

Paycheck Protection Program: The Need for Simplified Forgiveness

Chairman Rubio, Ranking Member Cardin, members of the Senate Committee on Small Business and Entrepreneurship, the Independent Community Bankers of America, representing community banks across the nation with more than 52,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing, "Implementation of Title I of the CARES Act." We are grateful to you for creating the Paycheck Protection Program (PPP) and for your ongoing efforts to ensure its ultimate success. The Program has rapidly and effectively deployed critical funding to small businesses. At this time, a simplified forgiveness process is urgently needed to ensure the Program does not become a quagmire of red tape for lenders and borrowers, distracting them from the hard work of restoring economic and employment growth.

Community Banks and the PPP

Community bankers nationwide went all-in in making the program work, processing a flood of applications in a short time for new customers and old. They recognized the program as the best hope for preserving the economic life of their communities. Community banks were uniquely positioned to make the program work, drawing on established relationships and bonds of trust to help borrowers navigate the application process. They were ready and eager to help borrowers who had been turned away from other institutions. To date, community banks have issued 65 percent of PPP loans.

New Flexibility is Welcome, but the Program Remains too Complex

It remains to be seen whether the program will ultimately reach its potential for sustaining communities. The Paycheck Protection Program Flexibility Act (H.R. 7010), which the President signed into law last Friday, has created welcome program flexibility. The new law replaces the rigid requirement that 75 percent of loan proceeds be spent on payroll as a condition of loan forgiveness with a 60 percent payroll spend requirement. ICBA continues to advocate for a 50/50 split, but 60/40 is a significant improvement. Further, the new law extends the timeframe in which PPP funds must be spent as a condition of forgiveness from 8 weeks to 24 weeks. The 8-week timeframe was simply unrealistic and unworkable. Many non-essential businesses are just now reopening and have not had the opportunity to spend their PPP funds.

Forgiveness Must Be Simplified

While H.R. 7010 has made the Program more flexible, it does nothing to address the Program's prohibitive complexity when it comes to obtaining loan forgiveness. Until forgiveness is simplified, the Program will not be what Congress intended it to be: essentially a grant program to sustain employment through government-imposed business disruption.

Borrowers should not have to hire accountants at exorbitant fees to assist with loan forgiveness. Borrowers whose first language is not English should not be forced to struggle with complex forms and procedures. We urge your consideration of several recommendations for simplifying PPP loan forgiveness:

- **Ease of Application with EZ-Form.** Treasury and the Small Business Administration (SBA) should promptly provide a straightforward, easy-to-apply approach to loan forgiveness. The 11-page application released by Treasury on May 15 is overly complex and detailed. We urge creation of a much shorter and simpler form akin to the IRS Form 1040EZ.
- **Loan Forgiveness Calculator.** We continue to urge Treasury and SBA to provide an online loan forgiveness calculator that would allow the borrower and lender to easily determine the forgiven amount. The certainty provided by a short form and calculator would allow borrowers to focus on bringing their businesses back to viability and protecting employees and customers. The last thing they need in this challenging environment is the distraction of complex calculations.
- **Presumption of Forgiveness Compliance for Loans of \$1 Million or Less.** Congress intended the PPP to be essentially a grant program to help small businesses retain workers. For all loans with an original balance of \$1 million or less, ICBA recommends a presumption of compliance based on the borrower's certification that the funds were used in accordance with the terms of the program. A disproportionately high number of applications were submitted to the SBA by community banks. Detailed review of each loan is simply not practical for borrowers or lenders. A presumption of compliance for these borrowers will allow business owners to focus on their businesses and the safety of their employees and customers. A threshold of \$1 million for presumed compliance would be consistent with Secretary Mnuchin's intention to focus audit resources of loans in excess of \$2 million. A presumption of compliance is consistent with vigorous pursuit of fraud by lenders, Treasury, and SBA.
- **SBA Should Buy Residual PPP Loans at Par.** After the forgiveness amount has been determined, the SBA should purchase remaining PPP loans at par from originating institutions. **This would create greater bank balance sheet capacity to spur additional lending.** The high volume of PPP lending done by community banks to meet the urgent demands of the crisis is absorbing their balance sheets. As we enter the recovery, banks need ample balance sheet capacity to support small businesses in their markets. SBA purchase of PPP loans at par would address this need.
- **Preserve Tax Deduction for Business Expenses.** ICBA believes it was the intention of Congress to allow PPP borrowers who obtain forgiveness to continue to deduct payroll and other ordinary business expenses. Denying this deduction effectively reduces the value of forgiven amounts and undermines the true potential of the Program. We urge your support for the Small Business Expense Protection Act (S. 3612/H.R. 6821), introduced in the Senate by Senator John Cornyn and in the House by Representative George Holding, which would preserve this important deduction.

We urge this committee's support for the provisions outlined above.

Closing

Thank you again for convening today's hearing. We appreciate this committee's commitment to the ultimate success of the PPP. We look forward to continuing to work with you to follow through on the critical choices that must be made to successfully implement a complex and ambitious program.