A Study of Community Bank-originated PPP Loans on Bankruptcy Rates

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Shun Tomita
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May 5th, 2022
I. Introduction
II. Datasets
III. Exploratory Data Analysis
IV. Statistical Analysis
V. Conclusion & Policy Implications
I. Introduction
SORRY
WE ARE CLOSED
FOR
CORONA VIRUS
COVID-19 PANDEMIC
SMALL BUSINESS IMPACT

1 in 5
TWO MONTHS AWAY FROM CLOSING

SOURCE: US CHAMBER OF COMMERCE

ABC News TV Report on May 14, 2020
“Communities with higher proportions of community bank-originated PPP loans have lower bankruptcy rates”
Community Banks (CBs)

- Closer relationship with local businesses\(^1\)
- Better understanding of local businesses financial needs
- Faster decision-making compared to larger banks

Paycheck Protection Program (PPP)

- Helps small businesses keep their employees on payroll
- Eligible for full loan forgiveness when 60% spent on payroll

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II. Datasets
**PPP data**

- Full PPP dataset provided by SBA
- PPP loan dataset by CSBS

→ Combined two PPP datasets to obtain the community bank indicator

**Bankruptcy data**

- Bankruptcy filings data by county provided by the United States Courts

\[ \text{Total bankruptcy} = \text{Business bankruptcy} + \text{Non-Business} \]
III. Exploratory Data Analysis
1. PPP data

1) Number of PPP Loans Approved across First Draw Period

![Graph showing the number of PPP loans approved over time, with peaks during the 1st and 2nd rounds.]
### 1. PPP data

#### 2) Number/Share of PPP First Draw Loans with Date Approved in First Two Months

<table>
<thead>
<tr>
<th></th>
<th>First Draw PPP Loans with Date Approved in first two months</th>
<th>First Draw PPP Loans in Entire PPP Period</th>
<th>Share of First Draw PPP Loans with Date Approved in first two months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of PPP Loans</td>
<td>4,404,126</td>
<td>8,614,374</td>
<td>51.13%</td>
</tr>
<tr>
<td>Total Initial Approval Amount of PPP Loans</td>
<td>$504 billion</td>
<td>$589 billion</td>
<td>85.60%</td>
</tr>
</tbody>
</table>

First draw PPP loans are **heavily concentrated in the first two months**, in terms of number and amount.
1. PPP data

3) Number of PPP Loans Approved across Counties

Los Angeles, CA
208,087 PPP loans approved
1. PPP data

4) Share of PPP Loans Provided by Community Banks across Counties
2. Bankruptcy data
1) Business Bankruptcy Rates across Counties

Percentage of bankrupt businesses out of all businesses in county (%)
IV. Statistical Analysis

- Model
  - Results & Interpretations
  - Limitations
$Y_i = \alpha + \beta_1 \text{CBPercentage}_i + \beta_2 \text{Population}_i + \beta_3 \text{GDP}_i + \beta_4 \text{NumBiz}_i + \sum_t \gamma \text{CovidCases}_{it} + e_i$

- **$Y_i$**: the outcome variable, the number of total bankruptcy / business bankruptcy in county $i$. The data in four different periods are used.

- **$\text{CBPercentage}_i$**: the variable of interest, the percentage of the number/amount of loans originated by community banks in county $i$ (two different variables of interest)
Model - Specification

\[ Y_i = \alpha + \beta_1 \text{CBPercentage}_i + \beta_2 \text{Population}_i + \beta_3 \text{GDP}_i + \beta_4 \text{NumBiz}_i + \sum_t \gamma_t \text{CovidCases}_{it} + e_i \]

- \text{Population}_i \quad \text{population in county } i \text{ as of April 1, 2020}
- \text{GDP}_i \quad \text{GDP in county } i \text{ in 2020}
- \text{NumBiz}_i \quad \text{the number of businesses in county } i \text{ in 2019}
- \text{CovidCases}_{it} \quad \text{the number of Covid-19 cases in county } i \text{ in period } t
# Model - Variations

