April 2, 2020

The Honorable Steven Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable Jovita Carranza
Administrator
U.S. Small Business Administration
409 3rd Street, S.W.
Washington, D.C. 20416

Dear Secretary Mnuchin and Administrator Carranza:

The undersigned state banking associations, representing more than 52,000 locations across the country, thank you for your hard work and ongoing leadership during this crisis. We have a shared goal of minimizing the shock to the economy and strengthening its resilience once economic restrictions are lifted. With this in mind, we write to express our concerns with the March 31 guidelines for the Paycheck Protection Loan Program (Program) created by the recently enacted CARES Act. We strongly recommend that you make changes to the guidelines before the Program goes live so that it will work as intended by Congress.

As you know, community banks' participation is critical to the success of this Program. Small business lending, including but not limited to SBA 7(a) lending, is at the very core of community banking, built on relationships, local knowledge, and underwriting skills honed over generations. Our chief concern is that, as written, the guidance does not empower all of our nation's 5,000 community banks to serve the impending demand for loans from this new program.

Community bankers were encouraged that the Paycheck Protection Loan Program was included in the CARES Act. We were grateful for the opportunity to provide direct input into crafting the statutory parameters of the Program. Community bankers want nothing more than the opportunity to deploy desperately needed credit to help local businesses bridge the current crisis and sustain their employee base and meet their other financial obligations. If the Program doesn't work for all community banks, both current SBA 7(a) lenders and others, then it will fail to achieve its objectives.

Our concerns are outlined below together with our recommended changes.

Interest rates below "break even." The guidelines provide for an interest rate of 0.5 percent. Community bank lenders cannot "break even" with such a low rate of interest and many will not participate in the program. The 4 percent rate envisioned in the CARES Act is reasonable. It would not make these loans profitable for lenders; we recognize that that's not the purpose of the Program. But a 0.5 percent rate would create unacceptable losses for lenders, which have a duty to preserve their good health for the sake of their communities. We recommend changing the guidelines to allow for rates at the 4 percent level provided for in the CARES Act or as close as possible to that level.

Loan terms are unreasonably short. The guidelines provide for two-year loans. This is an unreasonably short term and will create hardship for cash-starved small businesses. The CARES Act provides for loans of up to 10 years. This term was chosen deliberately to ease payment terms for struggling borrowers. Treasury and SBA should use authority given them by Congress to provide loan terms of 10 years or as close as possible to that term

Restrictions on use of loan proceeds. The guidelines provide that no more than 25 percent of loan proceeds may be used for expenses other than payroll. A small business will not survive the crisis if it cannot meet its other expenses such as rent, mortgage interest, and utilities, the payment of which support payroll and employment in other businesses. We urge you to raise this restriction.

Lender liability. The guidelines provide little guidance on critical aspects of the Program such documentation required to determine eligibility, the process for submission and approval of the loans by SBA, the collection of servicing fees, and the determination of funds to be forgiven. Historically, collection of SBA guarantees has proved challenging and at times frustrating. This lack of guidance shifts too much liability to the lender and, despite the guarantee, creates too much process risk relative to the very limited interest rate.

Liquidity. Treasury and the Federal Reserve should immediately create a liquidity facility for community banks to obtain advances to help fund PPP loans and to quickly securitize any unforgiven loan balances. Congress has granted the Federal Reserve and Treasury broad authority and resources to create such liquidity facilities to help small business and has strongly encouraged you to do so.

Taking all of the above concerns into consideration, many banks have already indicated that they will not be able to use the Program under the current terms. Others will only use it for current customers, greatly limiting the purpose and potential of the Program. This would be an unacceptable lost opportunity at a time when we can least afford it. I urge you to amend the guidance so that community banks will willingly use it to help their small business partners and communities. While we believe that our recommendations are the best means of leveraging the opportunity created by the CARES Act, the creation of a Treasury facility to immediately purchase the loans at par and free of lender balance sheets would also improve Program viability.

Finally, I urge you to consider that community banks are themselves small business and important employers in their communities. The low interest rate environment is already a strain on their interest margins. Despite this, they are committed to helping their communities in a time of need. They have a responsibility to keep their doors open for the sake of their communities. Many areas of the country are served only by community banks, as they don’t suit the business model of large banks or other non-bank financial services providers.

We need community banks to bridge the crisis and to remain financially sound and well capitalized. When economic restrictions are lifted, healthy community banks will help restart the economy in thousands of communities across the country.

We know that you appreciate the critical role played by community banks in the American economy. We hope that you will give all due consideration to these recommendations as equal and fair access for all community banks will be critical to the success of the Program.

Sincerely.

Alabama Bankers Association
Arkansas Community Bankers
Arizona Bankers Association
California Community Banking Network
Independent Bankers of Colorado
Florida Bankers Association
Community Bankers Association of Georgia
Community Bankers of Iowa
Idaho Bankers Association
Community Bankers Association of Illinois
Indiana Bankers Association
Community Bankers Association of Kansas
Bluegrass Community Bankers Association
Louisiana Bankers Association
Massachusetts Bankers Association, Inc.
Maryland Bankers Association
Maine Bankers Association
Community Bankers of Michigan
Independent Community Bankers of Minnesota
Missouri Independent Bankers Association
Mississippi Bankers Association
Montana Independent Bankers

North Carolina Bankers Association
Independent Community Banks of North Dakota
Nebraska Independent Community Bankers
New Hampshire Bankers Association
New Jersey Bankers Association
Independent Community Bankers Association of New Mexico
Independent Bankers Association of New York State
Community Bankers Association of Ohio
Community Bankers Association of Oklahoma
Oregon Bankers Association
Pennsylvania Association of Community Bankers
Independent Banks of South Carolina
Independent Community Bankers of South Dakota
Tennessee Bankers Association
Independent Bankers Association of Texas
Virginia Association of Community Banks
Vermont Bankers Association, Inc.
Community Bankers of Washington
Wisconsin Bankers Association
Community Bankers of West Virginia
Wyoming Bankers Association

CC: Federal Reserve Chairman Jerome Powell
Senate Small Business and Entrepreneurship Chairman Marco Rubio
Senate Small Business and Entrepreneurship Ranking Member Benjamin Cardin
House Small Business Chairwoman Nydia Velázquez
House Small Business Ranking Member Steve Chabot