RESEARCHBRIEF
AUGUST 2020

The Banks' Take on the Paycheck Protection Program

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The stated goal of the Small Business Paycheck Protection Program (PPP), a key element of the CARES Act, was to provide small businesses with the resources they need to maintain their payroll, hire back employees who may have been laid off, and to cover other necessary expenses.[1] It may be surprising that PPP has provided $19 billion to the banking sector overall, including $3.6 billion to the nation's ten largest banks. There were alternatives: the banks' fees could have been much lower; the Small Business Administration or the IRS could have managed the program directly, much as direct lending limited the lucrative high-fee, no-risk handout for banks in student lending; or the funds could have been added to the Economic Impact Payments, the one-time cash payment of $1,200 to each adult and $500 to each child, a more progressive way to support people and stimulate the economy.

Lack of transparency concerning which businesses received loans through the PPP raised red flags from the start. With a spending authority of $521 billion before June 30th, the PPP was nearly one fourth of the $2 trillion CARES Act. Its purpose was to subsidize businesses that limited layoffs and maintained payrolls. Through the PPP, the U.S. government offered loans of up to $10 million that are "forgivable" (effectively outright grants) to businesses with fewer than 500 employees that limited their layoffs and used the loan proceeds for qualifying categories, including payroll and benefits, state payroll taxes, and even mortgage interest, rent, and utilities.
When news leaked that several giant multinational corporations asked for and received millions of dollars for their business enterprises, while many small firms desperate for funding got nothing, public outcry was so strong that the Big Takers shamefacedly announced that they would return the funds. Despite the permissive

*The authors are listed in alphabetical order. They thank Good Jobs First's Covid Stimulus Watch for access to the Paycheck Protection Program individual loan-record data and Jennifer Taub, Professor of Law, Western New England University School of Law, for helpful comments

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language of the enabling statute which technically allowed big business to get this money, facing the heat, Treasury Secretary Steven Mnuchin "clarified" through new guidance that these firms should not have been at the trough to start with. In contrast to ARRA for which every grant was carefully documented, Mnuchin resisted pressure for months to provide any accounting of the funds distributed under PPP. Eventually Treasury relented and released information on loans but only in ranges, such as $150,000 to $350,000 or $5 million to $10 million, for loans exceeding $150,000 and without recipient names for loans less than $150,000. The public interest organization Good Jobs First has facilitated public access to the PPP data through its project Covid Stimulus Watch.[2]

To date media focus has largely been on recipient conflicts of interest and large corporations tucking into a pie intended for small business. The PPP has proven of limited value for providing paycheck protection to workers or to small businesses (in the colloquial sense of mom-'n'-pop or other truly small entrepreneurs). The United States has long classified firms with up to 500 employees as Small Businesses, meaning that some pretty large operations are included. Furthermore, franchises, which are nominally small businesses but would be more accurately described as managed outposts of large corporations,[3] are included as small businesses. Finally, while the PPP was supposed to limit layoffs, firms could still keep the money as if it were a grant, not a loan, and in fact lay off their employees if they planned to use the funds to rebuild the workforce at a later more propitious date.

But the end recipients of PPP grants are not our main concern. Less attention has been paid to the boon PPP has been for the banks who have merely intermediated between the government and the private sector, but without any risk. The actual disbursement of PPP was not as direct federal grants administered by the Small Business Administration, but as guaranteed loans, and the nation's lenders were entrusted with the technical details of the loan disbursement.

The lenders receive full compensation from the U.S. Treasury both for the forgiven portion of the loan and for any portion of the loan that remains due but unpaid. For their minimal role of verifying the application paperwork and the confirming that receipts fall into eligible spending categories -- activity that does not really constitute underwriting in the sense of banks assuming risk -- the lenders collect a fee of 1% to 5% of the loan value, direct addition to bank revenues and profit. Loans up to $350,000 generate a fee of 5% (up to $17,500 per loan); loans of $350,000 to $1,000,000 generate a fee of 3% (between $10,500 and $30,000 per loan), and loans between $1,000,000 and $10,000,000 generate a fee of 1% (between $10,000 and $100,000 per loan).[4]

For comparison, in what many consider an outrageously large service fee, JP Morgan Electronic Financial Services collects $0.95 per person per month for each SNAP case to administer the Electronic Benefit Transfer in New York State.[5] A PPP loan of $150,000 generates a service fee of $7,500, thousands of times larger than the already overpriced SNAP service fee -- with no risk and similar demands for documentation. Banks did not carry out any of the credit-market functions of underwriting; the banks' role in PPP was limited to extremely well compensated check signing.

