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# EXPLAINER

**CONGRESSIONAL  
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## A COMPARISON OF THE PAYCHECK PROTECTION PROGRAM AND THE PAYCHECK GUARANTEE ACT

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### Background

As the number of layoffs in the wake of the coronavirus began to climb, Congress responded with the creation of the Paycheck Protection Program (PPP) in the CARES Act which was signed into law March 27, 2020. These funds, intended to increase fluidity for small business by setting up a lending facility to provide loans to keep small businesses afloat, quickly ran out of funds.

On April 21, 2020, Congressional leaders reached agreement on an amendment to H.R. 266. The amendment would address the shortfall in funding allocated for the PPP by providing an additional \$310 million to the program.

On April 10, 2020, Rep. Pramila Jayapal announced the [Paycheck Guarantee Act](#). Rather than focusing on singular loans to small businesses, the Paycheck Guarantee Act would stop mass layoffs by providing funding to businesses to directly cover workers' payroll and benefits for three months. Businesses of all sizes facing covid-19 related revenue shortfalls would be eligible, and the program would automatically renew monthly until economic indicators show we are nearing a return to pre-crisis levels of consumer demand, job vacancies, and unemployment rates.

### The Paycheck Protection Program

The PPP initially provided \$349 billion in loans to small businesses. The loans were initially made available to all businesses with 500 or fewer employees and were forgivable as long as a) the borrowers use the loans to a) "cover payroll costs, and most mortgage interest, rent, and utility costs over the 8 week period after the loan is made;" and; b) "employee and compensation levels are maintained."<sup>1</sup> On April, 3, 2020, the PPP began to make loans to businesses. By April 16, 98 percent of the funds had been exhausted.

While Congress did act to replenish the funds, as discussed above, it remains unclear how long the funds will last and how effectively the PPP will get funds to the small businesses that need them without more thorough oversight of the PPP.

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<sup>1</sup> U.S. Department of the Treasury. Paycheck Protection Program Information Sheet: Borrowers. Available at <https://home.treasury.gov/system/files/136/PPP--Fact-Sheet.pdf>. Last accessed April 22, 2020

Small Business owners that want to apply must do so via a limited number of banks approved by the Small Business Administration. However, the PPP failed to reach a broad swath of small businesses, as just 4 percent of borrowers accounted for 44 percent of the loans approved.<sup>2</sup> In the initial round of lending, minority owned businesses repeatedly expressed difficulties accessing this tranche of loans, as did numerous small business owners without an existing relationship with their bank. The Center for Responsible lending found that roughly 90 percent of businesses owned by people of color were left out of the initial round of PPP lending. As well, larger corporations like Ruth's Chris Steakhouse and Shake Shack applied for and received PPP loans (in the case of Shake Shack, the \$10 million loan was returned).

To address the concerns about reaching minority owned businesses and more small businesses, the amendment to H.R. 266 includes \$60 billion disbursed through small and mid-size banks, credit unions, community development financial institutions (CDFIs), minority depository institutions, community development corporations, and microloan intermediaries. On April 22, Treasury Secretary Mnuchin announced additional qualification guidance for companies wishing to borrow from the PPP is forthcoming.

## **The Payroll Guarantee Act**

When the CARES ACT was passed, 3 million people had filed for unemployment benefits due to the coronavirus outbreak. As of April 30, 2020, 27 million additional unemployment claims had been filed.

In an effort to end the wave of mass layoffs, Rep. Pramila Jayapal proposed the Paycheck Guarantee Act (PGA). The Act would create a simple program to cover 100 percent of workers' wages and benefits (up to \$100,000 per employee) for businesses facing covid-19 related revenue shortfalls. Employers would be incentivized to rehire employees since the program would apply to furloughed or laid off after March 1, 2020. The program requires conditions protecting workers such as: retaining all employees, a ban on stock buybacks, executive bonuses, and increased dividends; and preserving existing collective bargaining agreements. The PGA also includes strong protections against employer fraud or abuse.

The grants would be administered by the U.S. Department of the Treasury based on the business' 2019 quarterly tax returns. This would prevent gaming of the program for additional funds. This delivery mechanism would also ensure speedy disbursement of these funds and the lack of a decentralized, disparate application process would eliminate the barriers faced by minority-owned and small businesses under the PPP.

A paycheck guarantee is a simpler, more efficient and effective way to make sure workers can remain on payroll and continue to receive their paychecks and benefits all while ensuring businesses are ready to ramp up when economic and public health conditions improve.

Because the PGA does not require an employer to go through a bank to apply for the grant, minority-owned businesses and smaller businesses are more likely to be able to access this program without facing systemic or structural barriers. Moreover, the PGA provides stronger

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<sup>2</sup> Small Business Administration. Paycheck Protection Program Report. Available at [https://www.sba.gov/sites/default/files/2020-04/PPP%20Deck%20copy.pdf?mod=article\\_inline](https://www.sba.gov/sites/default/files/2020-04/PPP%20Deck%20copy.pdf?mod=article_inline)

conditions for workers, including the creation of a labor-management partnership process to conduct oversight of the administration of funds.

Preventing long-term unemployment and keeping people in their jobs are important goals. The PGA is the most effective and direct route to achieve them.