans that were approved and subsequently canceled. Generally, Phase 1 data include loans approved from April 3–16, 2020, Phase 2 data include loans approved from April 27–August 8, 2020, and Phase 3 data include first draw loans approved from January 12–June 30, 2021. The U.S. Census Bureau's Statistics on U.S. Businesses does not include data on the share of these businesses relative to all small businesses in the U.S.

Women-owned businesses. The share of loans to businesses in counties with a large share of women-owned businesses also increased, potentially because of Congress's and SBA's modifications related to increasing lender participation and expanding business eligibility. Because SBA does not have complete data on the gender of business owners who obtained PPP loans, we used estimates from Census's Annual Business Survey to assess the extent to which businesses in counties with large shares of women-owned businesses were able to access PPP.[42] For the purposes of this analysis, we examined lending in counties with shares of women-owned businesses that were higher than the national estimate.[43] We refer to these counties as having a "large share" of women-owned businesses.

The share of loans to businesses in counties with large shares of women-owned businesses doubled between Phase 1 and Phase 2, from 9 percent to 18 percent (see fig. 9).[44] This increase corresponded with the increase in the number and types of lenders after Phase 1 and targeted funding for traditionally underserved businesses and communities in Phases 2 and 3. In addition, approximately 90 percent of women business owners are self-employed individuals, according to Census data.[45] As a result, program changes aimed at increasing participation among self-employed individuals likely also contributed to the increase in lending to counties with large shares of women-owned businesses.

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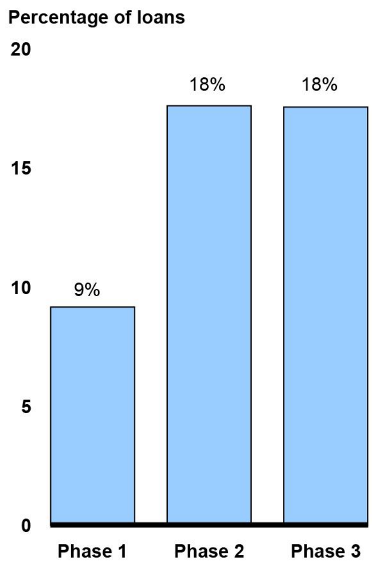
[42]As we reported in July 2021, SBA did not require demographic information—for example, the race, gender, and veteran status of the business owner—in the PPP borrower application. However, SBA revised its PPP borrower application form in January 2021 to allow for the optional disclosure of demographic information and included such a section in all subsequent revisions and an optional demographic information form as part of the PPP loan forgiveness application. See GAO-21-577. The Annual Business Survey provides information on selected economic and demographic characteristics for employer businesses (those with paid employees) and business owners by sex, ethnicity, race, and veteran status. We used county-level data from 2017, the most recently available data at the time of our review. While these data include employer businesses of all sizes, small businesses comprise more than 99 percent of all businesses in the U.S., and therefore are representative of small businesses.

[43]For our analysis, we excluded counties whose estimated shares had a relative standard error greater than 20 percent. We determined counties to be similar to the national estimate if the 95 percent confidence interval surrounding their estimated share fell within the 95 percent confidence interval surrounding the national share estimate. Based on data from the 2017 Annual Business Survey, approximately 20 percent of all businesses were women-owned.

[44]Sixteen percent of all small businesses are located in counties with above-national shares of women-owned businesses.

[45]U.S. Census Bureau, *Number of Women-Owned Employer Firms Increased 0.6% From 2017 to 2018* (Washington D.C.: Mar. 29, 2021).

Figure 9: Percentage of First Draw Paycheck Protection Program Loans to Businesses in Counties with Large Shares of Women-Owned Businesses, by Program Phase



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-601

Data table for Figure 9: Percentage of First Draw Paycheck Protection Program Loans to Businesses in Counties with Large Shares of Women-Owned Businesses, by Program Phase

	Percentage of loans
Phase 1	9.15
Phase 2	17.59
Phase 3	17.54

Note: Counties with large shares of women-owned businesses include counties where the share of women-owned businesses is higher than the national share at the 95 percent confidence level, based on the U.S. Census Bureau's Annual Business Survey data. This analysis excludes loans that were approved and subsequently canceled and loans that could not be matched to data from the U.S. Census Bureau. Generally, Phase 1 data include loans approved from April 3–16, 2020, Phase 2 data include loans approved from April 27–August 8, 2020, and Phase 3 data include first draw loans approved from January 12–June 30, 2021. Sixteen percent of all small businesses are located in counties with above-national shares of women-owned businesses.

Businesses in high-minority counties. Small businesses in counties with a high share of minority residents ("high-minority counties") received a relatively low share of loans in Phase 1, but they experienced greater access over time, potentially resulting from a number of program changes.[46] Because SBA does not have complete data on the race of

[46]Forty-seven percent of all small businesses are located in high-minority counties.

business owners who obtained PPP loans, we used Census's American Community Survey to measure the percentage of loans in each phase that went to businesses in high-minority counties, or counties with a share of minority residents above the national share.[47]

