NEVADA BANKERS ASSOCIATION

INVESTING IN NEVADA TOGETHER

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Helping Customers Through the PPP Forgiveness Process

Bankers have been crunching the numbers a lot lately, especially with the Paycheck Protection Program. In particular, we know many of you have been working with your small business customers to help them with loan forgiveness. So, we wanted to provide you with seven pointers to help shepherd your borrowers through the loan forgiveness application process.

1. **Review rules** governing the loan forgiveness process on the US Small Business Administration's website. Borrowers need to submit the loan forgiveness application to their financial institution (FI), which includes providing calculations and supporting documents. Their FI must verify the mathematical accuracy of calculations and check for appropriate documentation, though the institution does not need to independently verify whether the information is correct.
2. **Train staff** on how to review the calculations and documents within applications, how to determine forgiveness eligibility and amount, and how to submit that to the SBA. The FI has 60 days to determine eligibility and request payment of the forgiveness amount from the SBA; the agency has 90 days to review and remit payment, plus any interest accrued.
3. **Consider utilizing specialized software** newly developed by vendors to process PPP loan forgiveness applications. Some vendors provide a white-labeled, cloud-based portal for borrowers to submit applications, and the entire process for FIs is automated, including calculating, and submitting forgiveness amounts to the SBA.
4. **Prepare for the SBA to potentially audit** certain borrower applications. While the ultimate responsibility of the application's veracity rests with the borrower, you will want to establish the necessary controls and documentation to demonstrate to the SBA that you diligently followed the agency's rules for processing, reviewing, and monitoring borrower applications.
5. **Prepare for the SBA to potentially limit** the amount of forgiveness for some borrowers, or reject forgiveness altogether, though borrowers can appeal. Borrowers have the remainder of the loan term to repay the portion of the loan that was not forgiven — or its entirety. Borrowers must retain PPP documentation for 6Ys after the date the loan is forgiven or repaid in full. Lenders must comply with applicable SBA requirements for records retention.
6. **Post links** to the SBA's rules on your website, and include helpful FAQs, to best help borrowers prepare. Some FIs are posting videos to guide borrowers through the process, and one of them posted a webinar with 6K borrowers participating. Set expectations with borrowers about potential limits on forgiveness too.
7. **Communicate frequently** with your staff regarding the reasons why a loan was denied forgiveness. Also, update your senior management & board on this too, so everyone is in the loop.

This process may not be easy, but you'll engender more loyalty with your borrowers, as you continue to help them through these trying times.

More from PCBB

Top Six Stress Testing Tips During COVID-19

While there are still routine things to look for when stress testing in today's world, there are also some new areas to address. In order to help you with this, today we provide you with our six stress testing tips for COVID-19.

Sensitivity Testing. COVID-19 is an example of the need to do sensitivity testing as well as scenario testing. For instance, can my portfolio withstand an event that is one, two, or three standard deviations (that the far outer edges of normal might be), regardless of where the pressure comes from? Consider sensitivity back-testing to document how specific actions, by your institution and the government, remediated events.

NAICS. Conventional stress testing of loan types may be useful, but does it capture the difference between essential and non-essential businesses? You may find it more valuable to test by NAICS (North American Industry Classification System). That is specifically test hotels, restaurants, bars, gaming, etc. rather than CRE or C&I. In some counties, bars that serve food have been allowed to open, while bars without foodservice have not.

Supply Chain Relationships. Remember to look at your supply chain relationships, especially in Agriculture and C&I. Just-in-time supply chain businesses are hit hard and some continue to struggle, as different parts of the economy move forward. A few weeks ago, there were concerns about oil storage, and more recently, there are concerns about meat processors. As the economy restarts county by county, future disruptions in the supply chain are likely to happen.

Dig Deeper. After looking at the direct impact from supply chain relationships, dig a little deeper. Are the revenues that support debt service coming from those NAICS businesses that have been deemed non-essential or eligible for future phased openings? For example, apartment buildings located near certain non-essential businesses that are not yet open.

Loan Structures. Finally, pay attention to loan structures. Balloons that are coming due have a greater chance of becoming a Troubled Debt Restructure (TDR) with charge-offs. Borrowers may not be able to qualify for refinancing due to lost revenue to cover debt service and/or falling values due to CRE demand shifting due to work-from-home practices.

Liquidity. In addition to credit, don't forget liquidity. Depositor balances are moving in ways that you may not expect as PPP funding arrives, but then is used as intended, to rehire employees. Many businesses that are reopening are finding expenses higher than expected, due to cleaning and extra protective equipment for staff combined with lower revenues. Don't forget government sector balances as taxable activities have been reduced.

Bankers entered COVID-19, with greater capital than the last recession. Further, individuals and businesses have received significant government assistance. With adequate stress testing, you can be prepared to understand where potential risks may be in your portfolio and how these impact liquidity and capital.

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