

# Helping Banks Streamline PPP Lending to Small Businesses Addressing the Challenges Today

**Moderated Panel Discussion**

April 8, 2020

# Goals for Today



Discuss the provisions of the paycheck protection plan



Review common challenges encountered by the market participants



Examine considerations for originating PPP loans in the context of customer relationship



Live Q&A



# Today's Speakers



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*Director*



**Ari Lehavi**  
Moody's Analytics  
*Executive Director*



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RDC  
*Director*



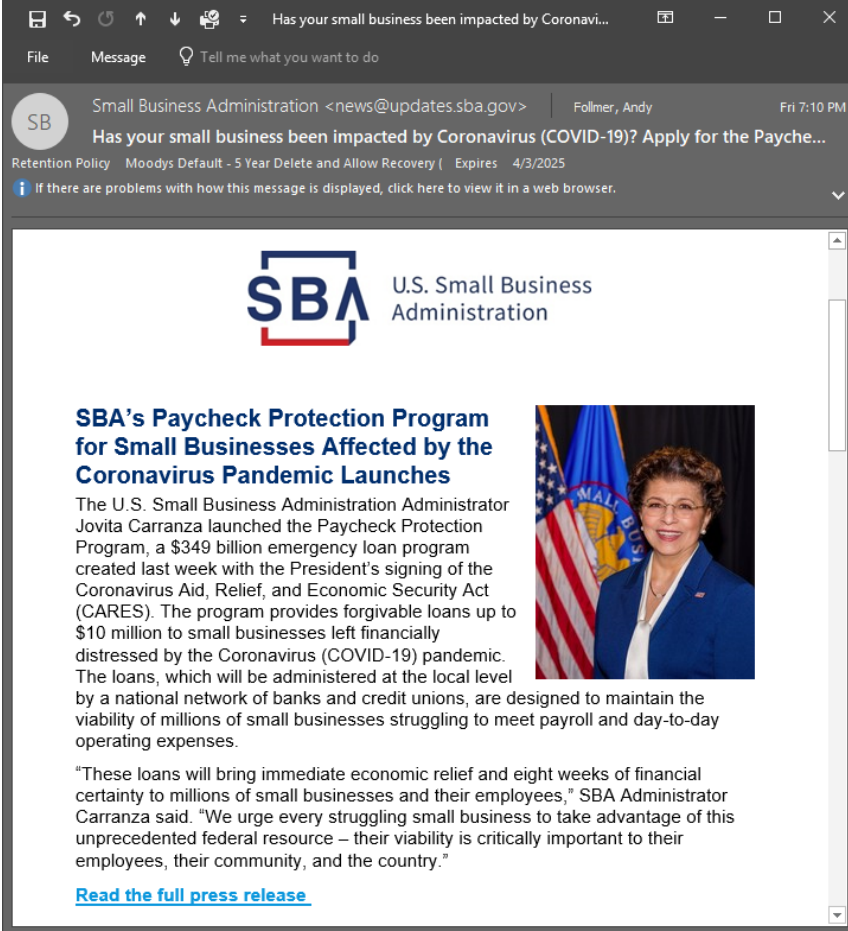
**Anna Krayn**  
Moody's Analytics  
*Managing Director*

# Paycheck Protection Program for Main Street

## NEW! U.S. Small Business Administration (SBA) Program: Paycheck Protection Program (PPP or Triple-P)

- Created through *Coronavirus Aid, Relief, and Economic Security Act (CARES)*
- \$349 Billion Emergency Loan Program (+\$250B?)
- Loans made directly through federally insured Banks & Credit Unions, and the Farm Credit System
- Loan proceeds can be used for:
  - Payroll Costs (including tips)
  - Mortgage Interest
  - Rent
  - Utilities
- Loans to be forgiven if employer maintains salary levels
- PPP launched April 3, 2020 (last Friday)
- Program expires June 30, 2020

MOODY'S ANALYTICS



Has your small business been impacted by Coronavi...

File Message Tell me what you want to do

SB Small Business Administration <news@updates.sba.gov> | Folmer, Andy | Fri 7:10 PM

Has your small business been impacted by Coronavirus (COVID-19)? Apply for the Payche...

Retention Policy | Moody's Default - 5 Year Delete and Allow Recovery | Expires 4/3/2025

If there are problems with how this message is displayed, click here to view it in a web browser.