<table>
<thead>
<tr>
<th></th>
<th>Total Bankruptcy</th>
<th>Business Bankruptcy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Without State-fixed Effects</td>
<td><strong>Regression 1</strong></td>
<td><strong>Regression 2</strong></td>
</tr>
<tr>
<td>With State-fixed Effects</td>
<td><strong>Regression 3</strong></td>
<td><strong>Regression 4</strong></td>
</tr>
<tr>
<td></td>
<td>Total Bankruptcy</td>
<td>Business Bankruptcy</td>
</tr>
<tr>
<td>------------------------</td>
<td>------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Without State-fixed</td>
<td><strong>Regression 1</strong></td>
<td><strong>Regression 2</strong></td>
</tr>
<tr>
<td>Effects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>With State-fixed</td>
<td><strong>Regression 3</strong></td>
<td><strong>Regression 4</strong></td>
</tr>
<tr>
<td>Effects</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Model - Rolling Window Regression

<table>
<thead>
<tr>
<th>Period Number</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
</table>

### Outcome Variables

<table>
<thead>
<tr>
<th>Bankruptcy Period 1</th>
<th>Bankruptcy in Period 1-4 (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankruptcy Period 2</td>
<td>Bankruptcy in Period 2-5 (2)</td>
</tr>
<tr>
<td>Bankruptcy Period 3</td>
<td>Bankruptcy in Period 3-6 (3)</td>
</tr>
<tr>
<td>Bankruptcy Period 4</td>
<td>Bankruptcy in Period 4-7 (4)</td>
</tr>
</tbody>
</table>

### Explanatory Variables

- **(Based on Date Approved)**
  - The percentage of the number/amount of loans originated by community banks in county $i$ and period $j$
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  - The percentage of the number/amount of loans originated by community banks in county $i$ and period $j$
- **Covid-19 cases for county $i$ and period $j$**
  - CovidCases0
  - CovidCases1
  - CovidCases2
  - CovidCases3
  - CovidCases4
  - CovidCases5
  - CovidCases6
  - CovidCases7
## Model - Rolling Window Regression (Period 1 - 4)

<table>
<thead>
<tr>
<th>Period Number</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<th>7</th>
</tr>
</thead>
</table>

### Outcome Variables

<table>
<thead>
<tr>
<th>Bankruptcy Period 1</th>
<th></th>
<th></th>
<th>Bankruptcy in Period 1-4 (1)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankruptcy Period 2</td>
<td></td>
<td></td>
<td>Bankruptcy in Period 2-5 (2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bankruptcy Period 3</td>
<td></td>
<td>Bankruptcy in Period 3-6 (3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bankruptcy Period 4</td>
<td></td>
<td></td>
<td>Bankruptcy in Period 4-7 (4)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Explanatory Variables

<table>
<thead>
<tr>
<th>(Based on Date Approved)</th>
<th>NA (PPP not yet started)</th>
<th>CB_percentage1</th>
<th>CB_percentage2</th>
<th>CB_percentage3</th>
<th>CB_percentage4</th>
<th>CB_percentage5</th>
<th>NA (PPP ended)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The percentage of the number/amount of loans originated by community banks in county i and period j</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covid-19 cases for county i and period j</td>
<td>CovidCases0</td>
<td>CovidCases1</td>
<td>CovidCases2</td>
<td>CovidCases3</td>
<td>CovidCases4</td>
<td>CovidCases5</td>
<td>CovidCases6</td>
</tr>
</tbody>
</table>
# Model - Rolling Window Regression (Period 2 - 5)

<table>
<thead>
<tr>
<th>Period Number</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
</table>

## Outcome Variables

- **Bankruptcy Period 1**: Bankruptcy in Period 1-4 (1)
- **Bankruptcy Period 2**: Bankruptcy in Period 2-5 (2)
- **Bankruptcy Period 3**: Bankruptcy in Period 3-6 (3)
- **Bankruptcy Period 4**: Bankruptcy in Period 4-7 (4)

## Explanatory Variables

- **(Based on Date Approved)**
  - The percentage of the number/amount of loans originated by community banks in county \( i \) and period \( j \)
    - CB_percentag e1
    - CB_percentag e2
    - CB_percentag e3
    - CB_percentag e4
    - CB_percentag e5
  - NA (PPP not yet started)
  - NA (PPP ended)
- **Covid-19 cases for county \( i \) and period \( j \)**
  - CovidCases0
  - CovidCases1
  - CovidCases2
  - CovidCases3
  - CovidCases4
  - CovidCases5
  - CovidCases6
  - CovidCases7
## Model - Rolling Window Regression (Period 3 - 6)

