Paycheck Protection Program (PPP) for Small Businesses: How to Take Advantage before Funds Run Out

Across the country, people are feeling the effects of the coronavirus pandemic, and here in New England, it’s no different. Although we are all affected in some way by the sudden and severe economic consequences of this virus, we are seeing that those who were already most vulnerable are suffering the worst outcomes.

In response to the undue economic stress caused by the pandemic, Congress passed the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES)\(^1\) Act in late March 2020. The Act provides financial assistance for individuals and families, states, and businesses impacted by COVID-19. A critical part of this stimulus bill is the Small Business Paycheck Protection Program (PPP)\(^2\), which offers billions of dollars in potentially forgivable loans through the U.S. Small Business Administration (SBA)\(^3\) to small businesses, so they can stay afloat and keep their workers on payroll during the crisis. Initial program funds of $349 billion ran out on April 16, 2020, but Congress approved additional funding of more than $300 billion on April 23, 2020. Eligible businesses are strongly encouraged to work with lenders now to prepare their applications and be ready to take advantage of these additional funds.

The PPP is a significant infusion of capital into small businesses and the primary federal relief effort for enterprises under 500 employees suffering financial losses as a result of the pandemic. At the same time, we understand that the PPP is delivered through banks and other approved lenders, and we are well aware that there are traditional barriers to utilizing mainstream financial institutions for very small businesses, smaller businesses owned by people of color, and/or small businesses operating in lower-income areas. This may hinder their access to the program. These businesses were also likely more vulnerable before the pandemic because of lower capitalization. For this reason, the Boston Fed is making concerted efforts to ensure these businesses have the information, access, and tools needed to take advantage of this program.

To help alleviate these economic impacts, we aim to raise awareness of and increase access to the PPP, particularly among small-sized and minority-owned businesses across New England, including nonprofits and nonprofit/for-profit child care institutions. One step is to widely share the information below on the PPP from the U.S. Treasury and other resources* through local networks. Another is the Federal Reserve’s recent creation of a lending facility\(^4\) to allow individual banks adequate funds to make PPP loans. We are also assessing how effectively smaller businesses are accessing this program and sharing that information with policymakers to help ensure the support is reaching businesses that need it.

**Key Things to Know About PPP**

- **Who can apply?** All businesses—including nonprofits, veterans organizations, tribal business concerns, sole proprietorships, self-employed individuals, and independent contractors—with 500 or fewer employees may apply. Businesses in certain industries with more than 500 employees may be eligible if they meet applicable SBA employee-based size standards for those industries.
- **When can I apply?** The program became available to small businesses and sole proprietorships for loans to cover their payroll and certain other expenses on April 3, 2020. Starting April 10, 2020, independent contractors and self-employed individuals could also apply. Initial program funds were depleted as of April 16, 2020, but additional funding was approved on April 23, 2020. The program is currently open until June 30, 2020, but eligible businesses are encouraged to prepare their applications now to be in the queue for these additional relief funds, which are again expected to run out rapidly.
- **Where can I apply?** You can apply through any existing SBA 7(a) lender\(^5\) or through any participating federally insured depository institution, federally insured credit union, and Farm Credit System
institution. Other regulated lenders will be available to make these loans once they are approved and enrolled in the program. You should ask your local lender whether it is participating.

- **What can I use these loans for?** Proceeds from these loans may be used for payroll costs, including benefits; interest on mortgage obligations incurred before Feb. 15, 2020; rent under lease agreements in force before Feb. 15, 2020; and utilities for which service began before Feb. 15, 2020.

- **How much of my loan can be forgiven?** The loan will be forgiven if proceeds are used to cover payroll costs, most mortgage interest, rent, and utility costs over the eight-week period after the loan is made, and if employee and compensation levels are maintained. Payroll costs are capped at $100,000 on an annualized basis for each employee, and due to the high volume of applicants, at least 75 percent of the forgiven amount must have been used for payroll. Payments required on loan proceeds used for any uncovered expenses will be deferred for six months, and no collateral or personal guarantees are required.

For more information on PPP loans, links to the loan application and other helpful resources, see the U.S. Treasury’s [fact sheet](https://home.treasury.gov/system/files/136/PPP--Fact-Sheet.pdf) and the SBA’s [PPP FAQs](https://www.sba.gov/sites/default/files/2020-04/Final%20PPP%20FAQs%20for%20Lenders%20and%20Borrowers%204-8-20_0.pdf). The [Mass Equitable PPP initiative](https://bit.ly/equitableppp) provides technical assistance and banking assistance to small businesses in Massachusetts owned by people of color. Translations of key PPP information and the loan application are available in 19 languages on the [Massachusetts Growth Capital Corporation](https://www.empoweringsmallbusiness.org/resources/covid-19-small-business-resources) website. In addition, a step-by-step [tool](https://independentsector.org/resource/caresact/) for the PPP loan process is available on the webpage of the [Independent Sector](https://independentsector.org/), a national membership organization that brings together the charitable community to advance the common good.

The Federal Reserve System is committed to reducing the economic effects of COVID-19 with the tools at its disposal. To that end, the Fed has been working to limit financial and economic distress by taking [actions](https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm) that help avoid higher levels of unemployment or a slower recovery.

As today’s unifying mantra goes, we are all in this together, and the Boston Fed is working to help the most vulnerable residents and communities in the region survive this unprecedented health and economic emergency and have an opportunity to thrive in our eventual recovery.

[Learn more](https://www.bostonfed.org/community-development.aspx) about the Boston Fed’s community development initiatives.

For more information or questions about our coronavirus efforts in local communities, email [CommunityDevelopment@bos.frb.org](mailto:CommunityDevelopment@bos.frb.org).

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