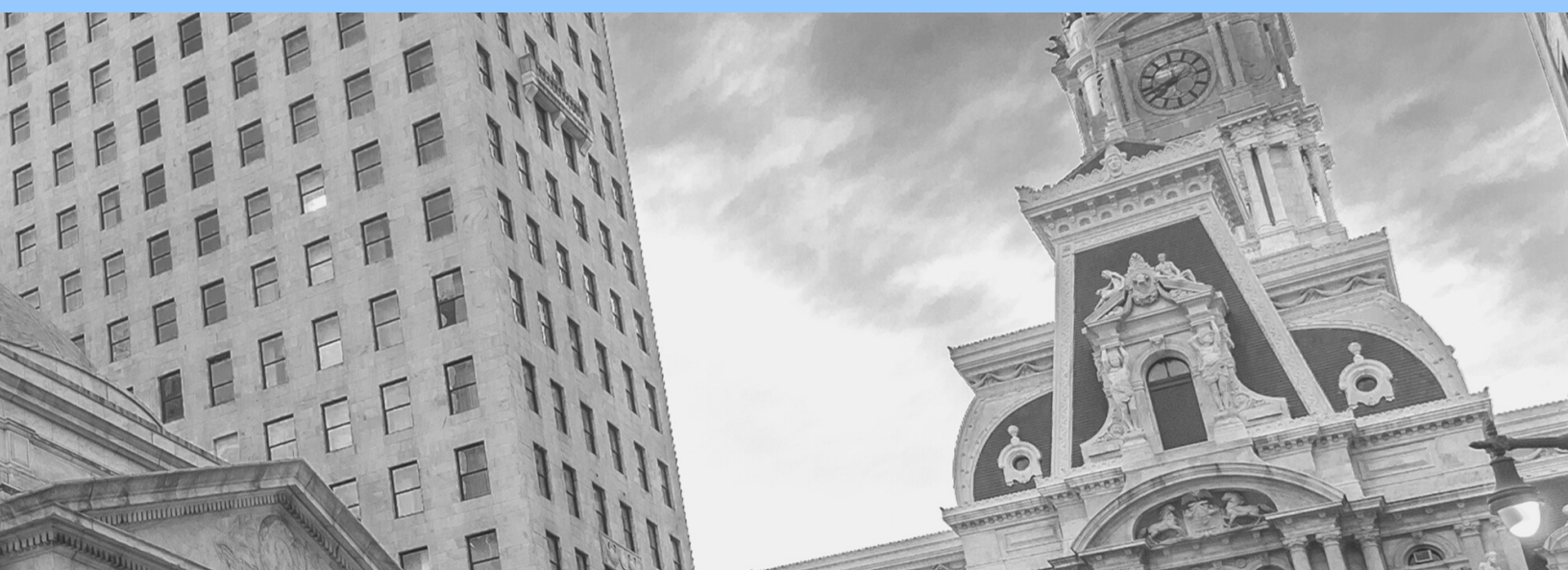




Impacts of COVID-19 Across Philadelphia's Neighborhoods

Part 4: The Paycheck Protection Program



**City Controller
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Part 4: The Paycheck Protection Program

This report is part four in an ongoing series about the effects of the COVID-19 pandemic on Philadelphia’s small business community. This installment focuses on the Paycheck Protection Program (PPP), a \$669B loan program funded through the CARES Act and administered by the federal Small Business Administration to meet the needs of small businesses affected by COVID-19. The PPP loan program began in April and continued to take applications through the first week of August. The program was created with the purpose of “providing a direct incentive for small businesses to keep workers on the payroll”¹ by offering complete loan forgiveness if at least 60% of funds were used for employee wages. The PPP loans are otherwise subject to a 1% interest rate and two- or five-year terms (depending on the date of enrollment).

The PPP loans, along with City and State efforts, have sought to meet the needs of small businesses to ensure that they remain open and residents maintain employment. The PPP loan program is the most robust of its kind in Philadelphia, providing at least \$1.5B in loans for about 16,000 businesses. This federal program is vastly larger in scale and resources than local programs such as the City’s Small Business Relief Fund, which targeted \$13.3M in small loans and grants to small businesses across the city.

