



Testimony of

Robert Fisher

President and Chief Executive Officer

Tioga State Bank

Spencer, New York

On behalf of the

Independent Community Bankers of America

Before the

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Committee on Small Business

Hearing on

“What Comes Next? PPP Forgiveness”

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Opening

Chairwoman Velázquez, Ranking Member Luetkemeyer, and members of the Committee, I am Robert Fisher, President and Chief Executive Officer of Tioga State Bank, a \$550 million community bank in Spencer, New York, and Chairman of the Independent Community Bankers of America, an association representing more than 52,000 community bank locations. Thank you for convening this hearing titled: “What Comes Next? PPP Forgiveness.”

The Paycheck Protection Program (PPP) has been a lifeline for small businesses in the communities I serve. While the Small Business Administration’s implementation of PPP, including loan forgiveness, has fallen short in critical aspects, there is no denying that it has succeeded in its fundamental purpose of rescuing small businesses and their employees in an historic health and economic crisis. As the Coronavirus continues to weigh on the economy, PPP borrowers need and deserve to be free and clear of their loans as intended so that they can focus on their businesses in a still-challenging environment. A simple, easy-to-use forgiveness process is essential to the success of the Program.

I am pleased to provide our perspective to this important discussion. My comments reflect not only my own experiences but my conversations with literally hundreds of community bankers from around the country.

Our Story

Tioga State Bank has deep roots in the communities of Tioga County and surrounding counties in the “Southern Tier” of upstate New York. Founded by my great-great grandfather in 1884 to provide much-needed banking services to local businesses and individuals, Tioga State Bank has weathered the Great Depression and numerous recessions since that time. I am a fifth-generation community banker, proud to carry on our commitment to local prosperity. Today, we have 11 offices and approximately \$550 million in assets. We specialize in consumer mortgage and small business lending. Our footprint is largely rural, but we also have offices in the urban and suburban communities of Binghamton. Many of the communities we serve depend on us as the only financial institution with a local presence. These smaller communities are simply not on the radar of the megabanks or larger regional financial institutions. Without the presence of community banks, many of these communities would become stranded in financial services deserts.

Tioga State Bank has partnered with the SBA for over 40 years. I’m proud to note that we received the SBA Southern Tier Small Community Lender of the Year award in 2014, 2017, and 2018. The 7(a) program is invaluable in allowing us to support local small businesses that would not otherwise qualify for conventional credit. As discussed below, our experience with the 7(a) program gave us a leg up over other lenders in navigating a sometimes tortuous PPP. We are committed to the 7(a) program’s integrity and long-term sustainability and deeply appreciate this committee’s support for it.

Paycheck Protection Program

The Paycheck Protection Program has rapidly and effectively deployed critical funding to small businesses, not-for-profits, churches, schools, and other borrowers nationwide. The Program has helped these entities to maintain their employment and survive the economic shutdowns of 2020 and early 2021.

We are in a better place today because of the PPP. I thank this committee for your role in crafting the Program and your ongoing oversight of it.

The Program was a natural fit for the business model and geographic footprint of community banks. We are small business lending specialists, and our strength is personal relationships in our communities and direct knowledge of local economic conditions. We were pre-positioned to help borrowers navigate the application process. Our network of branches made us more accessible than other institutions. There are countless stories of small businesses in desperate need that, unable to secure a PPP loan from a larger bank in a timely fashion, turned to a community bank where they were promptly and effectively served, despite sparse and often conflicting guidance from the SBA. Community bankers worked around the clock to meet an overwhelming demand for PPP loans from existing as well as new customers. Federal Reserve Governor Michelle Bowman described community banks as “irreplaceable” during the pandemic.¹

The data tells the story: Community banks were the predominant PPP lenders to local small businesses. Their 4.7 million PPP loans worth \$429 billion served 55.8 percent of all PPP recipients and accounted for nearly 60 percent of the program’s total loan amount. These loans supported the retention of nearly 49 million jobs, accounting for over 58 percent of the program total. Moreover, community banks made nearly 87 percent of the PPP loans to minority-owned small businesses, 81 percent of the PPP loans to women-owned small business, and nearly 69 percent of the PPP loans to veteran-owned small businesses. A new analysis by the Conference of State Bank Supervisors found that state-chartered banks provided 65 percent of PPP funding to small businesses in rural areas and half of program funding in low-to-moderate income areas.² I am proud that my industry stepped up to support the survival of these diverse businesses in a time of crisis.