**SBA** U.S. Small Business Administration

**SBA's Paycheck Protection Program for Small Businesses Affected by the Coronavirus Pandemic Launches**

The U.S. Small Business Administration Administrator Jovita Carranza launched the Paycheck Protection Program, a \$349 billion emergency loan program created last week with the President's signing of the Coronavirus Aid, Relief, and Economic Security Act (CARES). The program provides forgivable loans up to \$10 million to small businesses left financially distressed by the Coronavirus (COVID-19) pandemic. The loans, which will be administered at the local level by a national network of banks and credit unions, are designed to maintain the viability of millions of small businesses struggling to meet payroll and day-to-day operating expenses.

"These loans will bring immediate economic relief and eight weeks of financial certainty to millions of small businesses and their employees," SBA Administrator Carranza said. "We urge every struggling small business to take advantage of this unprecedented federal resource – their viability is critically important to their employees, their community, and the country."

[Read the full press release](#)

# How Moody's Analytics has been helping

Leveraging our data, analytics and expertise

## Wide ranging areas of support

- » Addressing specific requests and offering help where opportunities exist
- » Some examples include:
  - Economic views
  - Sector-specific impact
  - Business performance



# PPP is a Unique SBA Loan Program

## SBA Traditional Programs

- 7A – Loan Limit to \$5.5M
- 504 – primarily real estate or equipment loans – loan limit up to \$7.5M
- Disaster Loan Assistance – Up to \$2M for physical damage
- Small loan assistance (SBA Express) – limit \$350K

## PPP is a Monumental Program

- In 2019, SBA approved 58,000 loans for \$28B
- PPP is a 3 month program for \$349B!!!

MOODY'S

The image shows two overlapping forms from the Small Business Administration (SBA) related to the Paycheck Protection Program (PPP).

**Top Form: CARES Act Section 1102 Lender Agreement**  
 OMB Control Number: 3245-0407  
 Expiration Date: 9/30/2020  
 ("Lender") hereby agrees as a condition and in consideration of authorization by the United States Small Business Administration ("SBA") and

**Bottom Form: Paycheck Protection Program Lender Application Form - Paycheck Protection Program Loan Guaranty**  
 OMB Control No.: 3245-0407  
 Expiration Date: 09/30/2020

**Check One:**  Sole proprietor  Partnership  C-Corp  S-Corp  LLC  Independent contractor  Eligible self-employed individual  501(c)(3) nonprofit  501(c)(19) veterans organization

**DBA or Tradename if Applicable:** \_\_\_\_\_

**Instructions for Lenders:**  
 All Paycheck Protection Program (PPP) loans are processed by all Lenders under delegated authority from SBA. This application signed electronically in accordance with program requirements, and the information requested is to be retained in the Lender's files.

**A. Lender Information**  
 Lender Name: \_\_\_\_\_ Lender Location ID: \_\_\_\_\_  
 Address: \_\_\_\_\_ City: \_\_\_\_\_ St: \_\_\_\_\_ Zip: \_\_\_\_\_  
 Lender Contact: \_\_\_\_\_ Ph: ( ) - \_\_\_\_\_ Cell or Ext: ( ) - \_\_\_\_\_  
 Contact Email: \_\_\_\_\_ Title: \_\_\_\_\_

**B. Applicant Information**  
**Check One:**  Sole Proprietor  Partnership  C-Corp  S-Corp  LLC  Independent contractor  Eligible self-employed individual  501(c)(3) nonprofit  501(c)(19) veterans organization  Tribal business (sec. 31(b)(2)(C) of Small Business Act)  Other

**Applicant**  
 Applicant Legal Name: \_\_\_\_\_ DBA: \_\_\_\_\_ Business Tax ID: \_\_\_\_\_  
 Applicant Address: \_\_\_\_\_ City, State, Zip: \_\_\_\_\_  
 Applicant Primary Contact: \_\_\_\_\_ Phone: ( ) - \_\_\_\_\_

**C. Loan Structure Information**  
 Amount of Loan Request: \$ \_\_\_\_\_ Guarantee %: 100% Loan Term in # of Months: 24 Payment \_\_\_\_\_



## **Polling Question #1:**

**How much has loan application volume increased since PPP started, compared to pre-pandemic application volumes?**

- 1. No Change**
- 2. 2x-3x increase**
- 3. 3x-5x increase**
- 4. 5x-10x increase**
- 5. Greater than 10x increase**