As shown in the [previous installments](#) in this series, certain industries and areas of the city are more vulnerable to the effects of COVID-19 than others. This report analyzes the distribution of the loans across the city to examine which businesses and neighborhoods have been targeted so far and explore how national and local banks have played a role in meeting the business community’s needs.

PPP Loan Distribution Across Businesses

About 16,000 loans went to businesses in Philadelphia, a significant majority of which (85%) were small loans totaling less than \$150,000. Financial data for loans over \$150,000 was released in ranges, so the exact amount of these loans is unknown. Using the minimum range of the large loans in addition to the known loan amounts of small loans, we estimate that Philadelphia received at least \$1.5B in PPP loans, which went to both employer (at least one paid employee) and non-employer (no paid employees) small businesses. Across the city, 47% of all employer small businesses received PPP loans, a coverage rate similar to other major cities.²

	Philadelphia	Chicago	Houston	Los Angeles	New York City	Phoenix
Employer Coverage	47%	51%	52%	50%	50%	48%

¹ <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

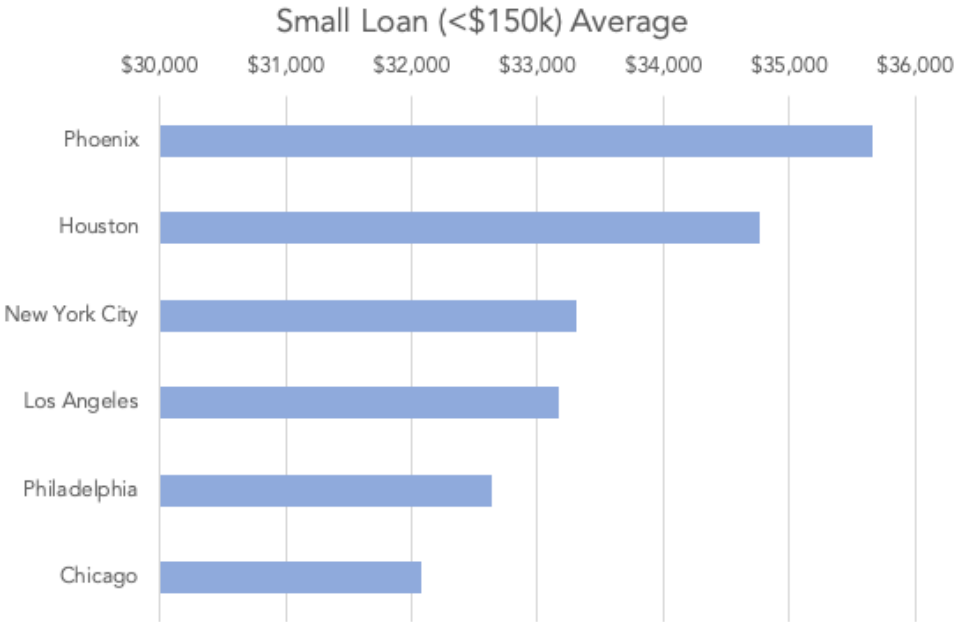
² U.S. Census Bureau, 2018 ZIP Code Business Patterns.

When comparing Philadelphia’s share of PPP loans relative to the total amount distributed in Pennsylvania, Philadelphia received slightly less than would be expected, given its share of the state’s small businesses. While Philadelphia has 13% of the state’s total number of employer small businesses, it received just 10% of the state’s total number of loans. As seen in the table below, this disparity was not unique to Philadelphia: the loan to business share ratio fell below 1 across the other top five US cities.

Distribution of Businesses & Small Loans Across Top US Cities			
City	City share of state total loans	City share of state small businesses	Loan to business share ratio
Philadelphia	10%	13%	0.79
Los Angeles	8%	10%	0.88
New York City	44%	51%	0.86
Chicago	20%	25%	0.82
Houston	14%	18%	0.77
Phoenix	23%	31%	0.76

