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## Demand for Small-Business Loans Cools

*Some business owners worry they won't get loans forgiven; others look elsewhere for aid*



*A closed business in Chagrin Falls, Ohio, last week. Concerns that small business loans won't be forgiven are among the factors cooling demand for the federal Paycheck Protection Program.*

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By  
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WASHINGTON—When the federal government relaunched its small business aid program on April 27 with an additional \$310 billion, lenders and business advocates warned the money would dry up within a few days.

Nearly two weeks later, more than 40% of the money remains available, according to figures released late Thursday by the Small Business Administration, even as small businesses continue to suffer from the fallout of the coronavirus pandemic.

Several factors appear to be behind cooling demand, including the Treasury Department's decision following an uproar to exclude public companies and others that could obtain funding elsewhere.

Another reason: Some borrowers sought duplicate loans from several lenders as a backstop against loan denials or delays, according to bankers and small business advisers. Bigger banks

found that more than 10% of their applications were duplicates, according to loan brokers and industry officials. Some smaller lenders reported that half their applications were rejected because the applicant had gotten a loan elsewhere.

But the likely biggest reason for the slowdown is that many business owners have concluded that the SBA's Paycheck Protection Program simply doesn't meet their needs, lenders and others say, or they are waiting for the government to clarify the terms under which loans can be forgiven.

The program is generally aimed at companies with 500 or fewer employees, and it requires them to spend 75% of their loans on payroll to have the loan forgiven. Many small retail businesses, such as restaurants and hair salons, say that is a problem because they remain largely shut down and are operating with skeletal staffs.

"Since we can't hire back our team, our current math is at most 10% [of the loan] will be forgiven for us," said Bob Garner, co-founder of Glory Days Grill, a Maryland-based casual restaurant chain with 21 locations. "It's basically a large loan we are going to be stuck with."

For very small firms, especially in urban areas, payroll costs are eclipsed by other expenses, such as rent.

"A lot of small businesses owners just aren't interested in the program. The use of funds for payroll isn't necessarily what they need," said Gregg Ott, chief executive of Nav, an online portal that matches small businesses with lenders.

Mr. Ott was among those predicting [the second round of funds](#) would dry up quickly.

It took less than two weeks for the initial round of roughly \$350 billion [to be depleted](#), and that was even after an initial delay because of [confusion among lenders on the loan terms](#).

Another likely reason for the downturn is that some larger, well-known companies—although initially eligible for PPP loans—were steered elsewhere [following disclosures](#) in The Wall Street Journal and elsewhere about corporations such as steakhouse operator Ruth's Hospitality Group Inc. getting loans.

Amid public outrage, the Treasury Department revised the rules and said [publicly traded companies and other businesses](#) that have alternative funding sources shouldn't seek PPP loans.

"That made a lot of small businesses nervous," said Travis Miskowitz, manager of CFO Advisory at Wiss & Co., a New Jersey-based accounting firm. "They feel the tide has turned because of the negative news cycle, and they are worried they will have an issue obtaining loan forgiveness."

Mr. Miskowitz and others say larger businesses are now looking at other funding sources, particularly the \$600 billion Main Street Lending Program being prepared by the Federal Reserve for larger companies.

With bigger companies largely out of the picture, the SBA said last week the average PPP loan size was \$79,000 between April 27 and May 1, compared with \$206,000 during the first phase that ended April 16. Loans smaller than \$50,000 made up 71% of all loans issued, it said.

An SBA spokesman declined to comment Thursday on cooling demand for the loans. Treasury Secretary Steven Mnuchin has defended the program, saying the primary objective was to help people employed by small businesses continue to get a paycheck and keep staff off unemployment rolls.

Or as Mr. Ott put it: "It really wasn't the small business protection program. It was the paycheck protection program."

At Crestline Hotels & Resorts LLC, a Virginia-based hotel management company, Ed Hoganson, executive vice president and chief financial officer, initially expected all of the group's 121 hotels, owned by individuals and investors, would receive PPP loans, having laid off 80% of their workers.

But nearly half of the properties either returned funds or decided not to proceed with their applications in recent weeks. They are owned by publicly traded real-estate investment trusts.

"My understanding is REITs are still eligible but they came under quite a bit of scrutiny and poor public relations that drew attention to them," Mr. Hoganson said. "Now they are saying they will refrain from applying."

Mr. Garner of the Glory Days Grill chain said PPP funds of \$100,000 to \$200,000 received by each location remain mostly untouched, as he waits for fixes to the program that would allow more time and flexibility.

Lawmakers have signaled such changes may be coming, either through guidelines from the Treasury Department and the SBA or as part of the next stimulus package.

Sen. Marco Rubio (R. Fla.), chairman of the Senate small business panel and a main architect of the PPP, said he is pushing Treasury to issue clear guidance on loan forgiveness to allow more flexibility for the 75% payroll requirement if businesses rehire employees by June 30.

"We are hearing from a lot of businesses, 'We can't do 75% in the next eight weeks for a lot of reasons,'" Mr. Rubio said in a video posted Tuesday on Twitter. "This loan will be forgivable. This was never designed to be a loan program. It was designed to be almost like a grant program."