

CHART OF THE WEEK

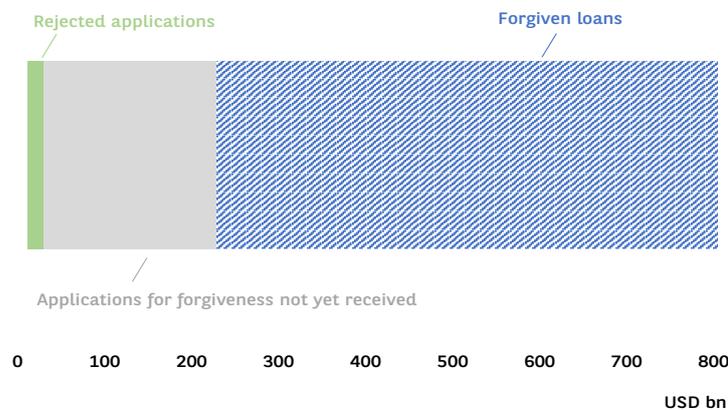


13 October 2021

UNITED STATES: PPP GOVERNMENT-GUARANTEED LOANS ARE LARGELY CONVERTED INTO PUBLIC SUBSIDIES

Céline Choulet

Government-backed loans in the United States
As of October 10, 2021



Source: Small Business Administration

In response to the Covid-19 pandemic, the US Congress set up the Paycheck Protection Program (PPP) in April 2020 to provide loans backed by the Federal government to small and medium-sized enterprises (SME). When subscriptions closed on 31 May 2021, about USD 800 bn in PPP loans had been issued. Banks originated 80% of these loans and non-banking lending companies and fintechs issued the remaining 20%.

Several aspects of this programme differ from France's state-backed loan programme (PGE), especially its fiscal cost. First, in the United States, the Federal government fully covers the credit risk associated with government-guaranteed loans¹. Second, American lenders receive fees to compensate for the cost of originating PPP loans (between 1% and 5% depending on the principal amount). Based on the structure of PPP loans outstanding, the amount of fees paid was about USD 30 bn. Lastly, in the US, under certain conditions, the government-guaranteed loans can be converted into public subsidies to the corporate borrowers (limited to the amount of payroll costs, as well as utilities, mortgage and rent payments). For PPP loans to be partially or fully forgiven, the corporate beneficiary had to maintain jobs and wages during the 8 to 24 weeks after the loan was granted. At 10 October 2021, more than USD 575 bn in PPP loans outstanding had been forgiven (7.5 million loans), or 73% of the total amount outstanding (65% of the total number of loans granted)². Under the extreme hypothesis that all of the PPP loans distributed under the programme were fully forgiven, the fiscal cost of the mechanism would amount to USD 835 bn³.

¹ In France, the government assumes 70% to 80% of the credit risk for PGE to major corporations, and 90% for PGE to small and medium-sized enterprises. French banks cover the residual risk.

² [PPP forgiveness platform lender submission metrics reports \(sba.gov\)](#)

³ [Covid Money Tracker](#)

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