# PPP process: building the airplane while it's taking off


## Loan forgiveness qualification:

- » At least 75% of loan proceeds spent on payroll
- » Must keep employees on payroll or rehire quickly (By June 30, 2020)
- » Other uses include interest on mortgages, rent, and utilities

## Borrower requested forgiveness through the servicing lender:

- » Must include documentation to prove the funds were used within program guidelines
- » The borrower must certify the documents are true
- » The lender has 60 days to make a decision


## Lender can request loan or pool of loans to be forgiven, with:

- » The borrower form with supporting documentation and lender's application with documentation
  - » A detailed narrative explaining how expected forgiveness estimates were made
  - » Alternatives assessed and rejected with rationale
  - » Any other documentation that was obtained from borrower since the loan was disbursed that was used to determine estimated forgiveness amount
- 



# Potential pitfalls for lenders to consider

At the moment this is a 'Cash Crunch'

- » Availability of funds less of an issue this time versus 2007 (but that could change)
  - » Variety of different application channels (in person, on-line, etc.)
  - » New versus existing customer relationships
  - » Availability of appropriate staff
  - » Banks need to ask and verify: Are we dealing with the correct person?
  - » Not only an 'Authorized Representative' but that the business is legitimate
  - » What about multiple applications?
- 

## Polling Question #2:

How much time is spent on average processing each PPP application? (*include time spent working with the applicant, internal processes, and SBA submission*)

1. Less than 30 minutes
2. 30-60 minutes
3. 1-3 hours
4. 3-8 hours
5. Greater than 8 hours

# The process has been burdensome. Why?

Many contributing reasons

## Burden on applicants

- » Data gathering and physical time with lenders
  - Complications with salaries over \$100k, tipped workers
  - Documents to support calculation, including payroll processor records, payroll tax filings, Form 1099 - MISC, Inc & Exps for sole proprietorships

## Burden on lenders

- » Remote work environments
- » Loan volume
- » Standing up a new program
- » SBA technical challenges

## Adapting to a challenging environment

- » Automation of input forms
- » Changing workflows and realigning personnel



# Easing the PPP program for the lenders

## Borrower Portal Solution – Digital Loan Application

### PPP Information Gathering



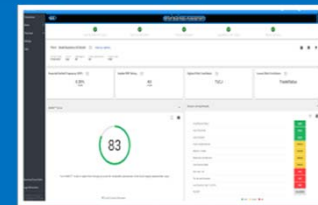
- Secure online portal for lenders to communicate with new and existing customers
- Quickly gather information and documents related to PPP
- Consolidated view on borrower and application status

### Fraud Detection and Screening



- Integrated Know Your Customer (KYC) tools to screen applicants and reduce fraud
- Instant view of risk and other compliance measures of the borrower

### Small Business Credit Scoring



- Integrated scoring model to assess credit risk of small business borrowers
- Auto-scores borrowers, based on minimum inputs
- Monitors credit-risk throughout the life of the borrower




## **Polling Question #3:**

**Are you taking on, or planning to take on new customers for this program?**

- 1. Yes**
- 2. No**
- 3. Yes, but not yet**



# Differentiating PPP loans for new and existing customers

- » Know Your Customer (KYC) rules apply **regardless**
  - » **Critical to understand the nature of the client's business and the extent of their relationship with you**
  - » Need to understand and differentiate between ownership and control
  - » No need to re-verify information for existing borrowers
  - » DoT guidance is to apply a Risk Based Approach (RBA)
  - » Upfront screening for adverse media, sanctions and PEPs
- 

# Considerations for customer acquisition through PPP

Beyond the 90-day relationship



Usage tracking



Customer benchmarking



Credit assessment and monitoring



Sensitivity testing



Training staff



**What's next?**

# Open Questions Beyond the PPP

## Allowance

How will the one-time glut of PPP loans impact your allowance?

How is it different for incurred loss and expected loss (CECL)?

## Portfolio Mix

How can you diversify?

Can you package and sell?

How quickly will these loans run off the books?

What if some or part of the loans are not forgiven?