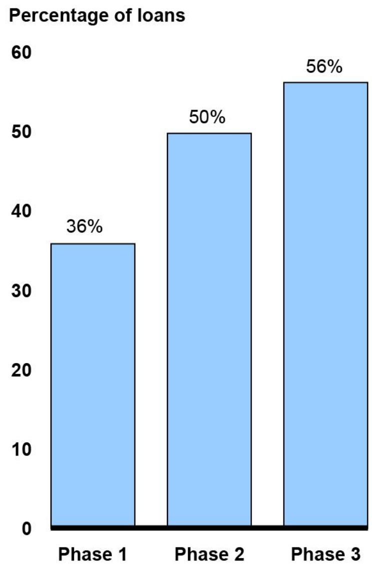
Based on our analysis, 36 percent of Phase 1 loans went to small businesses located in high-minority counties, but this increased to 50 percent in Phase 2 (see fig. 10).[48] Similarly, researchers found that businesses in high-minority counties received a lower share of Phase 1 loans than low-minority counties, but a higher share of Phase 2 loans.[49] This trend corresponds with a general increase in the number and types of lenders in the program after Phase 1 and program changes to target funds to lenders that lend in traditionally underserved counties in Phases 2 and 3. For example, in Phase 2, SBA established a $10 billion set-aside for businesses that applied through CDFIs, seeking to target lending to minority-owned businesses and traditionally underserved counties.

[47]As we reported in July 2021, SBA did not require demographic information—for example, the race, gender, and veteran status of the business owner—in the PPP borrower application. However, SBA revised its PPP borrower application form in January 2021 to allow for the optional disclosure of demographic information and included such a section in all subsequent revisions and an optional demographic information form as part of the PPP loan forgiveness application. See GAO-21-577. The American Community Survey is an ongoing survey of about 3.5 million U.S. households that uses a series of monthly samples to produce annually updated estimates for census tracts across the U.S. The survey collects data on the economic, social, housing, and demographic characteristics of communities at various geographic levels, including metropolitan areas, states, and counties. We used county-level 2015–2019 5-year estimates, the most recently available data at the time of our review.

[48]For this analysis, we define high-minority counties as counties where the percentage of minority residents was higher than the national share of 27.5 percent.

[49]This research used zip code-level data from Census's County Business Patterns on employer businesses to analyze PPP loans. R. Fairlie and F.M. Fossen, "Did the Paycheck Protection Program and Economic Injury Disaster Loan Program get disbursed to minority communities in the early stages of COVID-19?." *Small Business Economics* (2021).

Figure 10: Percentage of First Draw Paycheck Protection Program Loans to Businesses in High-Minority Counties, by Program Phase



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-601

Data table for Figure 10: Percentage of First Draw Paycheck Protection Program Loans to Businesses in High-Minority Counties, by Program Phase

	Percentage of loans
Phase 1	35.8
Phase 2	49.7
Phase 3	56.1

Note: High-minority counties were identified based on data from the U.S. Census Bureau's American Community Survey and include counties with a share of minority residents greater than the national share of 27.5 percent. This analysis excludes loans that were approved and subsequently canceled and loans that could not be matched to the data from the U.S. Census Bureau. Generally, Phase 1 data include loans approved from April 3–16, 2020, Phase 2 data include loans approved from April 27–August 8, 2020, and Phase 3 data include first draw loans approved from January 12–June 30, 2021. Forty-seven percent of all small businesses are located in high-minority counties.

Loans to minority-owned businesses may also have been low in Phase 1 because these businesses lacked pre-existing relationships with banks, particularly small banks. According to the Federal Reserve Banks' 2019 Small Business Credit Survey, prior to the pandemic, Black and Hispanic business owners were more likely to seek financing from large banks and online lenders than from small banks.[50] The 2020 update to the survey found this trend continued during Phases 1 and 2: regardless of where businesses applied for PPP loans, those that had a relationship with a bank were more likely to apply for PPP loans than those that did not.[51] The survey also demonstrated that minority-owned businesses were less likely to have a relationship with a bank. Our survey of PPP lenders found CDFIs and MDIs were more likely than other types of lenders to report that they accepted applications from borrowers with whom they had no prior relationship.[52]

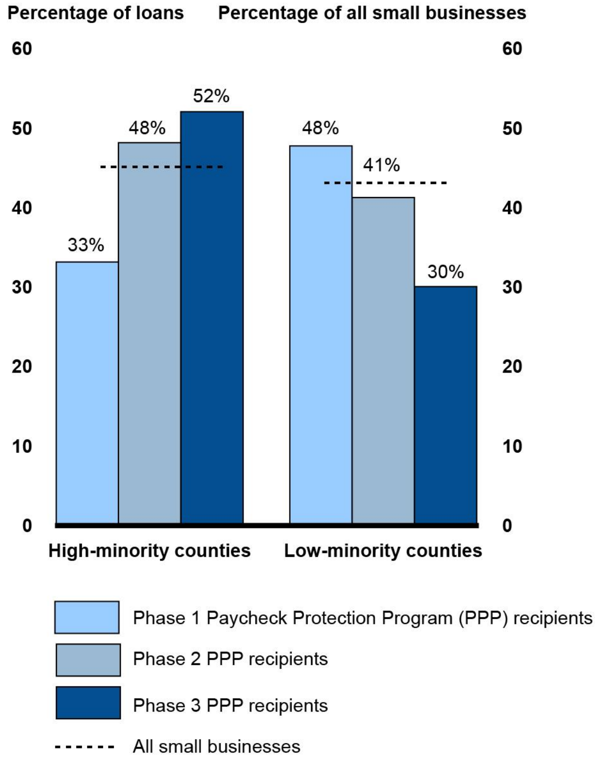
Additionally, when comparing high-minority counties by metro and rural status, we found that businesses in high-minority metro counties were underrepresented in Phase 1 relative to their share of total small businesses, even in high-minority metro counties with better socioeconomic outcomes. By contrast, businesses in low-minority metro counties received a share of loans higher than their share of small businesses in Phase 1 (see fig. 11). However, participation among businesses in high-minority metro counties increased in Phases 2–3. This suggests that program changes successfully targeted lending to businesses in high-minority counties.