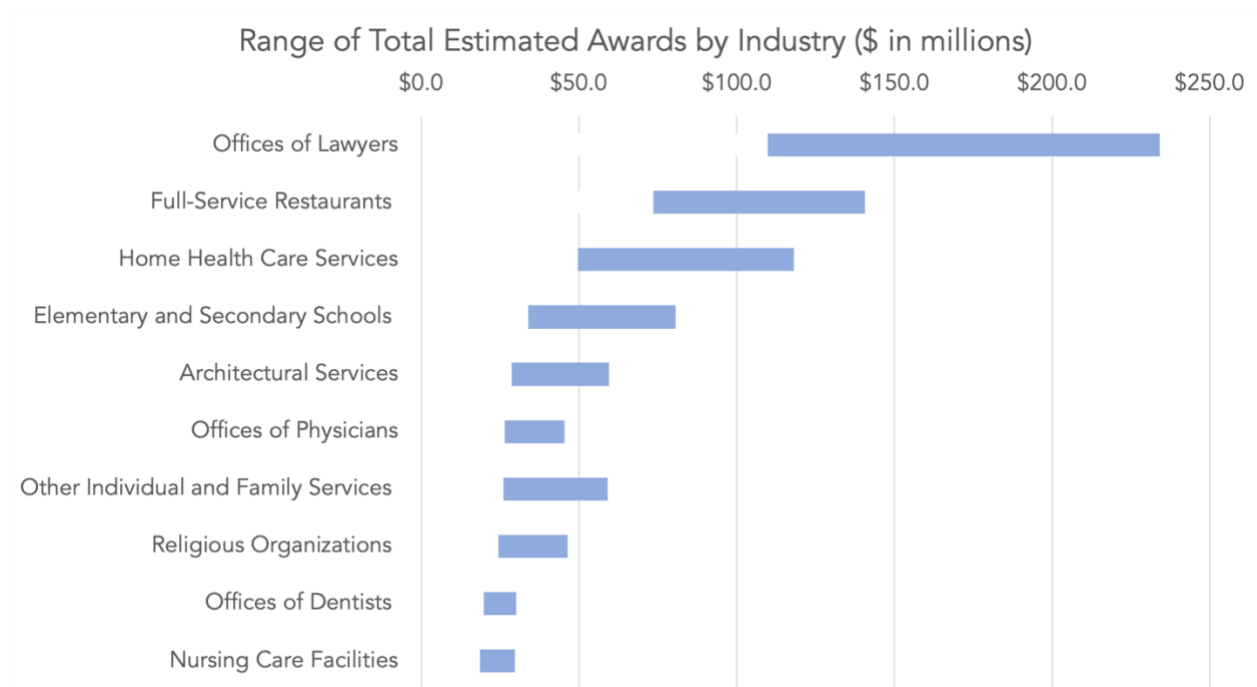
Sources: U.S. Census Bureau, ZIP Codes Business Patterns (2018); Small Business Administration, State Profiles (2020)

Philadelphia’s average small loan award was the second smallest compared to the five other largest cities, at about \$32,600 per small loan. Small loans to Philadelphia were about \$3,000 less on average than small loans to Phoenix. One reason for this disparity may be differences in minimum wage laws across cities and states, an issue discussed in more detail in the next section.



Loan Distribution Across Industries

In Philadelphia, law offices received the most in PPP funds, totaling at least \$110M across 677 small and large PPP loans. Due to apparent data reporting errors for some industries, we are unable to estimate the share of businesses that received PPP loans across different industries. However, with an estimated 1,000 law offices in the city, the reported loans distributed to law offices would provide an exceptional coverage rate of about 70% across the industry. Restaurants, social services, and religious organizations also received large amounts of PPP funds. The top industries by total loan amount are listed in the chart below. Large loans (>\$150k) contributed to the large amounts of funds received by these industries, with large loans to these ten industries alone making up 32% of all large loans distributed in Philadelphia.



A closer look at the distribution of small loans provides further insight into which industries benefited from the PPP program, since the exact amount of small loans were published by the SBA. Some of the top overall loan recipients – law offices, restaurants, and doctor offices – received small loans that on average exceeded the average small loan in Philadelphia by \$10,000. Among these top recipients, dentist offices had the highest average small loan at \$51,000, more than twice the \$21,000 average loan awarded to beauty salons. Differences in average salaries across industries may explain these disparities since the PPP loans are intended to cover payroll costs. The list of the top small loan recipients in Philadelphia is listed below.

