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National Association of Federally-Insured Credit Unions

June 10, 2020

The Honorable Jovita Carranza
Administrator
Small Business Administration
409 3rd St, SW
Washington, DC 20416

RE: Automatic Loan Forgiveness

Dear Administrator Carranza:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I write to you today to ask for your consideration of automatic Paycheck Protection Program (PPP) loan forgiveness. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products. Throughout this uncertain time, NAFCU has continued to seek assistance and tools to help credit unions offer PPP loans to small businesses in their communities that desperately need funding. From the outset, credit unions have provided PPP loans to the small businesses that the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) intended to assist. The CARES Act does not explicitly prohibit the Small Business Administration (SBA) from providing automatic loan forgiveness, therefore NAFCU urges you to utilize available flexibilities within the CARES Act allowing for de minimis exemptions or other authorities to provide this relief for small businesses as quickly as possible. Alternatively, NAFCU requests the agency support a legislative fix that would allow automatic forgiveness of loans of \$150,000 and lower.

Despite the testimony provided during today's hearing with the Senate Committee on Small Business and Entrepreneurship that the updated loan forgiveness application will reduce complexities due to passage of the *Paycheck Protection Program Flexibilities Act*, NAFCU members remain concerned about the complex process. Although some calculations may be removed in the new loan forgiveness application, borrowers must still collect and report the required documentation. Also, borrowers must still calculate the amount of loan forgiveness they are entitled to even if they utilize less than 60 percent of the proceeds for payroll.

According to the SBA's publicly released data, as of June 6, 2020, the average PPP loan size is \$113,000 for both rounds of funding. NAFCU conducted a survey during the second round of funding and respondents reported an average loan amount of \$67,000. NAFCU members report making PPP loans as low as \$400. A loan of only a few hundred or a few thousand dollars does not warrant the level of detail and review required by the current application and forgiveness rules.

Moreover, automatic forgiveness frees up human capital at a time when credit unions are short staffed due to the ramifications of COVID-19. NAFCU members re-allocated staff to assist with providing PPP loans to credit union members as expeditiously as possible. With the current complexities of the loan forgiveness application and rules, credit unions will again need to devote significant resources to complete loan forgiveness applications. Additionally, many credit unions are weighing whether they need to invest in new software applications to assist with loan forgiveness determinations, which could put additional strain on already limited resources. Given that credit unions have followed the spirit of the CARES Act and focused their PPP lending on the communities that need the most assistance during this difficult time, instead of prioritizing larger businesses with deep pockets, these smaller loans should be automatically forgiven.

Understandably, the loan forgiveness application is one mechanism to uncover fraudulent activity; however, low-dollar PPP loans are low risk and the SBA retains the right to review a borrower's loan documents for six years after the date the loan is forgiven or repaid in full. The potential benefits of providing this automatic forgiveness for small businesses are monumental compared to the minor risk. Automatic loan forgiveness for loans of \$150,000 or less would provide substantial relief to small businesses and community lenders alike as they work to reopen following the pandemic. Considering the arduous application process and rules associated with forgiveness, many small businesses and lenders may struggle to complete the application in a timely fashion. Automatic loan forgiveness would allow small businesses to focus on getting back up and running and assist in jumpstarting the economy after the required closures over the past few months.

NAFCU asks the SBA to consider automatic loan forgiveness at a threshold level of \$150,000 and lower. According to the SBA data released on June 6, 2020, a threshold of \$150,000 would account for 85 percent of PPP loans but only 26 percent of the total funds disbursed by the SBA. This would leave the largest loans for review. In addition, the SBA's data provides that the top 15 PPP lenders provided tens of thousands and hundreds of thousands of PPP loans. Even the largest credit unions did not make more than a few thousand loans with the average loan amount being much lower. Credit unions made PPP loans to small businesses in their communities carrying out the true intent of the CARES Act, assisting in providing lending to underserved markets, and often times providing loans to businesses that have otherwise been turned away from other financial institutions. The SBA should adopt an automatic loan forgiveness framework as quickly as possible given that some PPP loans have already entered the forgiveness stage.

Should the SBA determine that the CARES Act does not provide the authority to establish automatic loan forgiveness, NAFCU requests that you support legislative efforts to require automatic forgiveness for loans of \$150,000 or less. As Congress contemplates additional COVID-19 relief measures, the SBA should voice its support for a legislative fix to explicitly grant it such authority and help America's small businesses begin to recover and revitalize their communities and the economy as a whole.

Given the length and complexity of the loan forgiveness application and the fact that credit union PPP loans are lower than national averages, a mechanism for automatic forgiveness is warranted. Thank you for your attention to this matter and your continued partnership. If I may be of assistance

The Honorable Jovita Carranza

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to you in any way, please do not hesitate to contact me directly or Kaley Schafer, Regulatory Affairs Counsel at (703) 842-2249 or kschafer@nafcu.org.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Dan Berger". The signature is fluid and cursive, with a large initial "B" and "D".

B. Dan Berger
President and CEO

Cc: The Honorable Steven T. Mnuchin, U.S. Department of the Treasury