[50]Federal Reserve Bank of Atlanta, *Small Business Credit Survey: 2019 Report on Minority-Owned Firms* (New York, NY: 2019). The 2018 survey was conducted in the third and fourth quarters of 2018 and generated 6,614 responses from employer firms with information on the race or ethnicity of a firm's owner(s).

[51]Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, and San Francisco, *Small Business Credit Survey: 2021 Report on Firms Owned by People of Color* (New York, NY: 2021).

[52]We surveyed a generalizable sample of 1,383 PPP lenders, stratified by lender type and size, to obtain their perspectives on the program. The survey closed on April 15, 2021, and we received 781 responses. We obtained a weighted response rate of 57.3 percent. Ninety percent of CDFI/MDIs reported accepting PPP applications from businesses with whom they had no prior relationship, compared to 73 percent of large banks. The 95 percent confidence interval for these estimates are (83, 95) for CDFI/MDIs and (67, 79) for large banks.

Figure 11: Percentage of First Draw Paycheck Protection Program Loans to Businesses in Metro Counties Relative to the Percentage of All Small Businesses, by Program Phase and Share of Minority Residents



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-601

Data table for Figure 11: Percentage of First Draw Paycheck Protection Program Loans to Businesses in Metro Counties Relative to the Percentage of All Small Businesses, by Program Phase and Share of Minority Residents

	Percent of Phase 1 loans	Percent of Phase 2 loans	Percent of Phase 3 loans	All small businesses
High-minority counties	33.1	48.1	52	45
Low-minority counties	47.7	41.2	30	43

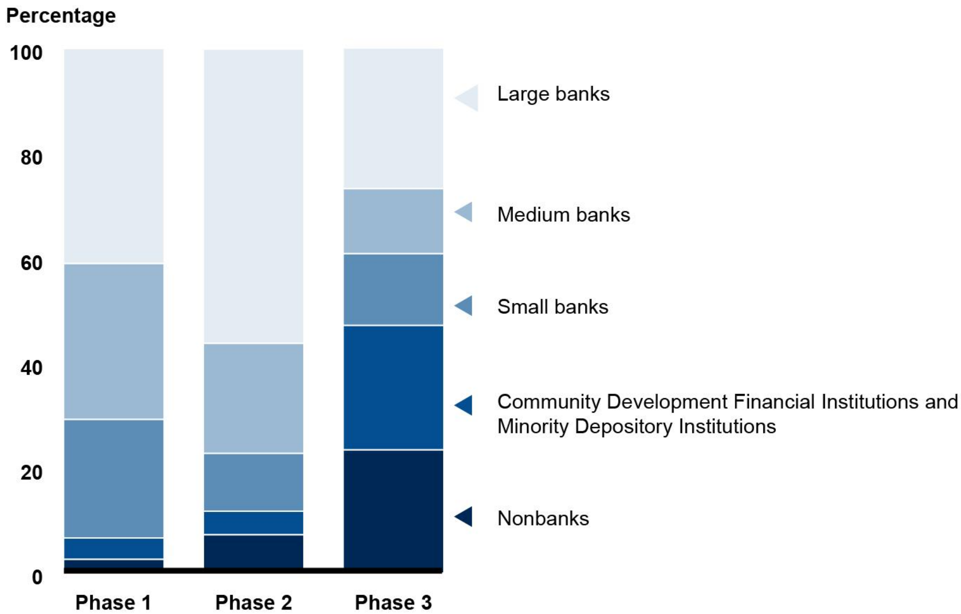
Note: We used data from the Department of Agriculture's Economic Research Service to classify counties as "metro" if they have one or more high-density urban areas with 50,000 or more residents or are outlying counties that are economically tied to these central counties, as measured by the share of workers commuting on a daily basis to the central counties. Rural counties are outside the boundaries of metro areas and have no cities with 50,000 or more residents. High-minority counties were identified based on data from the U.S. Census Bureau's American Community Survey and include counties with a share of minority residents greater than the national share of 27.5 percent. Forty-seven percent of all small businesses are located in high-minority counties. This analysis excludes loans that were approved and subsequently canceled and loans that could not be matched to the data from the U.S. Census Bureau. Generally, Phase 1 data include loans approved from April 3–16, 2020, Phase 2 data include loans approved from April 27–August 8, 2020, and Phase 3 data include first draw loans approved from January 12–June 30, 2021.

Nonbanks, CDFIs, and MDIs Substantially Increased Lending in Later Phases

To increase lending to traditionally underserved businesses and counties, Congress and SBA modified PPP to include more lenders, particularly those that lend to traditionally underserved businesses.[53] Nonbanks, CDFIs, and MDIs each made a greater percentage of PPP loans in Phases 2 and 3 (see fig. 12). Specifically, the percentage of loans made by nonbanks increased significantly, from 3 percent of loans in Phase 1 to 23 percent of loans in Phase 3. In addition, the percentage of loans made by CDFIs and MDIs rose from 4 percent of loans in Phase 1 to 24 percent of loans in Phase 3. Further, beginning in Phase 2, SBA added 623 new lenders to make PPP loans, increasing the total number of lenders from 4,837 to 5,460. CDFIs, MDIs, and nonbanks made 97 percent of the nearly 1.5 million loans issued by new lenders in the last two phases of the program.

