CLASP
Policy solutions that work for low-income people

Fact Sheet
April 8, 2020
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Small Business Loans Aren't the Answer for Child Care

Following a **critical but insufficient** direct child care investment in the last coronavirus stimulus package, many child care stakeholders have high hopes that the new **Paycheck Protection Program** (PPP) loans through the Small Business Administration (SBA) will be a lifeline for providers struggling with low enrollment or temporary closures.

While the PPP's design was already going to be a **challenge for child care providers**, the **chaos and confusion** that surrounded the program's launch—particularly around which lenders were offering loans and which businesses could apply—made it glaringly clear that small business loans are not the answer the child care field is seeking. In fact, the loan program is likely to leave the providers who are most vulnerable to closure empty-handed and only deepen existing inequities in the system, with lasting consequences for child care providers and families alike.

CLASP calls on Congress to dedicate $50 billion in accessible, flexible funding for child care to help providers weather this crisis—and reopen so we can all go back to work when the crisis is over.

How do PPP loans work?

In theory, the PPP loans are relatively straightforward. The SBA has $349 billion in funding available to local banks and credit unions for the loan program. Lenders, in turn, process loans on a first-come, first-served basis to eligible small businesses, nonprofit organizations, and self-employed individuals to cover roughly two months of payroll and other qualifying operating expenses. The loan is fully forgivable as long as businesses retain their employees and spend 75 percent of the loan on payroll.

Why won't PPP loans work for child care in the long run?

The PPP loans certainly have the potential to offer short-term relief to some providers. However, the loans aren't designed to meet the needs and realities of child care providers and simply cannot be the solution for the field.

For one, the resources are limited and only intended to cover payroll costs for two months of what is increasingly looking like a longer-term problem. And while the emphasis on payroll expenses is in some ways advantageous for child care, given that a large share of operating costs are related to staffing, providers also desperately need resources to cover the cost of cleaning and sanitation supplies (if they are open with reduced enrollment) and connecting families to much-needed broader supports (like healthy meals, mental health services, and virtual home visits, if they are temporarily closed).

The **haphazard and inconsistent** application process for PPP—combined with the fact that funds are first come, first served and **in huge demand**—further underscores that loans are not the right answer for the child care industry. Absent clear guidance from the administration, lenders are imposing their own rules about who can and can't apply for the loans. Many banks are not accepting applications from customers without an existing small business account, leaving out countless for-profit and nonprofit child care providers that haven't been eligible or had a need to borrow money in the past—not to mention self-employed home-based providers who may be **"unbanked"** entirely.

Given the pervasiveness of racial bias in small business lending, current practices place Black-owned centers and family child care homes at a particular disadvantage. **One study** found that Black-owned businesses were more than twice as likely to be discouraged from applying for a loan compared to white-owned businesses, and those that did apply were nearly 20 percent more likely to be denied. **Another** found that businesses located in communities of color or with lower household income levels received fewer small business loans than those in predominantly white or higher-income neighborhoods. If Black-owned child care programs aren't able to apply for and access PPP loans, it won't just deepen the existing inequities among providers—it will also have implications for which families have access to a child care program when the crisis is over.

The likely outcome? Only a small number of better-resourced programs that have solid banking relationships and/or connections with lawyers, accountants, or savvy advocates who can help them navigate the application process will successfully obtain a loan, leaving us back where we started: in need of targeted resources for child care.

The child care system needs direct, flexible funding now

Given the volume of applications for the PPP loans, policymakers are **calling for more funding** as soon as possible. We may also see efforts to clarify expectations for lenders and borrowers alike in future coronavirus legislation. Together, these changes could allow more child care providers to access forgivable loans.

But one-time, short-term loans are never going to be the solution for child care, even if they are forgivable. The child care system was fractured and fragile before the crisis even started, with the vast majority of providers relying on some variable combination of parent tuition and fees and limited public funding. Operating costs are driven largely by staffing—which is based on state licensing requirements to ensure the **health and safety** of children in care—and providers can't increase tuition without pricing the vast majority of parents seeking care out of the market. Working families spend an average of **10 percent** of their income on child care. A family of four earning less than $50,000 annually spends more than one-third of its income on child care.

In the midst of the coronavirus crisis when growing numbers of parents are losing income or out of work entirely, providers simply can't ask them to keep paying tuition. Yet without tuition, many programs can't keep the lights on. Among 6,000 center- and home-based child care providers **recently surveyed**, 63 percent reported that without support, a temporary closure of could become a permanent one. Given that many communities are nearly a month into this crisis with no end in sight, it's likely that closures have already begun.

It won't just be child care workers who are harmed by programs closing. Licensed child care is already in **short supply** across the country, meaning it would be incredibly difficult for families who lose care to be absorbed into other programs in the system, especially if closures occur on a massive scale. Not having reliable child care would be devastating for parents looking for work or attempting to return to work after stay-at-home orders are lifted. Massive closures would be particularly devastating for Black and Latinx communities, both because women of color are overrepresented among **child care workers** who could be out of work and because Black and Latinx parents are less likely to have **jobs that provide them with flexibility** to deal with child care challenges.

Any source of funding that isn't targeted explicitly to the needs and realities of the child care industry is likely to fall short for the vast majority of providers—not to mention the families who count on them. The best solution for child care is a significant investment of at least $50 billion for the child care system. Providers need dedicated, flexible resources as soon as possible to meet the demand for emergency care by essential workers, reduce cost burdens for parents, provide early learning opportunities for children, and support providers during periods of temporary closure or decreased revenue. Otherwise, the system won't recover—or be prepared to support our country's broader economic recovery.