

SBA Paycheck Protection Program

Talking Points/Q&A

July 7, 2020

Note: This document reflects federal guidance released through July 7, 2020.

Topline Messages

- *The Small Business Administration's Paycheck Protection Program is an unprecedented government initiative to provide desperately needed financial assistance to the small business community in response to the coronavirus pandemic.*
- *According to the Treasury Department, the program has helped more than 50 million workers stay connected to their employers, which represents more than 75% of small business payroll in all 50 states. All of this was achieved over three months.*
- *While there were significant technical and logistical problems with SBA's launch of the program, banks of all sizes worked collaboratively with the government to make it a success.*
- *In round 1, nearly 5,000 lenders across the country provided almost 1.7 million small businesses with \$349 billion in loans in less than two weeks.*
- *Having seen the success and demand for Paycheck Protections Loans (PPP), Congress decided to appropriate an additional \$310 billion towards the program.*
- *In round two of the PPP program, lenders stepped up once again, and as of July 7, 2020, more than 5,400 lenders participated, including 3,570 banks with less than \$1 billion in assets. Altogether, 4.8 million PPP loans have been made, totaling \$520 billion, supporting 51 million jobs according to the SBA.*
- *On June 5, HR 7010, the Paycheck Protection Program Flexibility Act of 2020 was signed into law. The legislation made the program more flexible, including allowing borrowers to use 60% of the PPP funds on payroll (rather than the original 75% requirement) and also extended the time that the funds had to be used from 8 weeks to 24 weeks.*
- *Originally set to expire on June 30, the PPP program has been extended until August 8. After starting off at a frenetic pace, the number of businesses seeking PPP loans has slowed, as much of the demand has been reached.*
- *On July 6, the Small Business Administration chose to release PPP loan information at the request of Congress, the media and others given the significant taxpayer commitment to the program. This was not a decision made by banks that participated in the government program.*

- *Not all details about individual PPP loans were released by the SBA. For example, no borrower with a loan under \$150,000 will be identified at this time. For these loans, only the city, state, zip code, number of employees benefited, and the congressional district will be identified, along with the name of the lender that made the loan. For PPP loans over \$150,000, the SBA released the business' name along with the information above. The SBA released a dollar range for these loans, not the exact amounts.*
- *America's banks will continue to stand by their small business customers and do their part to help spur the economic recovery and limit the economic damage from this pandemic.*

PPP Round 2 Questions

What changed in Round 2 of the Paycheck Protection Program?

Congress approved an additional \$310 billion for PPP funding in the Cares Act 2 and then subsequently passed the Paycheck Protection Program Flexibility Act of 2020 which was signed into law on June 5 which provided borrowers more flexibility in how they used the PPP funds.

Specifically, the PPP Flexibility Act

- Lowers the 75% payroll usage requirement to 60%.
- Extends the initial forbearance period from 6 months to 10 months.
- Extends the covered use of funds period from 8 weeks to the earlier of 24 weeks or December 31, 2020.

How will borrowers get their loans forgiven?

Borrowers will fill out a forgiveness worksheet that they will submit to their lender. However, the current worksheet is 11 pages while the initial loan application was one page. ABA has advocated for Treasury and the SBA to release a streamlined forgiveness document that would be more commensurate with the loan application, the size of many of these loans (some of which were only a couple thousand — or even a couple hundred dollars) and would reduce the burden on borrowers.

There have been reports of duplicate PPP loans being funded, what should a borrower do if they got two loans and how did that happen?

We have heard reports of borrowers getting duplicate loans, and if a borrower did get two loans, they should contact the institutions that funded those loans and will need to return one of them, or else they will have an outstanding loan without forgiveness provisions.

The problem with duplicate loans likely stemmed from a flaw in the SBA's E-Tran system which wasn't designed to process the 4.5 million loans in less than two months.

Do you expect widespread fraud in the PPP program?

Unfortunately, bad-actors are often opportunistic. This is a half-trillion-dollar grant program and many bad-actors likely tried to acquire a PPP loan. There will be some losses, but banks are held very high anti-money laundering requirements. Those standards did not change under PPP.

However, Congress demanded that banks distribute PPP funds as quickly as possible to help stabilize the economy, and in accordance with that, bankers worked night and day to process loans – often from their home offices and kitchen tables --- and moved loans through their system faster than they would normally do so. It is likely that some fraudsters were able to take advantage of those circumstances, but banks are going back and doing their Know-Your-Customer (KYC) checks and blowing the whistle on suspicious activity.

General Questions

Why have banks prioritized their existing business customers, including large businesses?

Many banks have been prioritizing applications from existing business customers because they already have the relevant information in their systems for those borrowers. Under existing law, banks are obligated to verify a range of information before they can consider a business loan. Those requirements did not go away with the creation of PPP. That makes it harder to onboard a new customer and immediately apply for a PPP loan. The situation is further complicated by the coronavirus crisis and the current limitations on branch operations and face-to-face meetings. If lawmakers approve additional funding, any small business that wants to apply should consider talking to SBA lenders in their area. SBA maintains that list at this link: <https://www.sba.gov/paycheckprotection/find>.

What information will a bank need from a customer?

Banks will need to collect payroll information, although some of the verification process for payroll and other expenses has been streamlined, and banks expect small businesses to come to them in good faith.

Banks are still subject to Bank Secrecy Act requirements, but Treasury has declared that if the company is an existing customer of the bank and the bank has already identified and verified the identity of the beneficial owners of the company, then it can rely on the information it already has on file. Moreover, if the beneficial ownership information is incomplete for an existing customer, the bank will not be required to complete and verify it, although the bank will make that determination after a risk-based assessment. These changes should help streamline the approval process for many loan applications.

Are you concerned about fraud and what can banks do to prevent it?

Banks are always concerned about fraud and they serve as a critical first line of defense to fight it. Communication between banks, law enforcement and the SBA will be critical. There are steps that can be taken by the government to reduce the risk of fraud and make banks more comfortable participating in the program.

Why are banks involved in this program at all?

Banks and other lenders are participating in this program at the request of the government. By leveraging the local and national footprint of the banking system, as well as the underwriting expertise of bank employees, the SBA hopes to get this money in the hands of small business owners as quickly as possible. Without the participation of the nation's banks, this process would

take far longer because the SBA would have to review and assess each applicant. Under PPP, banks perform that function for the government at very low cost or no cost given the terms.

Will banks make money off this program?

This program is about helping small businesses and their employees. Banks are not participating in this program to make money, they are participating because they want to help the economy. The terms for these loans will allow some banks simply to break even given the significant resources they will have to devote to processing these applications. At the same time, we don't think any bank should be expected to participate in the program if they think they will lose money. Banks have their own obligation to maintain their safety and soundness.