[53]SBA and the Department of the Treasury were jointly responsible for approving lenders new to SBA to issue PPP loans. According to SBA officials, SBA approved new federally regulated lenders, and only new non-federally regulated and insured lenders required joint SBA and Treasury approval.

Figure 12: Percentage of Paycheck Protection Program Loans, by Lender Type and Program Phase



Source: GAO analysis of Small Business Administration data. | GAO-21-601

Data table for Figure 12: Percentage of Paycheck Protection Program Loans, by Lender Type and Program Phase

	Nonbanks	Community|Development| Financial| Institutions| and Minority Depository Institutions	Small|banks	Medium|banks	Large|banks
Phase 1	2.6	4.1	22.6	29.7	41
Phase 2	7.3	4.5	11	21	56.1
Phase 3	23.5	23.7	13.7	12.4	26.8

Note: For this analysis, all depository lenders are categorized as "banks," including banks, credit unions, and savings and loan associations. Large banks are as those with at least $10 billion in assets, medium banks are those with $1 to $10 billion, and small banks are those with less than $1 billion based on publicly available call reports. All nondepository lenders are categorized as "nonbanks," including SBA Small Business Lending Companies, SBA Certified Development Companies, SBA Microlenders, Business and Industrial Development Corporations, Farm Credit System lenders, and state-regulated financial companies. This analysis excludes loans that were approved and subsequently canceled. Generally, Phase 1 data include loans approved from April 3–16, 2020, Phase 2 data include loans approved from April 27–August 8, 2020, and Phase 3 data include first draw loans approved from January 12–June 30, 2021.

Nonbanks, CDFIs, and MDIs made a higher proportion of loans to traditionally underserved businesses and counties than other types of lenders, particularly small banks. Specifically, self-employed individuals received 85 percent of nonbanks' loans, but only 47 percent of loans overall, which suggests that nonbank lenders' increased participation over time could have helped increase lending to these borrowers. In addition, 21 percent of loans made by CDFIs or MDIs and 23 percent of loans made by nonbanks went to businesses in counties with large shares of women-owned businesses, compared to 4 percent of loans made by small banks.[54] Similarly, 64 percent of loans made by nonbanks and 69 percent of loans made by CDFIs and MDIs went to businesses in high-minority counties, compared to 22 percent of loans made by small banks.[55] These findings suggest the changes SBA and Congress made to increase lending to traditionally underserved businesses through nonbanks, CDFIs, and MDIs helped these businesses better access PPP.

By Program Close, Lending in Traditionally Underserved Counties Was Comparable to Their Share of Small Businesses

By the end of Phase 3, PPP lending to businesses in traditionally underserved counties was proportionate to their representation in the overall small business community, in part because of the changes Congress and SBA made to the program.[56] For example, while loans to businesses in rural counties were high from the start of the program, loans to businesses in high-minority counties and counties with large shares of women-owned businesses reached proportionate levels by the end of Phase 3. However, while lending to businesses with fewer than 10 employees increased significantly over time, it remained disproportionately low by the end of Phase 3.

Specifically, the share of loans to businesses in rural counties exceeded their share of all small businesses (see fig. 13). Overall, 15 percent of

[54]By comparison, 19 percent of loans made by large banks and 10 percent of loans made by medium banks went to businesses in counties with large shares of women-owned businesses.

[55]Fifty-four percent of loans made by large banks and 36 percent of loans made by medium banks went to businesses in counties with high minority populations.

[56]For the purposes of this report, we refer to “traditionally underserved businesses and counties” more broadly as very small businesses; those owned by minorities, women, or veterans; or those located in rural counties, counties with high minority populations, or Tribal areas. In our analyses, we used businesses with fewer than 10 employees and those owned by self-employed individuals to represent very small businesses. To represent minority-, women-, and veteran-owned businesses, we used counties with high shares of minority residents and high shares of women- and veteran-owned businesses. We include Tribal areas when collectively referring to traditionally underserved counties.

loans went to small businesses in rural counties, while 13 percent of all small businesses are located in these counties.

Despite initial access challenges, lending to high-minority counties exceeded and lending to counties with large shares of women-owned businesses reached their share of small businesses by the program's end. Businesses in high-minority counties received 50 percent of all loans and account for 47 percent of all small businesses nationwide. Overall, businesses in counties with large shares of women-owned businesses accounted for 16 percent of loans and represent 16 percent of small businesses. In addition, the share of loans to businesses in counties with large shares of veteran-owned businesses was generally commensurate with the share of small businesses in those counties. Overall, counties with large shares of veteran-owned businesses accounted for 4 percent of loans and 5 percent of small businesses.

Businesses across the hardest-hit sectors received 30 percent of all program loans but account for 27 percent of small businesses.

However, the share of loans to businesses with fewer than 10 employees remained below their share of small businesses overall, despite program changes to increase their participation over time. These businesses received 84 percent of all loans, but represent 96 percent of all small businesses. In particular, self-employed individuals received 47 percent of loans.[57] By comparison, businesses with 10 to 499 employees received 16 percent of all loans, despite accounting for just 4 percent of all small businesses.

