ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA®

August 19, 2020

The Honorable Jovita Carranza
Administrator
US Small Business Administration
409 3rd Street, SW
Washington, DC 20416

Re: The Interaction Between the Paycheck Protection Program and Economic Injury Disaster Loan Programs

Dear Administrator Carranza,

The Independent Community Bankers of America ("ICBA")[1] would once again like to thank the U.S. Small Business Administration ("SBA") for its tireless work to implement and administer the Paycheck Protection Program ("PPP"). Because of this program, thousands of community banks across the nation have been able to bring emergency liquidity to small businesses and non-profit organizations in desperate need. History will show that your leadership in facilitating the origination and processing of PPP loans had an overwhelming impact on supporting the survival of small businesses amid the coronavirus pandemic. ICBA and its community bankers are appreciative of your efforts and look forward to working with you as the PPP evolves.

An issue that has repeatedly arisen, causing confusion for banks and for borrowers, is the interaction between the Economic Injury Disaster Loan ("EIDL") Program and the forgiveness of PPP loans. Specifically, under the EIDL program, borrowers may receive up to a $10,000 advance payment ("EIDL Advance"), designed to provide relief for small businesses and non-profits experiencing a temporary loss of revenue. While first appearances indicate that this advance functions similarly to a grant—in that it does not need to be repaid to the SBA by the borrower—the amount is deducted from the forgiveness received for a PPP loan.

The result of this deduction is that, even if a recipient of a PPP loan spends their entire loan amount on covered expenses, they may be left with a substantial unforgiven balance that must be repaid. **For many small businesses, especially those that must continue to operate at reduced capacity due to the COVID-19 Pandemic, this unexpected debt burden could prove fatal.** Furthermore, if small businesses are unable to pay the unforgiven portion of their PPP loans, it requires community banks – which have been central to the success of the PPP

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than $4.9 trillion in assets, $3.9 trillion in deposits, and $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

program – to expend additional time and expense to collect on their loan guarantee from the SBA, just to be made whole.

According to guidance issued on August 11, "If a borrower received an EIDL advance, SBA is required to reduce the borrower's loan forgiveness amount by the amount of the EIDL advance. SBA will deduct the amount of the EIDL advance from the forgiveness amount remitted by SBA to the lender."[2] This means that *all EIDL advances* – even those used for purposes not covered by the PPP or for PPP-eligible expenses outside of the PPP-covered period – will be deducted from borrower forgiveness.

Based on feedback ICBA has received from community bankers around the country, **this reduction in forgiveness comes as a surprise to many PPP loan recipients**. Indeed, it appears to directly contradict SBA guidance to EIDL recipients, which has consistently indicated that EIDL Advances do not have to be repaid. This confusing, if not misleading, guidance has led many small businesses to believe that they could receive both the EIDL Advance and the entirety of their PPP Loan as a grant. ICBA fears that this mistaken reliance may lead many businesses to close permanently or to face significant economic hardship as they are left with the burden of unexpected and unforgiven debt.

As a matter of public policy, it does not make sense to saddle small business with additional debt in the middle of a once-in-a-century health and economic crisis. ICBA understands that SBA has a duty to ensure that taxpayer funds are not misspent or that bad actors do not unfairly benefit from programs intended for disaster relief. However, providing grants to small businesses in their most severe hour of need is not a waste – it is a necessity, and the best way to faithfully uphold the intentions that animated the CARES Act.

Therefore, we strongly urge SBA not to deduct EIDL Advances from the amount of PPP loan forgiveness. Granting this additional measure of forgiveness will mean the difference between continued existence and insolvency for small businesses across America. Additionally, it will save considerable time and unnecessary expense for community banks – many of which are small businesses themselves – at a time when preserving capital is critical to the safety and soundness of the banking system.

At a minimum, the SBA should consider not deducting EIDL Advances in instances where the advances are not used for the same purposes as the PPP loan or in instances where they are used outside the PPP covered period. This small step, which answers the concern about borrowers being forgiven twice for the same covered expense, would not be as beneficial to small businesses as declining to deduct all EIDL Advances from PPP forgiveness, but it would help some small businesses in need.

As borrowers are presently beginning to apply for PPP loan forgiveness, we urge the SBA to act quickly to address this situation.

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[2] Small Business Administration, *Paycheck Protection Program Frequently Asked Questions (FAQs) on PPP Loan Forgiveness* (Aug. 11, 2020), available at: https://www.sba.gov/sites/default/files/2020-08/PPP%20--%20Loan%20Forgiveness%20FAQs%20%28August%2011%2C%202020%29.pdf.

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Thank you for your attention to our concerns.

Sincerely,

/s/

Rebeca Romero Rainey
President and CEO

CC:
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