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Bankers want streamlined PPP forgiveness to apply to more borrowers

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The Small Business Administration on Friday, Oct. 9, rolled out streamlined forgiveness applications for recipients of Paycheck Protection Program loans, but only for borrowers with loans of up to $50,000 — short of what bankers have been pressing for.

The SBA and Treasury have said the $50,000 cap encompasses nearly 70% of all PPP loans but represents just 12% of total PPP dollars. By volume, the streamlined apps could apply to 3.57 million loans, about half of which would be businesses whose sole employee is the owner.

Trade groups including the Ohio Bankers League and Consumer Bankers Association have been lobbying Congress to make the streamlined applications available for loans up to $150,000, but it remains to be seen if that will happen.

"While we appreciate SBA and Treasury attempting to streamline the forgiveness process, it is apparent Congressional action is needed for the true streamlined forgiveness mom-and-pop businesses need. This newest process still requires a significant investment of time and resources from small business owners — resources which could be better spent paying their employees and supporting local economies," said CBA president and CEO Richard Hunt in a statement issued Oct. 9. "Congress can solve this problem tomorrow and inject the equivalent of $7 billion into our economy by passing bipartisan, common-sense legislation to streamline PPP forgiveness for small businesses on Main Street in communities across the country."

The streamlined forgiveness applications are effectively one page with a second optional page for reporting demographic information — something that, if mandatory, would help quantify PPP participation by minority-owned businesses. They include calculations for determining what portion of a loan is truly forgivable. There is no requirement for lenders to independently verify that information if borrowers provide supporting documentation, which shifts the onus for accurate reporting in that case from lenders to borrowers. That means less work for bankers.

There could be downsides to that, of course, considering the PPP has been a major target of fraudsters, including in Northeast Ohio. With a program of the PPP's unprecedented size and scale, and the relative speed with how everything was processed, that was largely expected to happen.

More than $18.5 billion in PPP dollars were provided in Ohio to more than 149,000 businesses, according to SBA data through Aug. 8. You can read more about the most-active PPP lenders in the state here.

Several banks declined to share how many forgiveness applications they've processed so far but did say they are encouraging borrowers to send those in.

"We are currently inviting customers who have reached the end of their 24 week covered period to apply for forgiveness based on loan booking date," said U.S. Bank in a statement. "We have sent applications to the SBA and have begun to receive responses back from the SBA."

Go here for more details on the forgiveness applications and to download the forms.

Here are some other notes about PPP today, the streamlined applications and the potential for additional fraud as highlighted by Mike Maksymiw and Dawn Minotas of accounting firm Marcum LLP:

• The SBA estimates that businesses with at least one employee other than the owner are about $49 billion (9%) of the loans, and the likelihood of those businesses qualifying for one of the full-time equivalent or wage reduction exemptions is high. Therefore, the SBA determines that the relief should apply to these businesses.

• The impact of a reduction in forgiveness is significantly higher for loans $50,000 and less on businesses that do involve more than one employee. A business with five employees that has to lay off just one employee would result in a 20% reduction in forgiveness, which could be financially significant to that business.

• About 67% of forgiveness applications are likely to be 100% forgiven providing the money was spent on appropriate expenses. The dollar amount this impacts is only 12%, which reduces the likelihood of large-scale fraud. The SBA can still look at these loans to see if the companies were eligible to apply and that those that file the new application are actually eligible to use it.

• Admittedly there are likely to be some loans under $50,000 that were obtained fraudulently, but most likely this is a small number of these loans. It is more likely that a sole proprietor or small business owner, afraid for the future and concerned about economic uncertainty, applied for the loan in anticipation of a decline in their business. It is possible the funds from a PPP loan, which ultimately ended up not being needed by a sole proprietor, were put back into the community. Since there were few restrictions on the use of funds by a sole proprietor with no employees, even if they used the funds for a remodeling project in their home, for example, then ultimately the funds ended up boosting the economy by providing employment to the contractor that was hired to do the remodeling job. This was the entire premise of the PPP loan, to keep people working and paying their bills to facilitate a faster ramp up of the economy once it reopened. It is also possible that some funds were invested in the community through a donation/charitable contribution, thereby boosting the economy in this respect. (Note: 92% of respondents to the Marcum-Hofstra University CEO Survey who received PPP loans said their businesses could have continued without the loans.)

• The de minimis exception greatly reduces the workload for the SBA and banks, without putting a lot of the PPP funds at risk. By contrast, if a $150,000 threshold were used, that is approximately 87% of the overall PPP loans increasing the risk significantly.

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