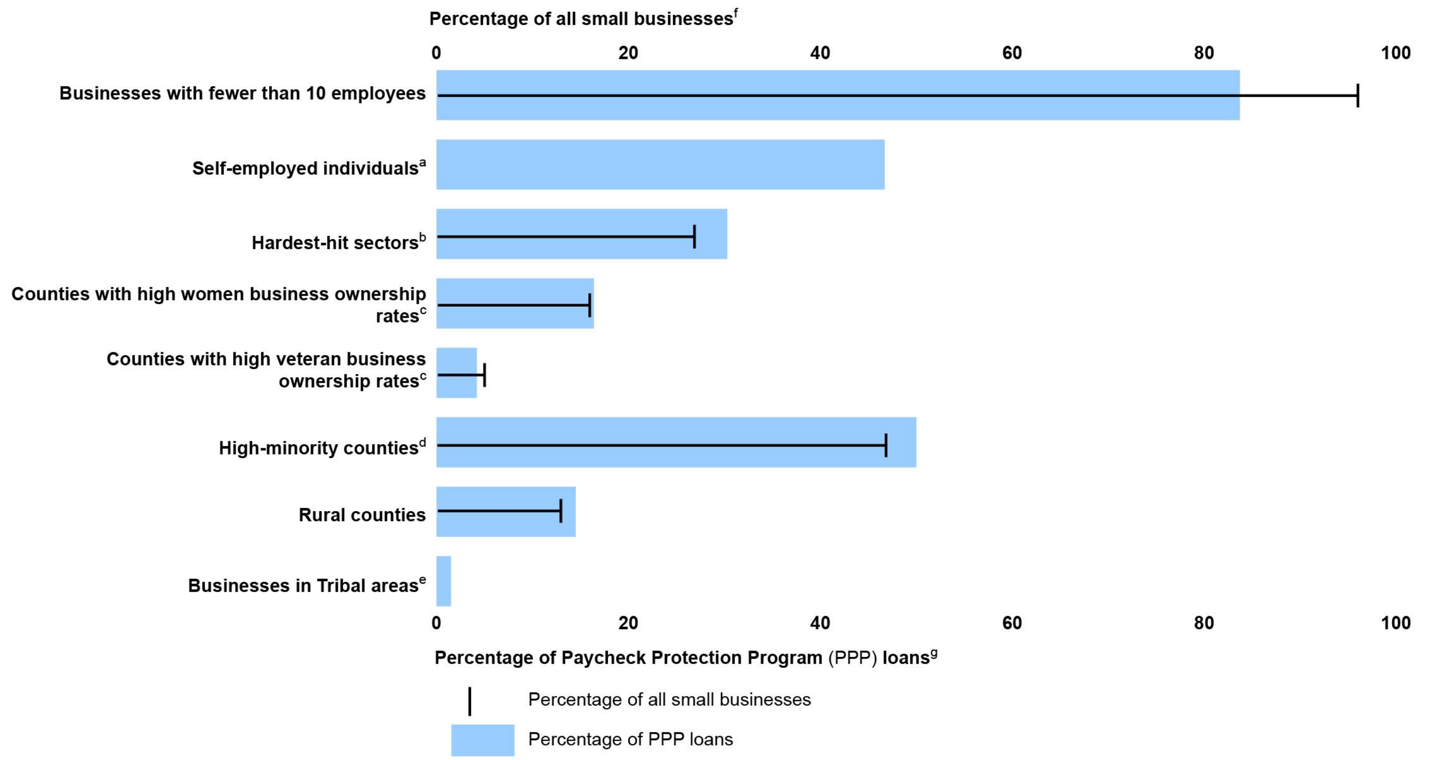
The proportionately low program participation for businesses with fewer than 10 employees and self-employed individuals could be, in part, because they were able to obtain other forms of assistance. For example, in July 2021, we reported that businesses with fewer than 10 employees accounted for 86 percent of approved applications in the Economic Injury Disaster Loan program—an SBA-administered program that provided $230 billion in loans and advances to small businesses and nonprofits

[57]Data were not available to calculate the percentage of all businesses that are self-employed individuals.

between March 2020 and May 2021.[58] Further, many self-employed individuals may have been eligible for unemployment insurance.[59]

Finally, businesses on Tribal lands received 1 percent of all PPP loans.[60]

Figure 13: Percentage of Paycheck Protection Program Loans Relative to the Share of Small Businesses, by Type of Business or County



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-601

[58]See GAO-21-589.

[59]SBA has noted that a self-employed individual's participation in PPP may affect eligibility for unemployment compensation.

[60]Although SBA's loan-level data include the type of businesses that received loans, these data did not consistently record whether businesses were Tribal businesses. Because these data were not available, we estimated the percentage of PPP loans that went to businesses located on Tribal lands. Tribal lands in our analysis included federally recognized American Indian reservations and off-reservation trust land areas, state-recognized American Indian reservations, and Hawaiian homelands for which Census publishes data. Businesses located in these Tribal areas may or may not be Tribal businesses. In addition, data were not available to calculate the percentage of all businesses located on Tribal lands.