Small PPP Loans in Philadelphia for the Top Ten Industries by Total Awarded				
Rank	Industry	Total Number	Total Amount	Average Award
1	Full-Service Restaurants	661	\$29,475,727	\$44,593
2	Offices of Lawyers	479	\$20,870,577	\$43,571
3	Offices of Dentists	253	\$12,896,477	\$50,974
4	Limited-Service Restaurants	418	\$12,428,101	\$29,732
5	Offices of Physicians	251	\$12,180,842	\$48,529
6	Child Day Care Services	280	\$11,431,169	\$40,826
7	Religious Organizations	257	\$9,730,594	\$37,862
8	Offices of Real Estate Agents	362	\$8,848,832	\$24,444
9	Beauty Salons	290	\$6,194,721	\$21,361
10	All Other Miscellaneous Stores	240	\$6,141,901	\$25,591

Source: SBA (2020)

As seen in the table below, offices of lawyers, physicians, and dentists in Philadelphia received higher small loans on average (with the exception of dentist offices in Phoenix). Full-service and limited-service restaurants in Philadelphia received lower small loans on average compared to all other major cities. This disparity is significant, given that Philadelphia has the largest share of small businesses in the food service industry (13.8%) among these top cities.³

Rank	Industry	Average Award					
		Philadelphia	Chicago	New York City	Los Angeles	Houston	Phoenix
1	Full-Service Restaurants	\$44,593	\$50,730	\$45,823	\$51,490	\$47,703	\$51,642
2	Offices of Lawyers	\$43,571	\$39,409	\$37,172	\$38,567	\$36,717	\$40,297
3	Offices of Dentists	\$50,974	\$43,718	\$44,717	\$40,810	\$48,343	\$53,167
4	Limited-Service Restaurants	\$29,732	\$39,223	\$35,410	\$41,610	\$38,209	\$44,433
5	Offices of Physicians	\$48,529	\$40,166	\$45,097	\$40,513	\$44,210	\$44,867
6	Child Day Care Services	\$40,826	\$37,796	\$32,633	\$27,068	\$42,582	\$67,028
7	Religious Organizations	\$37,862	\$36,736	\$43,217	\$40,014	\$42,348	\$37,090
8	Offices of Real Estate Agents	\$24,444	\$23,658	\$25,141	\$25,114	\$22,846	\$18,925
9	Beauty Salons	\$21,361	\$22,655	\$20,032	\$17,047	\$17,972	\$14,346
10	All Other Miscellaneous Stores	\$25,591	\$23,646	\$23,389	\$27,051	\$26,157	\$29,846

Source: SBA (2020)

One possible explanation for the difference in loan amounts to businesses in these cities is that every city listed here except for Philadelphia and Houston has a local or state policy mandating hourly compensation above the federal minimum wage of \$7.25, including jobs that involve tips as a form of compensation. Philadelphia and Houston, however, require that an employee's hourly base pay plus tips only meets the federal minimum wage of \$7.25. Because Philadelphia is subject to a preemption law that prohibits municipalities from passing wage-related ordinances affecting private sector employees, changing the local minimum wage will require state legislative action.⁴ Because PPP funds are intended to cover payroll costs, the amount distributed

³ U.S. Census Bureau, County Business Patterns (2018).

⁴ Act of Jul. 9, 2006, P.L.1077, No.112

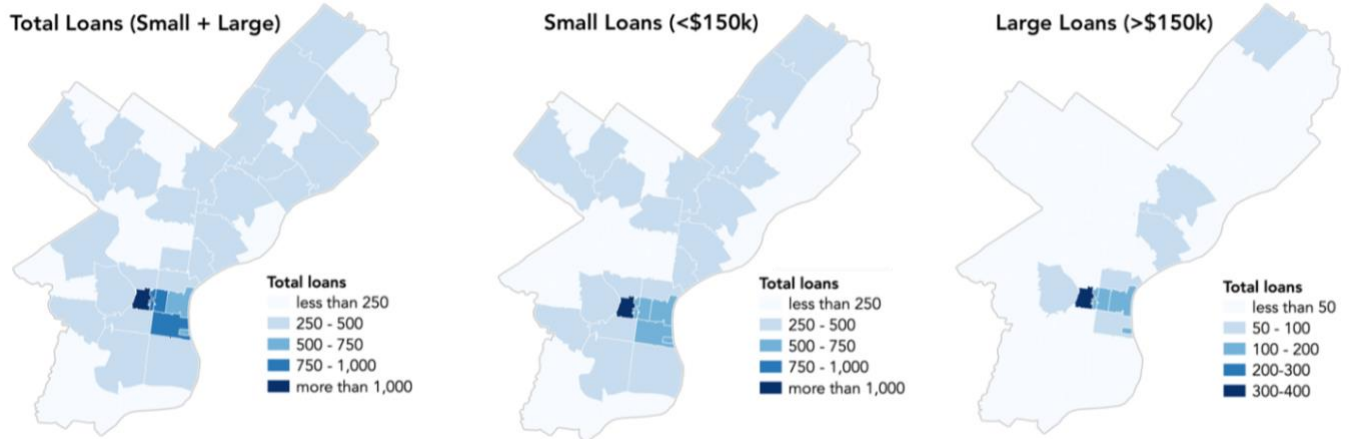
to Philadelphia may be lower as a result of actual payroll wages for hourly and tipped employees being lower due to Philadelphia’s low minimum wage.