Using data from COVID Stimulus Watch and accounting for the variation in the lender's fee by loan size, a reasonable estimate of the total bank haul on the $565 billion disbursed in PPP awards as of June 30 is $19 billion, which is included along with other summary information on the PPP in Table 1.[6] A tidy profit for zero-risk lending.

Indeed, while the lending sector was a relatively minor recipient of PPP loan awards -- its $2.6 billion in PPP loan awards ranked the credit and banking sector 41st among 101 economic sectors -- the addition of $19 billion in PPP lenders' fees substantially improves the performance of the credit sector among the sectors of the U.S. economy enjoying PPP support. With a net haul of $21.6 billion, the credit and banking sector pops up to the sixth best

TABLE 1: Summary of the Paycheck Protection Program

Value of Awards	$564,711,021,580
Number of Awards	4,601,704
Participating Lenders	5,570
Lenders' Fees	$19,022,675,079
Jobs Reported Retained	51,125,463
Award per Retained Job	$11,046
Fees per Retained Job	$372
Foregone jobs due to Lenders Fees.	2,130,540

Source: Authors' tabulation of U.S. Treasury data through 2020/06/30 on Paycheck Protection Program loan awards, via Good Jobs First, COVID Stimulus Watch.

Notes: Three awards were deleted from the data because they lacked all information except award range and lender. For loans above $150,000, loan award categories were converted to the midpoint value of the range reported by Treasury; e.g., $350,000 to $1,000,000 was converted to $675,000. Foregone retained jobs due to Lenders Fees is the total value of lenders fees divided by the average award per reported retained job.

supported sector, behind only professional services; doctors offices and clinics; building trades; food services and drinking places; and administrative services in receiving PPP support, and well ahead of educational services, nursing homes, and social service nonprofits. Needless to say, many of the top bank recipients of PPP funds are not small businesses even by the broad 500-employee definition.

TABLE 2: Receipt of Paycheck Protection Program Funds, by Sector

	Sector	Value of Awards
1	541 Professional, Scientific, and Technical Services	$72,087,327,931
2	621 Ambulatory Health Care Services	$47,234,460,913
3	238 Specialty Trade Contractors	$43,274,221,370
4	722 Food Services and Drinking Places	$36,744,436,506
5	561 Administrative and Support Services	$26,137,823,910
6	522 Credit Intermediation and Related Activities including PPP Lender Fees	$21,617,744,102
7	423 Merchant Wholesalers, Durable Goods	$19,862,279,326
8	236 Construction of Buildings	$18,745,432,771
9	441 Motor Vehicle and Parts Dealers	$17,081,465,105
10	813 Religious, Grantmaking, Civic, Professional, and Similar Organizations	$14,901,031,876

Source: Authors' tabulation of U.S. Treasury data through 2020/06/30 on Paycheck Protection Program loan awards, via Good Jobs First, COVID Stimulus Watch.

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Around 5,600 lenders participated in the PPP disbursement. (There are roughly 5,200 commercial banks in the United States; so participation among banks was widespread, and the remainder of participating lenders included credit unions.) For smaller lenders, the PPP fees may constitute a rather substantial share of total bank revenue and profits. S&P Global Market Intelligence identified some 30 banks for whom PPP activity exceeds their previous year's revenue.[7] For larger lenders, the sheer volume of PPP activity has generated very large fees. For the nation's two largest banks, JP Morgan Chase and Bank of America, PPP fees exceed $2 billion.

Sensitive to the optics of profiting substantially from a program designed to support small business, the largest two PPP lenders, JP Morgan Chase and Bank of America have pledged to donate their fees, after expenses, to businesses that did not receive loans under the PPP. The New York Post quoted a Chase spokesperson, "We will not earn a profit from the program … and remain fully committed to supporting underserved communities that have been economically impacted by the pandemic."[8] However, these two pledges are entirely unmonitored, as is the calculation of the pre-donation expenses, which could include executive salaries. And the vast majority of the almost 6,000 participating lenders have made no commitment whatsoever.

The stated goal of the PPP was to encourage worker retention, and businesses were required to report the number of jobs preserved by the PPP loan as part of the application. The loan limit for each business was set at 2.5 times the average monthly payroll of the previous year with an absolute loan cap of $10,000,000; so businesses had no particular incentive to massage their job-retention predictions. The median cost in PPP award per retained job was just under $9,000 and the average was just under $14,000, although there was substantial variation among PPP loans with an interquartile range of $4,700 to $17,300 in awards per reported retained job.