Data table for Figure 13: Percentage of Paycheck Protection Program Loans Relative to the Share of Small Businesses, by Type of Business or County

	Percent of all PPP Loans (%)	Percent of all Small Businesses (%)
Businesses with fewer than 10 employees	83.7	96
Self-employed individuals	46.7	
Hardest-hit sectors	30.3	27
Counties with high women business ownership rates	16.4	16
Counties with high veteran business ownership rates	4.2	47
High-minority counties	50	13
Rural counties	14.5	5
Businesses in Tribal areas	1.5	

[a]Self-employed individuals include independent contractors, sole proprietorships, qualified joint ventures, and single-member limited liability companies. Data were not available to calculate the percentage of all small businesses that were self-employed individuals.

[b]Hardest-hit sectors include businesses holding the sector classification code within the North American Industry Classification System identified by the Bureau of Labor Statistics's 2020 Business Response Survey as those that were most likely to experience adverse effects to their business operations as a result of the COVID-19 pandemic. Collectively, businesses in these sectors received a proportionate share of PPP loans relative to their share of all small businesses, but businesses in certain sectors including educational services and arts, entertainment, and recreation received a lower share of PPP loans than their share of all small businesses. The Consolidated Appropriations Act, 2021, enacted December 27, 2020, established the Shuttered Venue Operators Grant program to target over $16 billion in grants to venue operators. Eligible businesses generally fall into the arts, entertainment, and recreation sector.

[c]Counties with large shares of women- and veteran-owned businesses include counties in which the share of business ownership is higher than the national share at the 95 percent confidence level, based on Census's Annual Business Survey.

[d]High-minority counties include counties with a share of minority residents greater than the national share based on Census's American Community Survey.

[e]Data were not available to calculate the percentage of all businesses that are Tribal businesses.

[f]We define all small businesses as employer businesses with fewer than 500 employees and all non-employer businesses based on 2017 data from Census's Statistics of U.S. Businesses and Non-Employer Statistics.

[g]This analysis excludes loans that were approved and subsequently canceled and includes both first and second draw loans. For counties and Tribal areas, loans that could not be matched to Census data were excluded.

Our analysis suggests that program changes made by Congress and SBA helped to increase access for the intended businesses and counties.[61] We will continue to monitor and report on the use of PPP and

[61]Our analysis did not account for the total number of businesses that may have permanently closed as a result of the pandemic, or those that may have utilized other assistance instead of PPP.

related small business loan and grant funds through our government-wide reports.

Agency Comments

We provided a draft of this report to the Small Business Administration and the Department of the Treasury for review and comment. Both provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Administrator of the Small Business Administration, and the Secretary of the Treasury. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or pendletonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

John H. Pendleton
Director, Financial Markets and Community Investment

List of Addressees

The Honorable Patrick Leahy
Chairman
The Honorable Richard Shelby
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Ron Wyden
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

The Honorable Patty Murray
Chair
The Honorable Richard Burr
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Gary C. Peters
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The Honorable Rob Portman
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United States Senate

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The Honorable James Lankford
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Subcommittee on Government Operations and Border Management
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The Honorable Jackie Speier
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The Honorable Rashida Tlaib
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The Honorable Paul Tonko
House of Representatives

The Honorable Norma J. Torres
House of Representatives

The Honorable Bonnie Watson Coleman
House of Representatives

The Honorable Frederica S. Wilson
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report examines how small business and lender participation in the Paycheck Protection Program (PPP) evolved over time.

Small Business Administration Data

To address this objective, we used loan-level PPP data provided by the Small Business Administration (SBA) on the nearly 12.5 million loans approved from April 3, 2020, through June 30, 2021. The dataset included 70 variables describing loans, small business borrowers, and lenders. In addition, SBA provided a list of lenders approved to participate in PPP. This dataset included 10 additional variables, including information on the lender type and size.

For all analyses, we excluded loans that were approved and subsequently canceled (approximately 6 percent of all loans). To understand the extent to which different types of businesses and business owners were able to access the program, our primary unit of analysis was the number of loans (i.e., whether a business received a loan) rather than the loan amount, which is determined by a formula based on a business's payroll and other expenses and can be sensitive to geographical variations in the cost of doing business.

SBA's loan-level PPP data included the date SBA approved the loan but not the date the application was received. As a result, we categorized loans into three phases based on the date SBA approved the loan. Phase 1 is based on the program's initial funding from the CARES Act and includes loans approved from April 3–16, 2020.[1] Phase 2 is based on the program's second round of funding through the Paycheck Protection Program and Health Care Enhancement Act and includes loans approved

[1]CARES Act, Pub. L. No. 116-136, §§ 1102(b), 1107(a)(1), 134 Stat. 281, 301 (2020). The dataset includes 10 loans with approval dates on April 20-22, 2020, which we categorized as Phase 1.

from April 27–August 8, 2020.[2] Phase 3 is based on the program's third round of funding through the Consolidated Appropriations Act, 2021, and American Rescue Plan Act of 2021, and includes loans approved from January 12–June 30, 2021.[3]

We categorized lenders by type and size. In its list of approved PPP lenders, SBA indicated the lender category (depository or nondepository) and subcategory (lender type). SBA indicated whether a lender was a Community Development Financial Institution (CDFI) by matching its data to a list of CDFIs provided by the Department of the Treasury. SBA also indicated whether a lender was a Minority Depository Institution (MDI) by matching its data to MDI lists from the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the National Credit Union Administration. CFDIs and MDIs share a goal of expanding economic opportunity by providing loans to businesses and individuals in traditionally underserved areas. CDFIs include both depository institutions and nonbanks, while MDIs include only depository institutions. We categorized any lender that SBA indicated was a CDFI, an MDI, or both, as "CDFI/MDI."