<table>
<thead>
<tr>
<th>Period Number</th>
<th>0</th>
<th>1</th>
<th>2</th>
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<th>5</th>
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</tr>
</thead>
</table>

### Outcome Variables

- **Bankruptcy Period 1**
  - Bankruptcy in Period 1-4 (1)

- **Bankruptcy Period 2**
  - Bankruptcy in Period 2-5 (2)

- **Bankruptcy Period 3**
  - Bankruptcy in Period 3-6 (3)

- **Bankruptcy Period 4**
  - Bankruptcy in Period 4-7 (4)

### Explanatory Variables

- **(Based on Date Approved)**
  - The percentage of the number/amount of loans originated by community banks in county $i$ and period $j$
    - NA (PPP not yet started)
    - CB_percentage1
    - CB_percentage2
    - CB_percentage3
    - CB_percentage4
    - CB_percentage5
    - NA (PPP ended)

- **Covid-19 cases for county $i$ and period $j$**
  - CovidCases0
  - CovidCases1
  - CovidCases2
  - CovidCases3
  - CovidCases4
  - CovidCases5
  - CovidCases6
  - CovidCases7
# Model - Rolling Window Regression (Period 4 - 7)

<table>
<thead>
<tr>
<th>Period Number</th>
<th>0</th>
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<th>2</th>
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<td>Bankruptcy Period 4</td>
<td>Bankruptcy in Period 4-7 (4)</td>
</tr>
</tbody>
</table>

## Explanatory Variables

(Based on Date Approved)
The percentage of the number/amount of loans originated by community banks in county $i$ and period $j$

<table>
<thead>
<tr>
<th>NA (PPP not yet started)</th>
<th>CB_percente1</th>
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<th>CB_percente3</th>
<th>CB_percente4</th>
<th>CB_percente5</th>
<th>NA (PPP ended)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covid-19 cases for county $i$ and period $j$</td>
<td>CovidCases0</td>
<td>CovidCases1</td>
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<td>CovidCases5</td>
</tr>
</tbody>
</table>
IV. Statistical Analysis

- Model
- Results & Interpretations
- Limitations
Regression 1: Without State-Fixed Effects, Outcome Variable: **Total Bankruptcy**

<table>
<thead>
<tr>
<th>Percentage of loan by CB</th>
<th>Bankruptcy in Period 1-4 (1)</th>
<th>Bankruptcy in Period 2-5 (2)</th>
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<tbody>
<tr>
<td>the number of loans in Periods 1-4</td>
<td>-59.1809*** (14.676)</td>
<td>-12.0121 (13.796)</td>
<td>-3.3380 (13.061)</td>
<td>0.3975 (12.356)</td>
</tr>
<tr>
<td>the number of loans in Periods 1-5</td>
<td></td>
<td>-12.0121 (13.796)</td>
<td>-3.3380 (13.061)</td>
<td>0.3975 (12.356)</td>
</tr>
<tr>
<td>the amount of loans in Periods 1-4</td>
<td>-57.4220*** (14.303)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the amount of loans in Periods 1-5</td>
<td></td>
<td>-19.7291 (13.433)</td>
<td>-11.4549 (12.7)</td>
<td>-7.5245 (12.037)</td>
</tr>
<tr>
<td>N</td>
<td>2984</td>
<td>2976</td>
<td>2971</td>
<td>2952</td>
</tr>
</tbody>
</table>

Coefficient estimates are statistically significant in period 1-4
Regression 1: Without State-Fixed Effects, Outcome Variable: Total Bankruptcy

95% Confidence Intervals of Coefficient Estimates

[Graphs showing confidence intervals for Total Bankruptcy - Amount of PPP Loans and Total Bankruptcy - Number of PPP Loans across different periods.]
Interpretation 1:

Negative coefficients suggest CB-originated PPP loans helped employees in small businesses

Possible Explanation:

Majority of the PPP loan proceeds went to payroll proceeds
- for 5,252,366 (about 88.5%) PPP loans, 90% of the loan amount was allocated for payroll costs
Regression 2: Without State-Fixed Effects, Outcome Variable: Business Bankruptcy