Minimum Wage Policies			
City	All		City or State Policy
	Workers	Tipped Workers	
Philadelphia	\$7.25	\$7.25	State
Chicago	\$13.50	\$8.10	City
Houston	\$7.25	\$7.25	State
Los Angeles	\$14.25*	\$12.00**	*City, **State
New York City	\$15.00	\$15.00	State, NYC specific
Phoenix	\$12.00	\$12.00	State

Sources: Department of Labor (2020); City of Chicago (2020)

Loan Distribution Across Philadelphia ZIP Codes

An analysis of PPP loan distribution across Philadelphia’s ZIP codes shows that loans were largely concentrated in Center City,⁵ and that the area received a larger share than expected from its share of the city’s businesses. While 23% of employer businesses are located in Center City, it received 37% of the minimum estimate of total funds distributed to employer businesses across the city.



A comparison of small loan awards to employer businesses across the city’s ZIP codes reveals a disparity between businesses located in Center City and the rest of the city, despite the businesses being in same industry. Without official job retention numbers available, it is impossible to know if these businesses have larger staffs, or if there are other explanations for the disparity between ZIP codes.

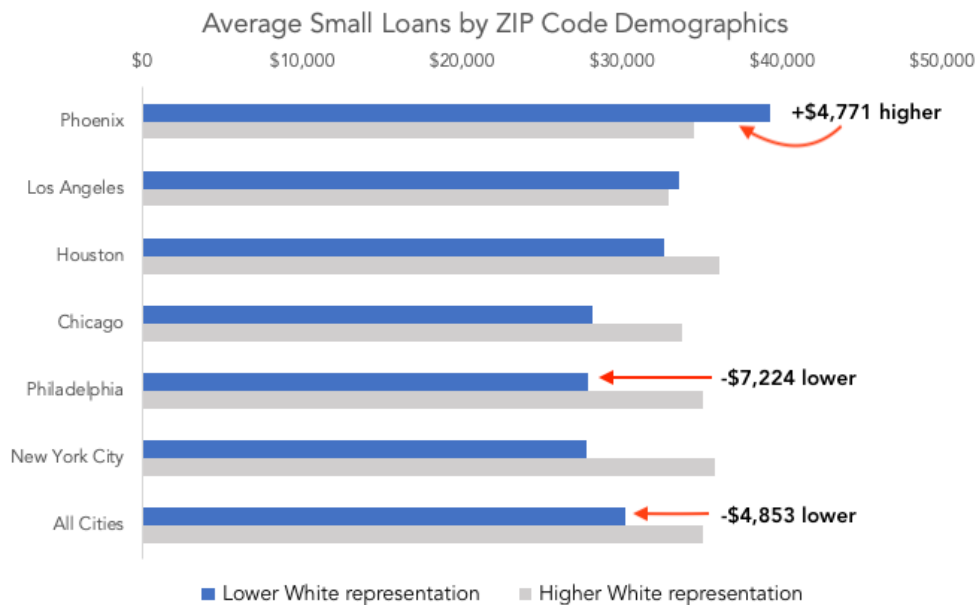
⁵ Center City is defined for this calculation as 19103, 19106, 19107, 19102, 19109, and 19105.