For the remaining lenders, we categorized all depository lenders—banks, credit unions, and savings and loan associations—as "banks." SBA provided the size of depository lenders using publicly available call reports, which we used to define large banks as those with at least $10 billion in assets, medium banks as those with at least $1 billion but less than $10 billion in assets, and small banks as those with less than $1 billion in assets. We categorized the remaining nondepository lenders as "nonbanks," and these included SBA Small Business Lending Companies, SBA Certified Development Companies, SBA Microlenders, Business and Industrial Development Corporations, Farm Credit System lenders, and state-regulated financial companies.

[2]Paycheck Protection Program and Healthcare Enhancement Act, Pub. L. No. 116-139,§ 101(a) 134 Stat. 620, 620 (2020). The dataset includes 1 loan with an approval date of August 9, 2020, which we categorized as Phase 2.

[3]Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. N, tit. III, §323, 134 Stat. 1182, 2018-22 (2020); American Rescue Plan Act of 2021, Pub. L. No. 117-2, § 5001(d), 135 Stat. 4, 85.

Analysis of Business and Lender Characteristics

To understand the characteristics of businesses that received PPP loans, we generally analyzed each characteristic by program phase and lender type category. To provide a benchmark, we determined the total number of small businesses for each characteristic using U.S. Census Bureau (Census) data. Specifically, we defined small businesses as employer businesses with fewer than 500 employees and all non-employer businesses based on 2017 data from Census's Statistics of U.S. Businesses and Non-Employer Statistics. Based on the data available, this provides the best estimate of the number of small businesses that were eligible for PPP loans, but it does not precisely capture the full universe of eligible businesses because businesses with 500 employees are excluded and we do not account for variations in SBA's size standards and eligibility criteria across industries and business types.

For business size, we defined the smallest businesses as those with fewer than 10 employees and analyzed those businesses by program phase. We also analyzed loans to self-employed individuals—which also include sole proprietors, independent contractors, qualified joint ventures, and single member limited liability companies—by program phase and lender category type.

For business sector, we analyzed data from the U.S. Bureau of Labor Statistics's 2020 Business Response Survey and found that businesses in the following six sectors were most likely to experience adverse effects to their business operations as a result of the COVID-19 pandemic: accommodation and food services; arts, entertainment, and recreation; educational services; health care; manufacturing; and retail trade. We considered these industries "hardest-hit sectors" and analyzed them by program phase and location.

While the dataset provided by SBA included variables indicating the race, gender, and veteran status of the business owner, the value was missing or unreported for most loans (76 percent missing for race, 61 percent for gender, and 67 percent for veteran status). We determined these variables were not complete enough to analyze for the purposes of our analysis. Instead, we used estimates from Census's 2018 Annual Business Survey to assess the extent to which counties with a high share of these businesses were able to access PPP. The survey provides information on selected economic and demographic characteristics for businesses and business owners by sex, ethnicity, race, and veteran status.[4] We used county-level data covering 2017, the most recently available data at the time of our review. While these data include employer businesses of all sizes, small businesses comprise more than 99 percent of all businesses in the U.S.

We geocoded the loan-level PPP dataset and merged it with Census's Annual Business Survey data to indicate the share of small businesses owned by women and veterans for the county in which the PPP recipient business was located. Specifically, we compared each county's share of women- and veteran-owned businesses to the national estimate and categorized each county as above, below, or similar to the national estimate. We then compared the share of PPP loans to businesses in counties with above-national shares of women and veteran business ownership to those same counties' share of small businesses. For our analysis, we excluded counties whose share estimates had a relative standard error greater than 20 percent. We determined counties to be similar to the national average if the 95 percent confidence interval surrounding their estimated share fell within the 95 percent confidence interval surrounding the national estimate. For all surveys, we excluded Puerto Rico and U.S. territories from our analysis.

Analysis of County Characteristics

To identify the characteristics of the counties served by PPP, we merged the geocoded loan-level PPP data with data from Census's American Community Survey—an ongoing survey of around 3.5 million households across the U.S. We used county-level 2015–2019 5-year estimates, the

[4]Census's Annual Business Survey is an electronic survey that sampled approximately 850,000 employer businesses in 2017. The sample is stratified by state, frame, and industry and is systematically sampled within each stratum. Business ownership is defined as having more than 50 percent of the stock or equity in the business and is categorized by (1) sex (male, female, or equally male/female); (2) ethnicity (Hispanic, equally Hispanic/non-Hispanic, or non-Hispanic); (3) race (White, Black or African American, American Indian or Alaska Native, Asian, Native Hawaiian or Other Pacific Islander, minority, equally minority/nonminority, or nonminority); and (4) veteran status (veteran, equally veteran/nonveteran, or nonveteran). Publicly held and other firms are not classifiable by sex, ethnicity, race, and veteran status. Firms equally male-/female-owned, equally minority-/nonminority-owned, and equally veteran-/nonveteran-owned are counted and tabulated as separate categories.

most recently available data at the time of our review.[5] We analyzed five socioeconomic indicators at the county level: median household income, poverty rate, unemployment rate, percentage of households receiving public assistance income, and percentage of households with no internet access.

