

Paycheck protection loan program hampered by uneven rollout

By: *Justin Henry*

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The Paycheck Protection Program (PPP) has caused a perfect storm for the midstate financial services sector — not just for the unprecedented scale of the loan program intended to sustain companies affected by the pandemic, but with day-to-day updates to guidelines about how to make funds available.

In an effort to provide small businesses faced with the imminent prospect of bankruptcy due to COVID-19, lenders hurried to comply with incoming guidelines from the Small Business Administration that qualify them to make federally-guaranteed loans to small businesses, to the extent that 75% of those funds are used to keep workers on payroll and 25% on overhead costs.

Qualifying PPP lenders were instructed to start accepting borrower applications on April 3, when several guidelines were still pending from the Small Business Administration.

By Thursday afternoon, lenders had reserved nearly 500,000 loans valued at more than \$130 billion, SBA officials said. That's about 37% of the \$349 billion approved for the fund under the CARES Act, from over 4,000 lenders have been approved nationwide.

Since the Paycheck Protection Program went online, participating financial institutions have been working overtime to wade through the inundation of loan applications from customers seeking financial support.

Many lenders have given preference to clients with an existing commercial lending relationship, said Ryan Hurst, a partner with Lancaster-based RKL's business consulting practice. Some banks like PNC Bank and Bank of America only accept PPP applications from customers with existing accounts, while local community banks like Orrstown Bank and Centric Bank are taking on business applicants without prior lending relationships.

"There was a lot of inconsistency with this and I have no doubt that some business owners felt like they were on the outside looking in," Hurst said.

Lehigh Valley Financial Group President Jeff Barber said fluctuations in the interest rate for outstanding loan funds have made banks "re-evaluate" if they want to take on many of the high-risk applicants who need the funds most critically.

The initial CARES Act legislation, signed into law March 27, said any outstanding loan funds would be paid back at 4% interest over 10 years. But the Treasury Department have fluctuated those compensation rates — down to .5% and most recently back up to 1%. The amortization is now set at 24 months with the first six months payment free to borrowers.

"I had one bank tell me they had \$500 million set aside but they said they were reevaluating whether they wanted to have that money on the street because the Treasury and the SBA were messing with the rates," Barber said in an interview this week.

Orrstown Bank Chief Communications Officer Luke Bernstein said his bank received more than 1,000 PPP loan applications by Wednesday and processed about 900, which are ready to go to as soon as SBA officials verify rulemaking that allows the bank to use documentation native to its system. By Wednesday evening, the use of documentation systems native to lenders was granted.

"You might have a lender that does five SBA loans a year, but if you do a thousand non-SBA loans, rather than going through the process where you do five, you could rely on the process where you do thousands and do the process much faster if you are using existing technology rather than starting from scratch," Bernstein said.

Lenders needed to adapt to the SBA's E-tran system to submit PPP borrower documentation — corporate documents, payroll reports, identification — to the SBA for guarantee approval. Patti Husic, president of the Harrisburg-based Centric Bank, said the process of onloading bank employees to the SBA's E-trans system could take days.

"Getting your own process streamlined does take a significant amount of work," Husic said. "One of the things our team did working all night long is setting up a loan portal to deal with this volume coming through."

The E-tran system experienced slowdown the first day of the Paycheck Protection Program, according to multiple lenders, confirmed by a public statement made by Senator Marco Rubio, R-FL, chairman of the Small Business Committee. Husic said the E-tran system crashed more than once on Monday, extending the time to process PPP loan to hours.

"We recognize that these systems were not created to handle the volume of applications they are seeing today, but we must work with the systems we have," the Independent Community Bankers of America (ICBA) wrote in a letter to Treasury Department officials this week pleading for improvements to the overburdened SBA application system.

"Without a more robust intake process, American small businesses in many parts of the country will not receive and deploy the funds intended for them," ICBA officials wrote. "Community bankers are frustrated with failed technology links and portals. Even those banks with access to the E-tran system have shared their experiences of significant challenges with user access and latency in application processing. But these banks are also persistent and determined to make this program succeed."

ICBA Chairman Noah Wilcox told President Trump in a Tuesday conference that an informal survey by the association showed more than one-third of all community banks were unable to access the E-tran system, "meaning these community banks were boxed out and unable to serve their communities and customers."

"Just imagine the awesome power and the difference we could make if 100% of those banks had access to the system," he said.

Hurst said while the standardization of regulations with more concrete guidance will be very helpful, the \$349 billion PPP could prove to be underfunded.

Banks would like to lend more, he said, but they're not permitted to until Congress approves more funds to the program or the SBA can buy back some of the loans off their balance sheets.

"The SBA has a component in place for that," Hurst said. "After seven weeks, the SBA can ... actually buy back some of the loans, but the mechanism isn't really there now and now is really when they need the help."



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