Industry	Center City	Rest of City	Difference
Full-Service Restaurants	\$57,548	\$42,254	\$15,294
Offices of Lawyers	\$53,849	\$40,766	\$13,083
Offices of Dentists	\$64,965	\$52,017	\$12,948
Limited-Service Restaurants	\$39,994	\$29,474	\$10,519
Offices of Physicians	\$74,022	\$52,733	\$21,289
Child Day Care Services	\$87,835	\$43,808	\$44,027
Religious Organizations	\$55,621	\$36,183	\$19,438
Offices of Real Estate Agents	\$41,063	\$29,777	\$11,286
Beauty Salons	\$37,828	\$17,244	\$20,583
All Other Miscellaneous Stores	\$31,698	\$24,220	\$7,477

Source: Small Business Administration (2020)

One of the PPP’s stated goals was to reduce unemployment by ensuring that funds are used for payroll. Our office [previously analyzed](#) unemployment in the wake of COVID-19 and identified the areas of Philadelphia that are most vulnerable to the effects of the pandemic. These neighborhoods also happen to have higher populations from historically disadvantaged groups, with fewer White residents than the overall city population. Ideally, loan programs would target businesses in areas that are most vulnerable to the economic repercussions of COVID-19 and work to address longstanding social and economic inequities that have disproportionately affected communities of color.

The figure below examines the average PPP small loan amount in two groups of ZIP codes: those that are more and less diverse than the citywide average. Across the cities analyzed here, businesses in ZIP codes with higher-than-average minority representation received about \$4,800 less than businesses in ZIP codes with lower-than-average minority representation (\$35k vs \$30k, respectively).



In Philadelphia, we found that, on average, businesses in ZIP codes with higher shares of minority residents compared to the citywide average received about \$7,200 less in small loan funds than businesses with lower shares of minority residents. The disparity is even higher when comparing ZIP codes based on Black representation in Philadelphia: ZIP codes with high Black representation received \$8,300 less on average than ZIP codes with lower Black representation. On this measure, Philadelphia’s disparity is the most significant across the largest US cities.

Lenders

While the PPP program is funded through the federal CARES Act and managed by the SBA, the lending was administered by banks. A comparison of lenders shows that local banks played a significant role in meeting the needs of small businesses in Philadelphia. We analyzed the role of local and big banks in PPP loan distribution by comparing lenders’ share of PPP lending and their deposit market share across the city using depository data from the FDIC.⁶ An index of 1 means that a bank satisfactorily met the lending needs of local businesses; an index of less than 1 means that a bank distributed less PPP loans than it could have as implied by its deposit market share; an index of more than 2 reflects that the bank played an impressive and outsized role in its PPP lending across the city.

Of the top fifteen largest small loan lenders, three locally headquartered banks – Tioga-Franklin Savings Bank, Republic Bank, and Bryn Mawr Trust – had the largest lending to deposit market share ratios. Among the five biggest banks – TD, Wells Fargo, PNC, Bank of America, and Citizens – only TD passed the satisfactory threshold at 2.0. Wells Fargo, the bank with the largest deposit market share in Philadelphia, drastically underperformed with a lending to deposit market share ratio of 0.2. Wells Fargo has the most deposits in the city (\$11.6B) and the highest deposit market share (23%) but only contributed to 5% of PPP lending citywide.

Institution Name - Largest Banks	Deposit Market Share	PPP Loan Share	PPP Loans (\$M)	All Deposits (\$M)	Index
Tioga-Franklin Savings Bank	0.1%	1%	\$3.6	\$31.8	12.4
Republic Bank	1.4%	5%	\$24.0	\$680.0	3.9
The Bryn Mawr Trust Company	0.4%	2%	\$7.0	\$198.8	3.9
Asian Bank	0.3%	1%	\$4.5	\$167.1	3.0
Univest Bank and Trust Co.	0.9%	2%	\$9.7	\$472.3	2.3
TD Bank, National Association	7.0%	14%	\$63.5	\$3,480.9	2.0
Firsttrust Savings Bank	1.8%	3%	\$15.1	\$875.3	1.9
Wilmington Savings Fund Society, FSB	2.7%	4%	\$16.0	\$1,362.4	1.3
Branch Banking and Trust Company	0.9%	1%	\$4.5	\$457.4	1.1
Manufacturers and Traders Trust Company	1.6%	2%	\$7.2	\$819.8	1.0
Citizens Bank, National Association	14.5%	13%	\$60.7	\$7,237.8	0.9
PNC Bank, National Association	18.7%	10%	\$43.5	\$9,302.3	0.5
Santander Bank, National Association	4.5%	2%	\$8.6	\$2,232.2	0.4
Bank of America, National Association	17.4%	4%	\$16.6	\$8,686.9	0.2
Wells Fargo Bank, National Association	23.3%	5%	\$21.1	\$11,615.9	0.2

