ECONOMIC INNOVATION GROUP

Improving the Paycheck Protection Program (PPP)

Recommendations for CARES 2

The Paycheck Protection Program (PPP) is an emergency small business lending program enacted in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The program is primarily intended to help businesses cover payroll expenses and retain workers during a short-term period of lost revenue. However, small businesses today are facing a much more difficult outlook, including the likelihood of prolonged revenue loss, severe operational disruption, and widespread market uncertainty. Because PPP provides relatively small borrowing amounts and strictly links relief to payroll expenses, the program as currently structured is of limited use to businesses struggling to meet a wide range of expenses over an extended period of time.

Enacting PPP was an important first step in providing emergency relief to America's small business community. Congress should move quickly to strengthen and expand the program to ensure small businesses have the lifeline they need during this period of unprecedented disruption. Key improvements should include:

- **Extend the duration of the program through December 31, 2020.** The covered period for the program is currently set to end on June 30.
- **Remove funding uncertainty.** Congress should approve an open-ended appropriation for PPP through the duration of the covered period to eliminate concerns about the first-come, first-served program running out of money due to heavy demand.
- **Increase borrowing limits so businesses can withstand an extended period of lost revenues and operational disruption**. At minimum, borrowers should be able to qualify for a loan that is equivalent to five times the average monthly sum of *all* covered expenses up to $25 million. Borrowers are currently limited to loans that are only 2.5 times average monthly payroll costs alone, or $10 million, whichever is less. Businesses that have already been approved for a PPP loan should be able to apply for additional loans as needed up to the maximum amount.
- **Expand the list of covered expenses.** Covered expenses should include payroll costs, rent, utilities, mortgage interest, mortgage principal, business insurance, inventory, and payments on debt incurred prior to the covered period. Currently, PPP loans can only be used for payroll costs, mortgage interest payments, rent, leases, and utilities.
- **Extend the covered period for loan forgiveness.** PPP currently allows for only eight weeks of covered expenses to be forgiven, with a non-statutory limit of 25 percent on

non-payroll expenses imposed by the Small Business Administration (SBA), making PPP of very limited use to businesses facing an extended period of inability to meet a variety of critical expenses. Loan forgiveness should instead be calculated as the sum of amounts paid for all covered expenses during the 20 weeks after the loan commences, and Congress should prevent the imposition of any non-statutory restrictions on the amounts eligible for forgiveness.

- **Make the re-hiring deadline contingent on when the loan commences.** The law currently sets a fixed date of June 30 for re-hiring, which disadvantages borrowers whose loan commenced later in the covered period. Instead, Congress should provide a level playing field for all borrowers by allowing them 16 weeks from the date the loan commences during which to eliminate any reductions to pre-crisis full-time equivalent employees.

- **Ensure businesses are not penalized if former employees are unwilling to return.** The PPP currently reduces loan forgiveness proportionally for the number of employees not re-hired by the deadline. Congress should waive this penalty if an employer is unable to re-hire any employee who receives greater assistance under the expanded Unemployment Insurance than their previous compensation at the business.

- **Discourage unaffected businesses from applying.** The law currently includes no meaningful disincentive for healthy businesses to take advantage of the program. When applying for loan forgiveness, borrowers should be required to provide good-faith certification under threat of penalty that they meet at least one category of significant economic harm. Businesses could satisfy the requirement if they:
    - experienced 20 percent or more in reduced revenue for at least one month;
    - are in a “deeply affected industry” as determined by the Administrator;
    - were subject to mandatory shutdown by local or state authorities and were unable to continue operations by telework or other remote options;
    - experienced significant disruption to supply chain; or,
    - experienced significant disruption to the health and availability of their workforce.

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