



3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

October 19, 2020

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Charles E. Schumer
Minority Leader
United States Senate
Washington, D.C. 20510

Re: Continuing Paycheck Protection Program Act

Dear Leader McConnell and Leader Schumer:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to ask for your support for our nation's credit unions as the Senate considers authorizing additional funding for the Paycheck Protection Program (PPP) as well as simplifying the forgiveness process through the *Continuing Paycheck Protection Program Act*. We thank you for your leadership on these measures in response to the COVID-19 pandemic. As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 122 million consumers with personal and small business financial service products.

As we have shared with you previously, credit unions are keenly aware of the hardships their members are facing due to the COVID-19 pandemic and are working around the clock to proactively assist them. Credit unions have stepped up to ensure small businesses in their communities are taken care of during these uncertain times. The Small Business Administration's (SBA) PPP has been very successful and an important tool that credit unions have used to help their small business members, and we thank you for including credit unions as lenders in this program. Still, even with the success of the PPP, there remain some issues that we believe need to be addressed, such as the simplification of the loan forgiveness process.

NAFCU believes it is important to simplify the loan forgiveness process and application for smaller PPP loans. While credit unions are working with their members to assist them with the current loan form, the complexity of the forgiveness rules and application is posing challenges for many small businesses who may not have the staff or expertise for such a complex application, especially with the current economic challenges. We were pleased to see the SBA take steps to address this with the creation of the 3508EZ form, but NAFCU members report that they do not see a huge difference in terms of processing the application as they still need to verify expenses and supporting documentation to ensure that they are meeting the lender requirements. Furthermore, NAFCU members report hearing from their small business members concerns about the time and cost of correctly completing the forgiveness application. Many of those small businesses have had to seek outside assistance to help them with the form. Unfortunately, the time and money spent on forgiveness paperwork takes away from a small business's ability to serve its customers and continue to be able to pay its employees – a direct contradiction to the spirit of the PPP, which was designed to provide simplified aid to those in dire need of assistance.

An analysis of SBA's PPP data shows that credit unions made PPP loans in amounts much lower than the national average, with the credit union average PPP loan approximately \$50,000. We were pleased to see the SBA and Treasury Department release a further simplified loan forgiveness application – the 3508S form – for PPP loans under \$50,000 earlier this month. However, more can be done to help our smallest businesses. As such, NAFCU is supportive of a simplified loan forgiveness process for PPP loans under a \$150,000 threshold, such as proposed in S.4117, the *Paycheck Protection Small Business Forgiveness Act*. This bipartisan proposal would simplify the loan forgiveness process for loans under \$150,000 to a one-page form. Loans under \$150,000 account for 87 percent of PPP recipients but only account for 28 percent of the funds disbursed by the SBA. This level would cover most credit union loans, the vast majority of which have been to smaller businesses that could most benefit from this automatic forgiveness. NAFCU appreciates the steps to simplify forgiveness in the *Continuing Paycheck Protection Program Act*, though we would encourage the Senate to include the full text of S.4117.

Understandably, the forgiveness application is one mechanism to uncover fraudulent activity; however, there are others 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. Moreover, a smaller PPP loan is less likely to pose a high risk of fraud so the benefits to small businesses and lenders of providing this automatic or simplified forgiveness significantly outweigh the potential risks. Furthermore, a simplified forgiveness process frees up human capital at a time when credit unions and small businesses may be short-staffed due to ramifications of COVID-19. NAFCU would urge Congress and the SBA to improve the forgiveness process by considering automatic loan forgiveness for loans below a \$150,000 threshold.

As for changes to the PPP, NAFCU supports a second round of PPP loans to the hardest hit small businesses, such as the "Second Draw" PPP loans proposed by the *Continuing Paycheck Protection Program Act*. NAFCU members report that many of their small business members in hard hit sectors and locales need additional support to weather the pandemic. We also support set asides for distribution of PPP funds by community financial institutions, which we believe is crucial to ensure all small businesses are served.

According to a NAFCU survey, 87 percent of NAFCU members reported providing PPP loans to new members and businesses that were turned away by other lenders and came to their credit union to apply for a PPP loan. Moreover, compared to other types of lenders, credit unions disproportionately helped the smallest of small businesses. Not only did credit unions make PPP loans in amounts much lower than the national average, but according to SBA's PPP data, a full 70 percent of credit union PPP loans went to businesses with less than five employees. All of this goes to show that credit unions are providing small dollar loans to smaller businesses, some of which have no other financial institution to turn to. While credit unions would want to serve these businesses regardless of formal set asides, we want to avoid repeating the scenario where funding runs out and only the largest of small businesses have received loans. Hence, we urge your support for expanded set asides for community financial institutions.

Finally, we would like to call your attention to an issue not addressed by the legislation under consideration that is causing problems for credit unions and the small businesses they serve. As you are aware, SBA Economic Injury Disaster Loan (EIDL) advances provided businesses with a

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grant of up to \$10,000 to help them survive the sudden revenue shock due to COVID-19. With the tremendous uncertainty during the early days of the pandemic, many small businesses applied for both an EIDL advance and PPP loan, uncertain if they would receive either one. Lenders processing PPP applications were often unaware that the small business sought or received an EIDL advance. Moreover, small businesses relied on early SBA guidance that indicated EIDL advances would be treated as grants. However, later guidance made clear that if a borrower receives an EIDL advance and PPP loan, the amount of the advance must be reduced from the loan forgiveness amount. As small businesses apply for PPP loan forgiveness, many have been shocked to learn about this unexpected debt burden.

For small businesses, this debt burden is both shocking and a devastating blow at a time when they are already struggling to survive. For lenders such as credit unions, who were often unaware of a business's EIDL advance when underwriting a PPP loan, this means an unexpected burden on their balance sheets, which ties up capital that could be better used to serve their communities. We urge you to act swiftly to address this issue and exclude EIDL advances from the PPP forgiveness calculation, as proposed by bipartisan legislation in the House, HR.8361, the *EIDL Forgiveness Act*.

We thank you for the opportunity to share our thoughts and look forward to continuing to work with you on pandemic relief and economic recovery. Should you have any questions or require any additional information, please contact me or Sarah Jacobs, NAFCU's Associate Director of Legislative Affairs, at (571) 289-7550 or sjacobs@nafcu.org.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

cc: Members of the United States Senate