Source: FDIC (2019)

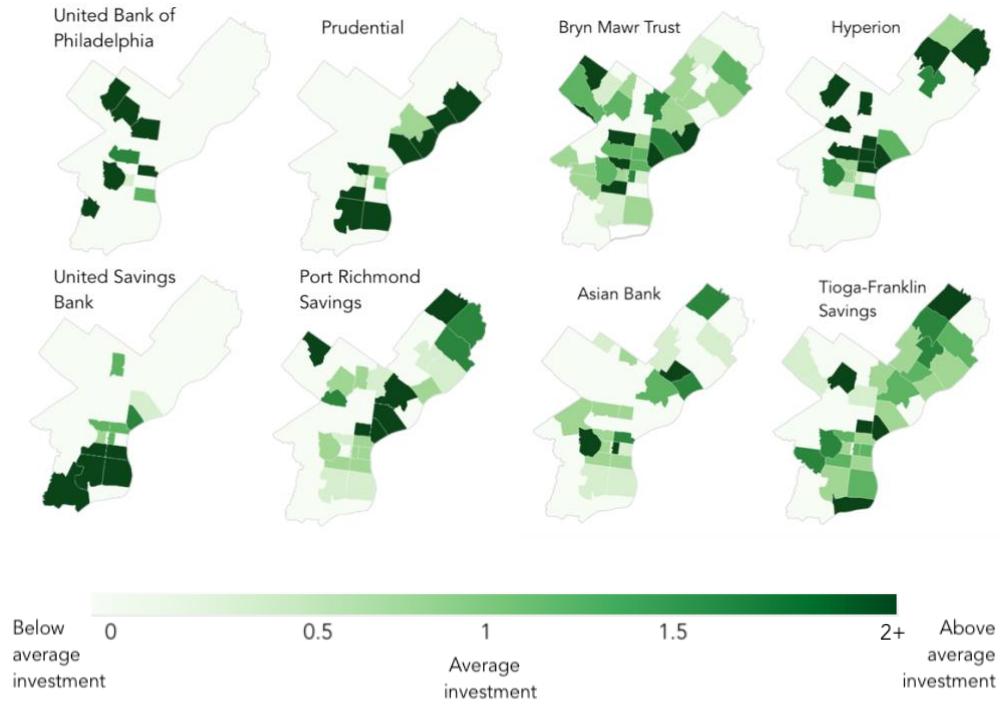
⁶ FDIC, Deposit Market Share Reports as of June 30, 2019

A similar analysis was performed at the ZIP code level, using a bank’s share of PPP lending in a ZIP code and its citywide share of PPP lending. A ratio of 1 means that a bank’s investment in one ZIP code is reflective of its participation in lending across the city; a low ratio reflects that a bank had lower participation in lending in a given ZIP code compared to its citywide lending, and the opposite for a high ratio.

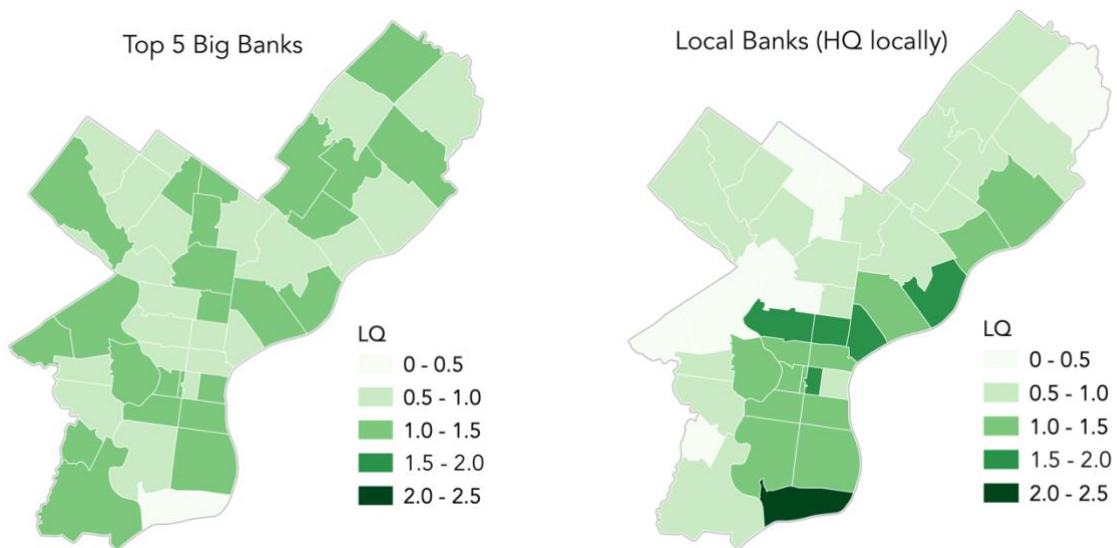
Among big banks, participation in lending was relatively uniform throughout the city. These five banks hold 81% of the deposits in the city and together contributed to 45% of total small loan lending. These large national banks service every area of the city and their business structure seems to be reflected in their lending practices.