<table>
<thead>
<tr>
<th>Percentage of loan by CB</th>
<th>Bankruptcy in Period 1-4 (1)</th>
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<tbody>
<tr>
<td>the number of loans in Periods 1-4</td>
<td>0.7049 (0.834)</td>
<td>1.2044 (0.715)</td>
<td>2.1283*** (0.581)</td>
<td>1.8532*** (0.429)</td>
</tr>
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<td>the number of loans in Periods 1-5</td>
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<td>1.2044 (0.715)</td>
<td>2.1283*** (0.581)</td>
<td>1.8532*** (0.429)</td>
</tr>
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<td>the amount of loans in Periods 1-4</td>
<td>0.7516 (0.813)</td>
<td>1.0908 (0.696)</td>
<td>1.9364*** (0.565)</td>
<td>1.7720*** (0.418)</td>
</tr>
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<td></td>
<td>1.0908 (0.696)</td>
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Coefficient estimates are not negative, and not statistically significant in period 1-4.
Regression 2: Without State-Fixed Effects, Outcome Variable: Business Bankruptcy

95% Confidence Intervals of Coefficient Estimates

Business Bankruptcy - Amount of PPP Loans

Business Bankruptcy - Number of PPP Loans
Interpretation 2:

Coefficients suggest PPP’s nature may have limited CB’s role in reducing business bankruptcy

Possible Explanations:

Businesses were encouraged to spend at least 60% of the proceeds on payroll costs to be eligible for full loans forgiveness

Affected the usage of PPP loans and weakened the association between the share of CB-originated PPP loans and business bankruptcy
Regression 1: Without State-Fixed Effects, Outcome Variable: Total Bankruptcy

<table>
<thead>
<tr>
<th></th>
<th>Bankruptcy in Period 1-4 (1)</th>
<th>Bankruptcy in Period 2-5 (2)</th>
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<td>-7.5245 (12.037)</td>
<td></td>
</tr>
</tbody>
</table>

Magnitude of coefficient diminishes over time
Interpretation 3:

Diminishing association between PPP loans and total bankruptcy over time

Possible Explanations:
- Gap between Round 1 and Round 2 of First Draw PPP
- Surge in COVID-19 cases in the same period
- First draw PPP loans are heavily concentrated in the first two months, in terms of both number and approval amount
IV. Statistical Analysis

- Model
- Results & Interpretations
- Limitations
Limitations of Analysis

Detailed characteristics of small businesses are unknown

➔ These characteristics also affect the probability of businesses going bankrupt and may cause endogeneity issues

County-level monthly or quarterly bankruptcy data is unavailable

➔ We are not able to analyze the immediate impacts of PPP loans on bankruptcies

Other SBA COVID-19 relief programs which may also affect bankruptcies are not included

➔ Potential omitted variable bias
V. Conclusion & Policy Implications
Community banks might have helped local communities and local employees. Especially in dark blue-shaded counties, community banks played outsized role.
2. Helping Businesses

- The effects of CB-originated PPP loans on preventing businesses bankruptcy are inconclusive.
- PPP loans were specifically designed to maintain employment.

- Community banks might have contributed to reducing business bankruptcy through other policies such as Debt Relief.
2. Helping Businesses

Covid-19 Relief Loans or Grants by SBA

- Shuttered Venues Operator Grant
- COVID-19 Economic Injury Disaster Loan (EIDL)
- Restaurant Revitalization Fund (RRF)
3. Responsiveness of PPP

Timely interventions against Covid-19 might be critical in mitigating the economic shock and helping communities.
Thank you
Q&A
Angrist, Joshua David, and Jörn- Steffen Pischke. 2015. *Mastering 'metrics: the path from cause to effect*.


James, Gareth, Witten, Daniela, Hastie, Trevor and Tibshirani, Robert. 2013. *An Introduction to Statistical Learning: with Applications in R*: Springer.
Appendix
Number of Total Bankruptcies across Counties

Number of Total Bankruptcies (in natural log scale)
Number of Business Bankruptcies across Counties (in natural log scale)
Number of PPP Loans across Industry Sectors
Regression 3: With State-Fixed Effects, Outcome Variable: **Total Bankruptcy**

