

No forgiveness: Small businesses still on hook for rescue loans

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When the government pledged to give small businesses billions of dollars in rescue loans during the pandemic, it was an offer almost too good to refuse: The loans could be forgiven if employers only maintained payroll.

In little more than four months, the Paycheck Protection Program doled out \$525 billion in loans to 5.2 million borrowers, which economists estimate saved millions of jobs. But to date, none of the loans have been forgiven.

Lenders that helped the government deliver the money are warning that the effort is running into new delays and complications that could leave struggling employers on the hook with unanticipated debt.

Banks say the process for converting the government-backed loans into grants has been frustrating because of a lack of communication from the Small Business Administration and the Treasury Department, which have run the effort since Congress created it in March.

Banks, which loaned their own money with the expectation that it would be repaid by the government, have been submitting applications for loan forgiveness to the SBA since Aug. 10. But the lenders say the agency has been silent on whether any of the applications will be accepted. The SBA said Thursday it has received 96,000 forgiveness applications — representing fewer than 2 percent of the total loans — but has not approved or denied any of them.

“No bank I know anywhere in the country has received any money from the SBA,” said Brad Bolton, president and CEO of Community Spirit Bank in Alabama.

The warnings from lenders are raising new doubts about the implementation of the small business rescue effort, which was seen by many as a success. Its authority to issue new loans expired on Aug. 8, and there is broad, bipartisan support to relaunch the program if lawmakers can strike a deal on economic relief.

The confusion is creating potential headwinds for small businesses as they struggle to emerge from a recession.

Adding to the frustration is a growing list of unresolved questions from banks about how to handle forgiveness applications. Banks say they have gotten conflicting information from various SBA officials. Issues that have arisen include what to do for owners who are urgently trying to finish the process as they try to sell their business.

Another concern that has surprised borrowers as well as some lenders is a requirement that the proceeds from a separate SBA disaster aid program must be deducted from the amount of the payroll loan that can be forgiven. That means many businesses will likely be left with money to pay back to their bank.

"They've been pretty much radio silent over the last few weeks," said Consumer Bankers Association General Counsel David Pommerehn. "There are still a lot of technical issues banks have, and we continue to push the SBA to offer some guidance."

The situation echoes problems that plagued the program at its start, when the Trump administration rushed to launch the lending vehicle but left banks and businesses in the dark about key details. Banks say they have serious doubts about the SBA's ability to execute the forgiveness phase and that it could drag out much longer than expected.

"There is significant concern as to how the process is going to work and a concern the SBA may not anticipate the magnitude of loan forgiveness applications they're going to receive," said Naeha Prakash, associate general counsel of the Bank Policy Institute, which represents the nation's big banks.

The SBA, which declined to comment on questions raised by POLITICO for this story, is under competing pressure to deliver money rapidly while ensuring that it cracks down on fraud and abuse.

Pressed by House lawmakers in a hearing on Thursday, SBA Chief of Staff William Manger said "we've tried to make the process as simple as possible ... weighing our fiscal responsibility and duty to the taxpayer to make sure that any time we are paying out funds for forgiveness they are legitimate, accurate funds and that the program has integrity."

Banks are becoming more vocal about their complaints as they lobby Congress to pass legislation that would slash the amount of paperwork that businesses have to fill out to file for loan forgiveness, in particular those with loans under \$150,000.

Lenders have been slow to start accepting the applications as they wait to see if lawmakers overhaul the process. The Consumer Bankers Association says about 80 percent of the applications that its members have received have required follow-up with clients to correct information and address issues. Bank representatives told POLITICO that there have been problems with applications from large, sophisticated businesses and small employers alike.

"Unless we get something both from a legislative perspective and from Treasury and SBA to make this process a little easier, it's going to be a struggle," Prakash said.

The Government Accountability Office — Congress's watchdog arm — is also warning of problems with the process. In a [report on coronavirus bailout efforts](#), the GAO identified "difficulties and delays for borrowers in obtaining loan forgiveness" and said there was "uncertainty about the lender's role in the process."

Under the program's rules, banks and the SBA have months to decide whether a loan should be forgiven. Lenders have 60 days to submit applications to the SBA once they receive them from customers. The agency then has 90 days to make a final decision and send funds to the bank. Payments on the 1 percent interest rate loans are deferred for up to 10 months if businesses don't apply for forgiveness, and the loan doesn't need to be paid off for either two or five years.

But many small businesses are eager to dispense with the loans as soon as possible. Erik Asgeirsson, president and CEO of CPA.com, said most owners will wait to apply but some are filing now because they are trying to sell their business.

"They need to have the loan off the books," he said. "I'm aware of some businesses that have been in the process of being sold and the firms have worked very aggressively to get that application done and get it submitted by the bank to the SBA."

The SBA has signaled that it will release guidance soon on the issue but it's just one of a number of questions banks have been trying to get the agency to address.

Another area that lenders believe needs clarification relates to how soon businesses can lay off workers or cut pay if they file for loan forgiveness early. Under the Paycheck Protection Program, businesses have up to 24 weeks to spend the funds, during which time they must devote at least 60 percent to payroll if they want to maximize loan forgiveness. Banks are also still asking the SBA to clarify how they can adjust loan terms that Congress modified this summer.

Another complication that could have long-lasting effects for banks and borrowers is a requirement that businesses must reduce their forgiven loan amount by however much they also received from the SBA as a grant under its separate Economic Injury Disaster Loan Program. The SBA issued \$20 billion in grants under that program to nearly 6 million small businesses. The reduction means that many business owners will likely be stuck owing money to their lenders.

Small business advocates and bank representatives say businesses and some lenders didn't fully recognize the requirement at the outset of the program. "It's becoming a huge issue," said Prakash of the Bank Policy Institute.

One executive from a large bank who declined to be identified said 20-30 percent of the bank's borrowers participated in both programs, meaning the bank would have to ask the businesses to repay portions of the loans.

"That's not something we expected at all," the executive said. "I'm concerned about whether customers actually understood this was the way it was going to operate. I don't think they did."