Unlike large national banks, local and community banks are more focused on neighborhood banking and investment. These banking practices are reflected in the maps below, which show targeted lending practices by local banks. Citywide, all of these banks scored highly on the lending to deposit market share ratio index.



When combining the lending patterns from all local banks and the top five big banks, clear patterns emerge. Compared to big banks, locally headquartered banks contributed to an outsized share of lending in neighborhoods where big banks lent less than their citywide lending trends, particularly in areas of North and Northeast Philadelphia. Big banks had an outsized share of lending in neighborhoods not as heavily serviced by local banks, especially in West and Northwest Philadelphia.



Conclusion

As the city enters its seventh month of the pandemic and social distancing measures, small businesses continue to face an uncertain future. Congress has yet to decide on a new stimulus package, casting doubt on the possibility of additional federal aid for small businesses. In Philadelphia, unemployment remains at historically high rates, climbing to 18.1% in July and recovering only slightly to 15.4% as of August. In August, nearly 13,000 new unemployment claims were filed by Philadelphia residents; in total, more than 99,000 residents are currently unemployed.⁷

The city's rising unemployment calls into question the success of the PPP in achieving its stated goal: providing incentive for small businesses to keep their workers on their payroll. Some industries, such as food service, experienced high levels of unemployment in the earlier months of the pandemic. When compared to other top US cities, restaurants in Philadelphia received lower small loans on average. This is particularly concerning, given that Philadelphia also has the largest share of small businesses in the food service industry among these top cities. As the economic effects of COVID-19 compound, other industries — particularly health care and social services — make up a growing share of unemployment claims from Philadelphia.⁸

This analysis of PPP data also shows the program struggled to meet the needs of small businesses in historically disadvantaged communities outside the core commercial center of the city. While nearly half of all employer small businesses in Philadelphia received PPP loans, awards were concentrated in densely commercial parts of the city, with Center City receiving almost 40% of all PPP funds distributed in Philadelphia. These neighborhoods also have higher-than-average White populations, contributing to a stark racial divide in PPP loan distribution: ZIP codes with high representations of White populations received \$7,200 more on average in small loans compared to ZIP codes with high minority representation.

As the dynamic of the local economy changes in response to the impact of COVID-19, policymakers will need to take thoughtful, creative, and targeted approaches to meet community needs. These responses must also address the failures of the PPP, particularly in reaching historically disadvantaged neighborhoods, when evaluating the outstanding needs of the city's small business community and its workers. The distribution of PPP loans across the largest US cities draws attention to the pre-existing economic problems facing Philadelphia workers, in particular, the low and uncompetitive wages that lag behind many other major cities and fail to adequately support a basic standard of living for many of our residents. While local government cannot address all of the financial needs of small business owners and workers, effective coordination between city, state, and federal agencies can ensure that the city sets its businesses and residents up for success while ensuring that taxpayers dollars are distributed strategically and used productively.

⁷ PA Center for Workforce Information & Analysis, Pennsylvania Unemployment Compensation Activity. <https://www.workstats.dli.pa.gov/Products/UCActivity/Pages/default.aspx>

⁸ According to a Controller's Office analysis of PA unemployment claims for Philadelphia County filed since mid-March 2020.