We compared each measure for the county in which a PPP recipient small business was located to the national measure, and categorized each small business as being located in county whose estimate is above or below the national estimate. To facilitate comparison across geographic areas, we calculated the number of loans per small business in a county using data from the 2017 Statistics of U.S. Businesses and 2017 Nonemployer Statistics. We also used American Community Survey data to analyze the share of PPP loans that went to businesses in counties with minority population shares above or below the national estimate and the share that went to rural counties compared to metro counties. We referred to counties classified as “non-metro” by the U.S. Department of Agriculture’s Economic Research Service as “rural” and all other counties as “metro.”[6] We also analyzed the percentage of PPP loans that went to businesses located on Tribal lands, which may or may not be Tribal businesses.[7]

Lender Survey

To learn more about lenders’ experience with PPP applications and the recipients they served, we administered a web-based survey to a

[5]The American Community Survey uses a series of monthly samples to produce annually updated estimates for different geographic units, including counties, across the U.S. The survey collects data on the economic, social, housing, and demographic characteristics of communities at various geographic levels, including metropolitan areas, states, and counties.

[6]The U.S. Department of Agriculture’s Economic Research Service defines counties as either metro or non-metro areas based on population and commuting patterns. Metro counties are defined as having at least one urban area with a population of 50,000 or more, plus adjacent territory that has a high degree of social and economic integration with the urban core, as measured by commuting ties. Non-metro areas do not have an urban area with at least 50,000 people and do not have measured commuting ties to a metro county.

[7]Tribal lands in our analysis included federally recognized American Indian reservations and off-reservation trust land areas, state-recognized American Indian reservations, and Hawaiian homelands for which Census publishes data.

representative sample of PPP lenders.[8] In the survey, we asked lenders about the number of applications received and approved, reasons for not approving an application, and the extent to which PPP borrowers had an existing relationship with the lender. We administered the survey from February 2021 to April 2021, and we collected information for the 14-month period from March 2020 to April 2021.

To identify the universe of PPP lenders, we used data provided by SBA on August 3, 2020, which contained 5,466 lenders. We stratified our sample (seven strata) and used a stratified random sample of each: (1) small banks and savings and loans, (2) medium banks and savings and loans, (3) large banks and savings and loans, (4) extra-large banks, (5) credit unions, (6) nonbank lending institutions, and (7) minority-owned depository institutions and community development financial institutions.[9]

Our initial sample size was designed to achieve a stratum-level margin of error of no greater than plus or minus 8 percentage points for an attribute level at the 95 percent level of confidence. Our resulting sample size was 1,383 and we received 781 survey responses. We obtained a weighted response rate of 57.3 percent.[10] Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (for example, plus or minus 8 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. Confidence intervals are provided with each sample estimate in the report. All survey results presented in the

[8]We also used this survey to inform our July 2021 report on SBA's implementation of PPP. See GAO, *Paycheck Protection Program: SBA Added Program Safeguards, but Additional Actions Are Needed*, GAO-21-577 (Washington, D.C.: July 29, 2021). Specifically, see app. I of that report for more details on the survey's methodology and app. II for the survey's full results.

[9]We defined small banks and savings and loans as those with less than $250 million in total assets, medium banks and savings and loans as those with $250 million or more and less than $1 billion in total assets, large banks and savings and loans as those with $1 billion or more and less than $250 billion in total assets, and extra-large banks as those with $250 billion or more in total assets.

[10]We used a weighted response rate because our survey sample incorporated strata with different probabilities of selection. A weighted response rate may more accurately reflect the level of participation. For example, large units that contribute relatively more to the estimate of a total would have a larger "weight" on the response rate.

body of this report are generalizable to the estimated population of 5,451 in-scope depository institutions, except where otherwise noted.

Data Reliability

To assess the reliability of the SBA data, we identified potential variables for use in our analyses and output statistics on these variables (e.g., frequencies of values, number of blanks or zero values, minimum, maximum, and mean) to identify any potential reliability concerns, such as outliers or missing values. We met with relevant SBA officials to discuss each of the variables to understand how SBA collected, used, and maintained the data; the reliability and completeness of key variables; reasons for any potential discrepancies we identified; and whether our understanding of the data and approach to analyzing them were accurate and reasonable. After these meetings, we requested updated versions of the data and updated our analyses accordingly. In the instances in which we identified potential outliers or errors, we discussed them with SBA, and when necessary, requested a correction. We also reviewed related interviews and data reliability checks conducted for previous reports in which we analyzed PPP data.[11] We determined that all data elements we assessed were sufficiently appropriate and reliable for this report's objectives.

To assess the reliability of all Census data, we reviewed technical information for each data source. We determined the surveys were sufficiently reliable for the purposes of reporting business characteristics on the county level. Findings from each survey are subject to sampling errors.

To further inform our work, we reviewed legislation, interim final rules, agency guidance, and academic studies, and interviewed SBA officials. We also reviewed and summarized relevant literature.

We conducted this performance audit from July 2020 to September 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

[11]For example, GAO, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, GAO-20-701 (Washington, D.C.: Sept. 21, 2020).

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: GAO Contacts and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Cory Marzullo (Assistant Director), Christopher Forys (Analyst in Charge), Vida Awumey, Irina Carnevale, Chelsea Carter, Rachel DeMarcus, Gita DeVaney, Jacob Fender, Toni Gillich, Ying Long, John Mingus, Julia Robertson, Rebecca Shea, Jena Sinkfield, Shenandoah Sowash, Tyler Spunaugle, Farrah Stone, and Seyda Wentworth made key contributions to this report.

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