



PPP Forgiveness Audits – What Should You Know?

regulatory lending PPP

Summary: The Paycheck Protection Program helped many businesses through the pandemic and community financial institutions played a key role in getting these funds to their customers. Now, with PPP forgiveness underway, what should CFIs expect from the audit process of these loans? We help to answer that question.

We found many acts of heroism by everyday people. A 29Y old tackled a shooter in a waffle house, a 22Y old rescued a toddler hanging from an apartment balcony, and a band of restaurant employees and customers pulled an SUV off of a little boy who was hit and pinned by it. These good Samaritan acts saved the day by coming to the rescue when it was needed most.

When it was needed most, the Paycheck Protection Program (PPP) rode to the rescue as well, keeping small businesses and their owners economically afloat.

As we have heard, many of the lenders are community financial institutions (CFIs). According to the FDIC, [community banks provided PPP loans worth \\$148B](#) or 28% of all loans and 31% of all bank-funded loans. Not only that, 851 credit unions under \$10B in assets were active participants in PPP too, with over 152K loans approved.

However, PPP's loan forgiveness process creates some audit challenges for CFIs that wrote those loans. Here's what CFIs should expect in the audit process.

EXPECT REASONABLE SCRUTINY

Altogether, SBA lenders funded 11.7MM PPP loans totaling \$800B for 8.5MM small businesses. The sheer volume of PPP lending means that not every PPP loan forgiveness application will get a granular review. However, CFIs should proceed as though their loans will get some level of detailed inspection.

Newly launched SBA portal for smaller loans

To eliminate some of the volume for the SBA, [borrowers with smaller loans \(of less than \\$150K\) can apply for loan forgiveness directly](#) through the SBA's recently launched streamlined forgiveness application portal. As SBA Administrator Isabel Casillas Guzman said, *"The vast majority of businesses waiting for forgiveness have loans under \$150,000... We need to deliver forgiveness more efficiently so they can get back to enlivening our Main Streets, sustaining our neighborhoods and fueling our nation's economy."*

CFI-processed loan forgiveness

Some CFIs have opted to create their own forgiveness portals for borrowers. They find it easier to walk their customers through the process to preserve the relationship and provide the convenience of one-stop service for PPP borrowers.

Since the SBA is reviewing applications as promptly as possible, CFIs must be sure to have documented customer due diligence and identification — details that could have gotten blurred in the rush to get loans to

small businesses. Backing up documentation with procedures intended to prevent and report suspicious activity and possible fraud is also important, especially for PPP borrowers who were not already customers when they applied for a loan. Ensure that all PPP loan files are reviewed for completeness and updated accordingly, in advance.

PREPARE FOR BALANCE SHEET DISCUSSIONS

CFIs should also be ready to talk with regulators about their own balance sheets. PPP loans and ensuing deposits have pushed many institutions near the limits of loan-to-deposit and regulatory capital ratios. With loan forgiveness, many loans will be paid off which will affect the number of active loans on the books too.

WORK CLOSELY WITH BORROWERS

Even though the onus is on borrowers to prove that a PPP loan should be forgiven, institutions have a responsibility to collect documentation that supports forgiveness applications. Any PPP audit requires a review of borrower eligibility, justification for the loan's amount, documents that support loan forgiveness, an explanation of how the borrower spent loan funds, and good faith certifications. CFIs should expect to require narrative explanations, supporting documents, signatures, and certifications from their borrowers. They should also expect to provide all documents supporting decisions made around PPP loans, including calculations around loan amounts.

But CFIs don't need to research every claim that a borrower makes. They should review borrower documentation for accuracy and completion, but it's not their job to independently verify every piece of information on that documentation.

CFIs rose to the occasion with PPP lending, when small businesses were in dire need. PPP forgiveness audits may be challenging. But, you should be prepared, having followed proper procedures and gathered the necessary documentation. You served your customers well by providing a lifeline. Regulatory agencies know this.

TWO APPROACHES TO STRESS TEST YOUR LOANS

Now more than ever, it is important to stress test loans of all types from multiple perspectives. Choose your approach and get expert help, as needed. Learn more about credit [stress testing](#) today.

ECONOMY & RATES

Rates As Of: 09/22/2021 05:49AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.03	-0.01	-0.06
6M	0.04	-0.02	-0.05
1Y	0.07	0.00	-0.04
2Y	0.23	0.02	0.11
5Y	0.85	0.07	0.48
10Y	1.33	0.01	0.41
30Y	1.85	-0.08	0.21
FF Market	FF Disc	IOBB	

0.08	0.25	0.15
SOFR	Prime	QBER
0.05	3.25	0.07

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