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National Association of Federally-Insured Credit Unions

December 9, 2020

The Honorable Marco Rubio
Chairman
Committee on Small Business &
Entrepreneurship
U.S. Senate
Washington, D.C. 20510

The Honorable Ben Cardin
Ranking Member
Committee on Small Business &
Entrepreneurship
U.S. Senate
Washington, D.C. 20510

Re: Tomorrow's Hearing, "Small Business in Crisis: The 2020 Paycheck Protection Program and its Future"

Dear Chairman Rubio and Ranking Member Cardin:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts ahead of tomorrow's hearing, "Small Business in Crisis: The 2020 Paycheck Protection Program and its Future." 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. NAFCU is extremely supportive of the Committee's attention to the importance of the Paycheck Protection Program (PPP), and we share your view that the pandemic has exacerbated the challenges small businesses face.

As you know, credit unions have stepped up to ensure small businesses in their communities are taken care of during these uncertain times, and their response through the PPP was tremendous. Despite the uncertainty surrounding the PPP as it launched and the associated risks, credit unions did all they could to ensure their existing and new small business members were taken care of. 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. An analysis of the Small Business Administration's (SBA) PPP data shows that credit unions made loans in amounts much lower than the national average, with the credit union average PPP loan approximately \$50,000. Furthermore, a full 70 percent of credit union PPP loans went to businesses with less than five employees. We appreciate the Committee's continuing oversight of this program.

While the PPP program successfully provided a lifeline to small businesses struggling through unprecedented lockdowns, there remain issues with the forgiveness process that need to be addressed. 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. Recent media reports have quoted borrowers as needing 15 hours to complete the form, and lenders needing 50 to 70 hours. This time requirement is unrealistic for struggling small businesses.

That is one of the reasons why 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. 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. Moreover, such 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.

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 under S. 4117. NAFCU would urge Congress and the SBA to improve the forgiveness process by considering automatic or simplified loan forgiveness for loans below a \$150,000 threshold and ensuring that there is clear and concise guidance for the forgiveness process. NAFCU supports the SBA maintaining a means of auditing forgiven loans, but we believe it is important that efforts to identify those that abused the system do not hamper the assistance that the vast majority of PPP recipients continue to need.

With the authorization of the PPP having now expired, more must be done to help our nation's small businesses. Any reauthorization of the PPP must ensure community institutions such as credit unions can continue to play an important role in helping their member small businesses. Congress must also look beyond the PPP to help our nation's businesses, and can take an important step by passing S. 3676, the *Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2020*, which would provide relief from the arbitrary credit union member business lending (MBL) cap for loans to small businesses recovering from the impacts of the pandemic

We also support a second round of PPP loans to the hardest hit small businesses. NAFCU members report that many of their small business members in hard hit sectors and locales need additional support to weather the pandemic. If Congress does authorize a second round of PPP lending, we urge you to include set asides for distribution of PPP funds by community financial institutions, which we believe is crucial to ensure all small businesses are served.

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Additionally, as you are aware, SBA Economic Injury Disaster Loan (EIDL) advances provided businesses with a 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 Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at jrelfe@nafcu.org.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Committee on Small Business & Entrepreneurship