TABLE 3: Receipt of Paycheck Protection Program Funds, by Sector

	Sector	Value of Awards	Number of Awards	Fees	Jobs Retained	Fees per Job	Potential Jobs Lost to Fees
1	JPMORGAN CHASE BANK	$31,928,024,943	269,085	$1,101,985,747	2,762,401	$399	123,422
2	BANK OF AMERICA	$27,510,539,284	333,514	$989,967,464	3,112,063	$318	110,876
3	TRUIST BANK D/B/A BRANCH BANKING & TRUST	$14,438,079,887	77,717	$446,911,994	1,045,079	$428	50,054
4	PNC BANK	$14,263,471,117	70,326	$420,740,056	1,088,723	$386	47,123
5	WELLS FARGO BANK	$9,006,368,155	122,223	$333,340,908	0	Inf	37,334
6	TD BANK	$9,206,277,940	81,314	$314,973,397	421,421	$747	35,277
7	US BANK	$8,119,711,360	99,787	$298,074,568	862,436	$346	33,384
8	KEYBANK	$8,857,574,741	40,593	$258,612,237	779,591	$332	28,965
9	CROSS RIVER BANK	$5,688,751,859	133,415	$254,483,093	664,429	$383	28,502
10	ZIONS BANK	$7,651,107,002	46,667	$236,683,850	1,959,265	$121	26,509

Source: Authors' tabulation of U.S. Treasury data through 2020/06/30 on Paycheck Protection Program loan awards, via Good Jobs First, COVID Stimulus Watch.

Notes: Three awards were deleted from the data because they lacked all information except award range and lender. For loans above $150,000, loan award categories were converted to the midpoint value of the range reported by Treasury; e.g., $350,000 to $1,000,000 was converted to $675,000. Foregone retained jobs due to Lenders Fees is the total value of lenders fees divided by the average award per reported retained job. Sectors are defined by three-digit NAICS codes.

Taking the businesses at their word regarding jobs retained, we compute the number of additional jobs that the banks' share of PPP -- for doing *nothing* -- could have retained elsewhere in the economy. For instance, JP Morgan Chase, the top lender of PPP loans, made 269,085 awards disbursing a total of $31.9 billion which preserved 2,760,000 jobs and earned JP Morgan Chase an estimated $1.1 billion in fees. If the U.S. Treasury funds paid as fees to JP Morgan Chase had been instead disbursed as PPP loans, roughly 123,000 more jobs would have been saved. Overall, the payments to lenders equate to foregoing the retention of around 2.1 million jobs.

PPP has many flaws and there have been many allegations of dubious or even fraudulent awards, and full investigation is needed. One component has been an above board transfer in broad daylight of $19 billion from the public to banks, the sector of the U.S. economy that has been the object of the greatest public largesse and least needs the additional profit at public expense. The transfer is not free; significant opportunities to support and to reemploy displaced Americans have been foregone to further enrich the banking sector.

Endnotes

1 Program details are from the U.S. Small Business Administration, Paycheck Protection Program, the U.S. Treasury, The CARES Act Provides Assistance to Small Businesses, and Kelly Ann Smith, Congress Approved More Funding For The Paycheck Protection Program. Here's What You Need To Know, Forbes, April 22, 2020.

2 There are significant concerns about the quality of the data released by Treasury. See Mark Niquette, Matthew Townsend, and Hannah Levitt, Did PPP Work? Data Errors Raise Concern About Effectiveness, Bloomberg.com, July 13, 2020.

3 Brian Callaci, "Control without responsibility: The legal creation of franchising 1960-1980," Washington Center for Equitable Growth, 2018.

4 Because the fee rate shifts from 5% to 3% at an award threshold of $350,000 and from 3% to 1% at an award threshold of $1,000,000, there are substantial discontinuities at awards of $350,000 and $1,000,000. If we had the detailed data with the exact amounts of awards, we could check if banks select loan size strategically to keep the loans slightly below the threshold at which the fee rate dips.

5 Virginia Eubanks, "How Big Banks Are Cashing In On Food Stamps," The American Prospect, February 14, 2014.

6 Early coverage of the bank take included David Benoit and Peter Rudegeair, Banks Could Get $24 Billion in Fees From PPP Loans, Wall Street Journal, July 7, 2020 and S&P Global Market Intelligence, US banks stack millions in PPP loan fees, but risks abound, July 6, 2020.

7 S&P Global Market Intelligence, US banks stack millions in PPP loan fees, but risks abound, July 6, 2020.

8 Thornton McEnery, Here's how much money banks snagged for distributing PPP funds, NY Post, July 7, 2020.

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