<table>
<thead>
<tr>
<th></th>
<th>Bankruptcy in Period 1-4 (1)</th>
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<tr>
<td><strong>Percentage of loan by CB</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the number of loans</td>
<td>-50.3868**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in Periods 1-4</td>
<td>(18.123)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the number of loans</td>
<td></td>
<td>6.8664</td>
<td>16.8955</td>
<td>14.6335</td>
</tr>
<tr>
<td>in Periods 1-5</td>
<td>(16.807)</td>
<td>(16.028)</td>
<td>(15.037)</td>
<td></td>
</tr>
<tr>
<td>the amount of loans</td>
<td>-34.8371**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in Periods 1-4</td>
<td>(17.241)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the amount of loans</td>
<td></td>
<td>3.4273</td>
<td>10.3059</td>
<td>9.1654</td>
</tr>
<tr>
<td>in Periods 1-5</td>
<td>(15.973)</td>
<td>(15.110)</td>
<td>(14.210)</td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
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</tbody>
</table>
Regression 3: With State-Fixed Effects, Outcome Variable: Total Bankruptcy

95% Confidence Intervals of Coefficient Estimates

State-Fixed Effects: Total Bankruptcy - Number of PPP Loans

State-Fixed Effects: Total Bankruptcy - Amount of PPP Loans
Regression 4: With State-Fixed Effects, Outcome Variable: Total Business Bankruptcy

<table>
<thead>
<tr>
<th>Percentage of loan by CB</th>
<th>Bankruptcy in Period 1-4 (1)</th>
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</tr>
</thead>
<tbody>
<tr>
<td>the number of loans in Periods 1-4</td>
<td>- 1.0098 (1.057)</td>
<td>- 0.052 (0.903)</td>
<td>2.5289*** (0.712)</td>
<td>2.0478*** (0.539)</td>
</tr>
<tr>
<td>the number of loans in Periods 1-5</td>
<td>- 0.3890 (1.005)</td>
<td>0.2277 (0.858)</td>
<td>2.0399*** (0.672)</td>
<td>1.7843*** (0.510)</td>
</tr>
<tr>
<td>the amount of loans in Periods 1-4</td>
<td>0.2277 (0.858)</td>
<td>2.0399*** (0.672)</td>
<td>1.7843*** (0.510)</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>2984</td>
<td>2976</td>
<td>2971</td>
<td>2952</td>
</tr>
</tbody>
</table>
Regression 4: With State-Fixed Effects, Outcome Variable: Total Business Bankruptcy

95% Confidence Intervals of Coefficient Estimates

State-Fixed Effects: Business Bankruptcy - Number of PPP Loans

State-Fixed Effects: Business Bankruptcy - Amount of PPP Loans
## SBA’s COVID-19 Relief Programs

<table>
<thead>
<tr>
<th></th>
<th>Paycheck Protection Program Applicant</th>
<th>Shuttered Venue Operators Grant Applicant</th>
<th>COVID-19 EIDL Applicant</th>
<th>Restaurant Revitalization Fund Applicant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PPP recipient</strong></td>
<td>First Draw PPP borrowers may be eligible to apply for Second Draw PPP loans</td>
<td>May apply for SVOG if received a PPP loan; if PPP loan received after Dec. 27, 2020, the PPP loan amount will be deducted from the SVOG. May not apply for PPP after receiving SVOG</td>
<td>May apply for EIDL and PPP, but cannot be used for the same purpose/costs</td>
<td>PPP loans received by the RRF applicant will affect the applicant’s funding calculation</td>
</tr>
<tr>
<td><strong>Shuttered Venue Operators Grant recipient</strong></td>
<td>May not apply for PPP loan after receiving SVOG</td>
<td>May be eligible to receive a supplemental SVOG award</td>
<td>May apply for EIDL and SVOG, but cannot be used for the same purpose/costs</td>
<td>Entities that have a pending application for or received a Shuttered Venue Operators Grant are not eligible to apply for RRF</td>
</tr>
<tr>
<td><strong>COVID-19 EIDL recipient</strong></td>
<td>May apply for PPP, but cannot be used for the same purpose/costs as EIDL</td>
<td>May apply for SVOG, but cannot be used for the same purpose/costs as EIDL</td>
<td>May apply for one EIDL, then submit applications to increase funds from that same loan</td>
<td>May apply for EIDL and RRF</td>
</tr>
<tr>
<td><strong>RRF recipient</strong></td>
<td>PPP loans received by the RRF applicant will affect the applicant’s funding calculation</td>
<td>Entities that have a pending application for or received an RRF are not eligible to apply for Shuttered Venue Operators Grants</td>
<td>May apply for EIDL and RRF</td>
<td>The same business cannot apply for RRF more than once</td>
</tr>
</tbody>
</table>