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Relief Deal Would Give Small Businesses a Shot at a Second Loan

The stimulus package being negotiated in Washington includes $285 billion for a renewed Paycheck Protection Program.

By Stacy Cowley

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Federal lawmakers have agreed to revive the signature small-business relief effort established last spring, committing $285 billion for additional loans under the Paycheck Protection Program and allowing particularly hard-hit companies to get a second loan.

The $900 billion assistance package would restart the P.P.P. — the government's small-business program created under the CARES Act — through March 31, while doing away with the restriction that left more than $100 billion unspent over the summer.

Lindsey Munson, the administrator of the Montessori School of Charlottesville, Va., a day care and preschool, said she was ecstatic at the prospect of more help. "We're literally living hand to hand, month to month," she said.

The school, which has kept all of its employees except two part-time assistants, got a $160,000 loan in April, but that money is long gone. Enrollment is down 30 percent, leaving a major hole in the school's budget, Ms. Munson said. It has been scraping by on donations and state and local relief grants. Another federal infusion would help enormously, she said.

The Paycheck Protection Program helped preserve jobs and kept some struggling businesses afloat in the coronavirus pandemic's early months by giving small companies — generally those with up to 500 workers — a one-time loan to cover up to eight weeks of payroll and a handful of other expenses, up to a maximum of $10 million. The loans, guaranteed by the Small Business Administration but made by banks and other lenders, are designed to be forgiven if business owners comply with the program's rules.

But the pandemic has dragged on far beyond the period covered by the loans, and the rising infection numbers being reported across the country have threatened to force another round of business shutdowns.

Shelly Ross, the owner of Tales of the Kitty, a cat-sitting business in San Francisco, is eager to apply. December is normally her busiest month, but her sales are down 75 percent from a year ago, and January is looking even bleaker.

Many of the lenders that took part in the spring, handing out $523 billion to 5.2 million borrowers, said they were ready to make more loans. Bank of America, JPMorgan Chase, Cross River Bank and Wells Fargo — the four most active lenders, which collectively made more than one million of the program's loans — said they intended to participate again.

But it was not clear exactly how fast loans would be made after the legislation passes, which was expected to happen by Tuesday.

A Small Business Administration spokesman said the agency was "committed to ensuring that the next round of P.P.P. is launched as quickly as possible."

According to outlines of the bill circulating among congressional officials on Monday, hotels and food-service businesses would be eligible for bigger loans this time, up to 3.5 times their average monthly payroll. Other borrowers would again be limited to 2.5 times their payroll.

Publicly traded companies would be ineligible for the new loans, eliminating a provision that provoked a public outcry as deep-pocketed restaurant chains, software companies and drug makers, among others, collected taxpayer-funded loans.

The new bill would also expand the list of expenses that a loan could be used to pay, which previously were limited mostly to payroll, rent and utilities. Businesses could now use the money to buy supplies from their vendors, buy protective equipment for their staff or fix property damage “due to public disturbances,” according to a House Small Business Committee summary — a reference to this year’s protests over police brutality and systematic racism.

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But the biggest change would reopen the program to some businesses that had already received help.

When the Paycheck Protection Program expired in August, about $138 billion had not been spent. Many business owners who had received money said they would gladly take another loan, but the program’s rules prevented them from getting a second helping. The new relief bill offers a second cash infusion for those who meet stricter terms: Borrowers with fewer than 300 employees that had a 25 percent drop in sales from a year earlier in at least one quarter could qualify for an additional loan of up to $2 million.

“We are absolutely applying,” said Dana Sanford, the office manager for A&J Transportation, a trucking company in Oklahoma. A&J recently completed the process of having its initial $699,000 loan in the program forgiven, which Ms. Sanford said had gone smoothly.

“I am very excited about the second round of P.P.P.,” she said. “It really helps the businesses pay their people.”

The bill would also allocate $50 million to the Small Business Administration for audits and other efforts to address fraud in the program, which was a significant problem in the first round of funding. The House Select Subcommittee on the Coronavirus Crisis said it had identified more than $4 billion in potentially improper loans, and some bankers believe the total was much higher.

Many lenders said the rash of fraud was partly a result of the program’s hasty rollout, when complicated and shifting terms bedeviled banks and borrowers. In the months after the program started, the Treasury Department and the Small Business Administration issued dozens of technical fixes and clarifications, and Congress piled another batch of them into the stimulus package.

Most prominently, the plan would allow business owners who received loans in the program, which are tax-free, to claim deductions for expenses they paid for with loan proceeds.

That change, which would cost the government hundreds of billions of dollars in forgone tax revenue, was made over the objections of Treasury Secretary Steven Mnuchin, who previously described the maneuver as a way for business owners to “double dip” and collect both tax-free funds and an additional deduction. Tax researchers said such a break would disproportionately benefit wealthy taxpayers.

But it had become a rallying point for the owners of Main Street businesses like restaurants and retail shops who are accustomed to deducting expenses like payroll. In many cases, losing those deductions would have worked out the same mathematically as taxing the loan.

Regaining them "is a huge benefit and a huge relief," said Travis Miskowitz, an accountant in New Jersey who specializes in small and medium-size companies and has many clients who took loans in the program.

The bill would also clear up problems for Paycheck Protection Program borrowers who took relief from a second Small Business Administration program, the Economic Injury Disaster Loan system. That program gave borrowers long-term, low-interest loans directly from the government to help them rebuild.

The CARES Act designated up to $10,000 of each E.I.D.L. loan as an advance that lawmakers said would not have to be repaid. But the law required the advance to be docked from the amount that would be forgiven on a business's P.P.P. loan, according to the Small Business Administration.

Angelina Branca owns Saté Kampar in Philadelphia, an acclaimed restaurant that closed its storefront in May and has been subsisting on pop-up events. Ms. Branca used a $32,000 loan from the Paycheck Protection Program to pay her event workers, but when she applied recently to have the loan forgiven, she was horrified to learn that she would have to repay the $10,000 she received from the Economic Injury Disaster Loan program. Ms. Branca contacted her lender and her congressional representatives to complain.

"That monthly payment wasn't something I planned on, and it's $500 a month I can't afford," she said. She has been making payments on the debt; those payments should be refunded, according to the bill summaries.

The bill includes contains other aid measures that are not specifically part of the Paycheck Protection Program but could nonetheless help many small businesses. Those include a $15 billion grant fund for closed theaters, museums, zoos and live event venues, and $12 billion for Community Development Financial Institutions, which make loans and grants to people and communities that are often unable to get traditional banks to do business with them.

That amount of money would be transformational, said Jeannine Jacokes, the chief executive of the Community Development Bankers Association, a trade group for community financial institutions.

"Every time we have a recession, low-income places are hit the hardest and are the last to recover," Ms. Jacokes said. "Treasury is providing the capital for a long-term investment in these communities."

While lenders anticipate heavy demand for the new loans, some borrowers remain leery. Caren Griffin is still sitting on the $66,000 loan she got in May for Spa Universaire, a hotel spa she owns in Denver. Her spa has been unable to reopen, and she's nervous about running afoul of rules so complicated that her bank and six accountants she has talked with are still struggling to interpret them.

She would benefit, though, from the bill's restoration of a federal enhancement to unemployment benefits, which have helped keep her and her former workers afloat, Ms. Griffin said.