April 8, 2020

To: Your Member of Congress

Regarding: CARES ACT – Paycheck Protection Program Issues

Dear ,

We appreciate you allowing us this opportunity to provide feedback and suggestions regarding the operation of the Paycheck Protection Program (PPP).

Since we contacted you early this week with our concerns, the chorus of complaints specifically around PPP has risen to a thunderous volume – bluntly, it isn’t working, and it particularly isn’t working for the small and micro businesses in our communities.

The goal of the PPP was to get money out quickly to small businesses to help them retain workers and survive until the nation was again “open for business”. Great goal, extremely problematic implementation. As of the date of this memo the following problems exist (most of which we are sure you have heard):

* Each bank is writing its own rules around who it will serve. Some have limited it to existing customers, other limit to “business accounts only”, those with credit relationships, thereby shutting out many millions of sole proprietors who do not have commercial loans and utilize personal checking accounts.
* Community banks have been put in a terrible position. The Administration’s trumpeting of this program as a huge stimulus and panacea for small business is in stark contrast to the constraints placed on small banks who have limited capital – community banks are simply not able to accept the volume of applications submitted. Business owners are angry at being turned away and banks look like they are being poor supporters of the community.
* Big businesses are able to access the funds by applying based on location – if they have less than 500 employees in a single location, they are eligible. Small businesses who do their own bookkeeping are competing with sophisticated larger businesses utilizing high-end CPA firms to hand-walk their applications through the process – again, small businesses are disadvantaged.
* SBA micro lenders and CDFIs (Certified Community Development Financial Institutions) were not included as lenders in this program. We believe that is a major mistake; lenders in these programs, such as WEV, are highly experienced in making loans to small business. Our expertise could be instrumental in assuring that small businesses receive the money that was intended to reach them through the PPP.

While all of the above points are important and need to be addressed, **in our opinion the HUGE flaw in how this program was structured lies in expecting banks to use their own capital to fund PPP loans.** All banks have capital ratios they must maintain. The magnitude of the stimulus dollars that need to be funneled through the PPP will put ANY bank, even our largest institutions, in violation of capital and concentration ratios. Which means they can only accept a fraction of the loans businesses are seeking.

We believe that the PPP needs to be immediately revised to use 7a SBA lenders, CDFIs and SBA micro lenders as the *processors* of PPP applications, not the funders. The SBA should pay each processing financial institution a fee for accepting, reviewing and assisting with the filing of PPP applications. The forms should be standardized by SBA, not variable from institution to institution. The processing financial institutions should submit to SBA and the loan should be funded directly to the borrower – much like a tax return is submitted to the IRS and refunds issued directly to the taxpayer.

The Treasury is now saying that it will expedite a buy-back of PPP loans made by banks, but the 7 weeks currently proposed for buy-back does nothing to expand a bank’s capital for immediate lending – and the need is immediate and desperate.

We recognize that this option will require a new bill and/or modifications to the CARES Act, no easy feat in Washington these days. But we sincerely believe it is a superior approach to the present operation of the PPP.

At a minimum, we urge that CDFIs and SBA micro lenders be added immediately to the list of approved lenders for this program and be allocated funds through the existing grant mechanisms to allow these lenders to respond to the needs of our small business community.

We are aware that Speaker Pelosi is working on a follow-up recovery bill. We hope that you will share our urgent concerns with her and insist that the CARES Act be amended or augmented immediately.

We are gathering signatures of community leaders and business owners in the district in support of the actions we have suggested above. We will submit those additional supporters in the next several days.

Please don’t hesitate to contact either of us if we can be of assistance.

Sincerely,