

Looming Deadline and Last-Minute Changes Hinder P.P.P. Loans

Lenders are struggling with a new Paycheck Protection Program rule intended to get more money to sole proprietors — and some banks are simply refusing to make the change.



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The latest revision of the Paycheck Protection Program appeared to be a victory for the most vulnerable small businesses, offering more generous relief to companies like solo ventures that were eligible for only tiny loans — or none at all.

If only they could take advantage of the changes.

President Biden announced an abrupt overhaul two weeks ago to funnel more money to very small companies, some of which qualified for loans as small as \$1 under the old guidelines. But the Small Business Administration updated its systems only on Friday, and with just three weeks before the program is set to expire, some lenders say there just isn't enough time to adapt to the changes.

The result has been gridlock and uncertainty that have left tens of thousands of self-employed people frantic to find lenders willing to issue the more generous loans before the program ends on March 31.

JPMorgan Chase, the program's largest lender this year in terms of dollars disbursed, doesn't plan to act on the new loan formula before it stops accepting applications on March 19. Bank of America, the second-biggest lender, opted against updating its loan application and said it would contact self-employed applicants to manually sort out their applications — but stopped accepting new ones on Tuesday.

"We have 30,000 applications in process and want to allow enough time to complete the work and get each client's application through the S.B.A. process," said Bill Halldin, a Bank of America spokesman.

Even lenders that will be offering the loans up to the congressionally imposed deadline were unable to reprogram their systems until the Small Business Administration officially updated the rules and began accepting applications with the revised loan formula.

"It just seems so arbitrary and chaotic," said Paul Hastings, a self-employed graphic designer in Los Angeles who applied for a loan on Feb. 24, two days after Mr. Biden announced the changes.

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Mr. Hastings applied through SmartBiz, a broker that farms its applications out to a network of lenders. He assumed his application would be automatically updated to take advantage of the new rules, but on Monday, he received a form letter telling him that his loan had been processed under the old ones.

Those rules calculated a sole proprietor's loan based on the 2019 or 2020 profit they reported to the Internal Revenue Service. That meant unprofitable businesses were ineligible — a restriction that did not apply to larger businesses.

Under the new formula, sole proprietors can get loans based instead on their income before expenses. That opens the program to unprofitable businesses and allows those that did report a profit to claim a bigger loan, up to a maximum of \$20,833.

The letter gave Mr. Hastings two choices: Take the offered loan — for an amount thousands of dollars less than he would get under the new rules — or cancel his application and start over. But if he did that, the letter warned, he risked not getting any loan at all before the deadline.

Mr. Hastings ultimately didn't have to choose: After this article published on Tuesday, SmartBiz contacted him and said it would "help him secure a higher loan amount if he qualifies," according to Judy Balint, a company spokeswoman. SmartBiz, she said, had also begun accepting applications based on the new Small Business Administration guidance.

Business owners who haven't had the benefit of such hand-holding have flocked to forums like Reddit to hash out their options and to swap tips on which lenders are using the new formula. "Desperate for Guidance!" one typical post reads. "Reaching out to see if anyone can help me figure out this absolutely monstrous failure."

The disarray is compounded by the other major change Mr. Biden announced last month: a 14-day window, which ended Tuesday, during which the Small Business Administration would accept applications only from companies with fewer than 20 employees. The intent was to get aid to needy businesses, especially those run by women and minorities. The vast majority of those businesses are sole proprietorships

that would benefit from the new formula, and many rushed to take advantage of the priority period.

But the nearly two-week delay for the more generous rules put lenders in a tough spot: They could pause applications from sole proprietors, creating a backlog they would later have to unravel, or they could approve applications under the previous formula, which would result in much smaller loans for their customers.

Biz2Credit, which has made more loans this year than any other lender, temporarily stopped accepting applications while it worked to adjust to the new rules. It plans to resume this week, said Rohit Arora, its chief executive.

Other large lenders — including Cross River Bank and Customers Bank, which round out the program's top five lenders — said they had begun processing loans on Monday using the new formula.

Hundreds of thousands of borrowers who have already received their loans have no way to reapply under the more generous rules, infuriating business owners like Bryan Cordova, who finalized a loan for his printing business in Round Rock, Texas, just days before Mr. Biden announced the changes.

"Surely this could've been implemented in a way that didn't punish people in the midst of the process or that had already been approved," Mr. Cordova said.

Matthew Coleman, a spokesman for the Small Business Administration, would not comment on the time it took to update the rules, but said the changes "provide a stronger hand" to firms that were being left behind.

It would take an act of Congress to push back the deadline, and lenders and trade groups have been calling, with increasing urgency, for an extension. The American Institute of Certified Public Accountants called the March 31 deadline "unrealistic," and 10 banking groups sent a letter to lawmakers last week urging Congress to give them more time.

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How big are the stimulus payments in the bill, and who is eligible? ^

The stimulus payments would be \$1,400 for most recipients. Those who are eligible would also receive an identical payment for each of their children. To qualify for the full \$1,400, a single person would need an adjusted gross income of \$75,000 or below. For heads of household, adjusted gross income would need to be \$112,500 or below, and for married couples filing jointly that number would need to be \$150,000 or below. To be eligible for a payment, a person must have a Social Security number. [Read more.](#)

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Even before the changes were announced last month, lenders were trying to unravel extensive errors and data verification problems that had stalled tens of thousands of applications.

The Biden administration has not sought an extension, but key congressional leaders have said they are willing to pass legislation that would push back the deadline. The House Small Business Committee is scheduled to hold a hearing on Wednesday about the status of the Paycheck Protection Program.

"It's clear that small businesses are still feeling the effects of the Covid crisis and need P.P.P.'s support," said Representative Nydia M. Velázquez, a New York Democrat who leads the House committee. She said Congress must "ensure this critical lifeline isn't abruptly pulled away from small businesses."

Senator Benjamin L. Cardin, Democrat of Maryland and the leader of his chamber's small business committee, "would be open to a bipartisan agreement" to extend the deadline, according to a spokesman, Fabion Seaton.

At a White House briefing on Tuesday, Bharat Ramamurti, the deputy director of the National Economic Council, did not indicate that the administration was giving any thought to an extension. "There's still plenty of time left in this program. There's still plenty of money available," he said.

The program still has \$119 billion on hand of the \$284 billion that Congress authorized when the Paycheck Protection Program was renewed for this year, even with loans already made to 2.4 million borrowers.

But some of that money could go to a group of applicants likely to soon seek loans: tens of thousands of business owners in the live events market. Those businesses have been waiting for months for the federal government to open a generous \$15 billion grant fund for their industry that was authorized in December. But the money will not start flowing until April at the earliest, according to Mr. Coleman, the Small Business Administration spokesman.

Businesses have been barred from taking one of those grants if they also took a Paycheck Protection Program loan this year, but the \$1.9 trillion relief bill that passed the Senate on Saturday would remove that restriction and count the loan toward any grant the business receives later. The bill is now before the House and is likely to be finalized by Mr. Biden this week.

That change would allow venues like the AT&T Performing Arts Center in Dallas to get help faster. "We were thrilled to see that come through," said Debbie Storey, the center's chief executive.

Ms. Storey's organization made the "painful" choice last week to forgo the grant and seek a Paycheck Protection Program loan instead, she said. Her lender had urged the center to apply this week or risk missing the deadline.

"We couldn't afford to miss that window," she said.