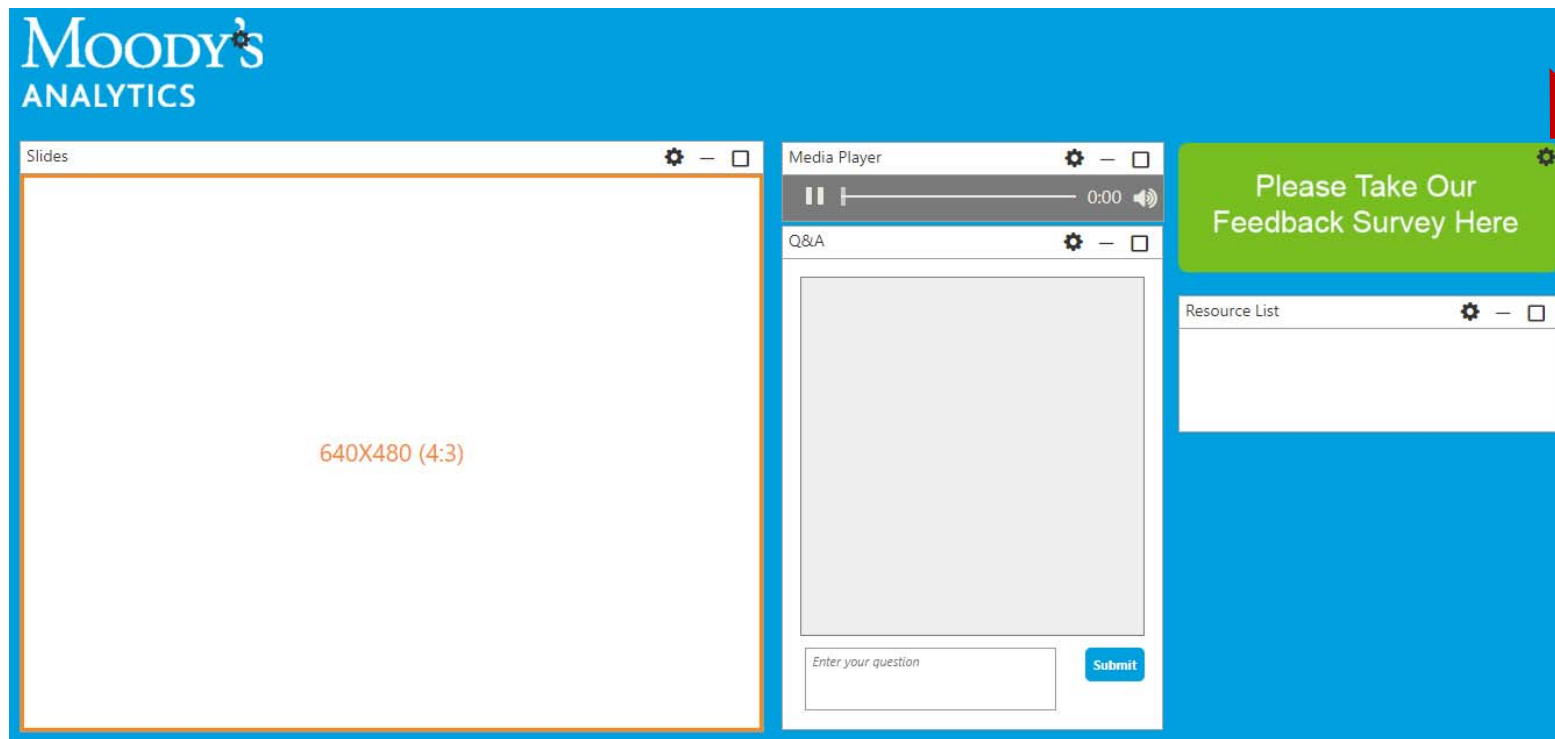
## Future Market Conditions

How would your portfolio react to future changes in market conditions?

Is there a need to conduct stress tests and apply different scenarios to the portfolio to see how it reacts?

# Survey

Your feedback is very valuable



The screenshot displays the Moody's Analytics dashboard with a blue header. The main content area is divided into several sections: a large 'Slides' window on the left showing a 640x480 (4:3) aspect ratio; a 'Media Player' window in the center with a play button and a 0:00 timer; a 'Q&A' window below the media player with an input field labeled 'Enter your question' and a 'Submit' button; and a 'Resource List' window on the right. A prominent green button with the text 'Please Take Our Feedback Survey Here' is located in the top right corner of the dashboard, and a large red arrow points directly to it.



## More Information

Today's webinar is being recorded and will be available at [www.events.moodys.io](http://www.events.moodys.io)

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