My bank’s PPP lending is typical of a community bank. We made a total of 929 loans for \$64.8 million, saving roughly 10,000 jobs in the Southern Tier. Our average loan amount was just under \$70,000. In other words, our PPP lending is disproportionately helping the smallest businesses. This is an enormously positive impact in the communities we serve and has staved off outright collapse. Tioga State Bank’s long history as a 7(a) lender helped us to navigate

¹ Greely, Brendan. “How US community banks became ‘irreplaceable’ in the pandemic.” Financial Times. August 30, 2021.

² “New Analysis Shows State-Chartered Banks Played Major Role in PPP Lending.” Conference of State Bank Supervisors. August 25, 2021.

sometimes confusing SBA channels on behalf of our borrowers. I know that other community banks have had similar results.

Two loans in particular illustrate the positive impact of Tioga State Bank's PPP lending. Our largest PPP loan, \$2.7 million, was to the Southern Tier Independence Center, a large not-for-profit in Binghamton dedicated to helping people with disabilities remain independent. Early in the Covid crisis, the Center's management was concerned they would need to lay off staff because they were unsure about both State and Federal Funding. We worked with them to apply for a PPP loan, and they were able to utilize the money to keep their staff employed throughout Covid and provide critical services in our community.

The second borrower I will mention is a popular local restaurant that employs about 25 people. The restaurant applied for PPP of \$150,000 in the first round and an additional loan of \$212,257 in the second round. This money was critical to keeping them in business and keeping their staff employed. I will never forget the moment when we told the owners that their loan had been forgiven, one of whom was literally in tears thanking us for helping them stay in business and hold onto staff. We have many similar stories of small businesses that we helped with PPP, but this one in particular stands out as a deeply gratifying and moving experience for our staff. Stories like these make me proud to be a community banker.

Challenges of the PPP

While the PPP has been effective in its fundamental purpose, we must acknowledge that it created significant frustration for borrowers and lenders, particularly in its early phases. A surge in applications overwhelmed the technological capacity of the SBA, for which it cannot of course be faulted. An agency accustomed to working with some 1,500 lenders had to scale up at short notice to accommodate some 5,000 lenders. Program guidance was vague and shifting, causing lenders to engage in guess work and repeatedly readjust their processes. Answers to basic program questions were sometimes hard to find. Of course, these criticisms should be held in perspective. The SBA was dedicated to making the program work and continued to adapt to circumstances and improve their processes. Community bank lenders were persistent because they knew how much was at stake for borrowers, and these frustrations were eventually overcome.

PPP Forgiveness

The value of a PPP loan lies in the opportunity for forgiveness. If conditions are met, a PPP loan is essentially a grant. The front-end process of approving applications and deploying funds for qualified borrowers is followed by a back-end process of determining whether a borrower qualifies for forgiveness in full or in part and documenting that determination. Ideally, this process should be minimally burdensome for the borrower, especially for smaller loans. This is how the success of the Program must be measured: straightforward, relatively simple processing of loans and forgiveness for qualified borrowers with minimal fraud.

At Tioga State Bank, all but eight of the 540 loans we made in the first round of PPP have been forgiven, and we are currently working on processing forgiveness applications from the second round. We have experienced no cases of fraud or default in the 929 loans we have made. We recognize and appreciate the progress the SBA has made in streamlining the forgiveness process over time. The Agency has worked under extraordinary circumstances. We are grateful to this committee and Congress at large for its role in making statutory changes and advocating for streamlined processes.

As you know, the SBA has created the Direct Borrower Forgiveness Portal to provide a streamlined process for borrowers with PPP loans of \$150,000 or less. The Portal began operation on August 4. Since then, well over 1,000 lenders have opted into the Portal which has received some 600,000 submissions. It's good to see that the SBA has been proactive in providing relief, though I have not yet heard substantial feedback regarding the facility of using the portal. Nor am I aware of data, broken out by lender type, on the population of lenders that are using the Portal and cannot provide an estimate of the number of community bank lenders that have used it.

At Tioga State Bank, we have been successful in processing forgiveness applications for our PPP borrowers and have chosen not to use the Portal for our borrowers. We will continue to process forgiveness applications in-house. Like many community banks, our true value proposition is relationship lending. We believe we have a responsibility to our borrowers from loan origination until the loan has been successfully repaid. We want to ensure that the process works well for our borrowers from beginning to end. If there are technical or communications problems with the SBA, we want to use our expertise and relationship with the Agency to assist the borrower in resolving them. This is more time consuming and costly for us, but it is best for our borrowers. We believe it is good business practice and good for our communities that rely on our borrowers for employment and services. This type of relationship lending explains why community banks have higher satisfaction ratings among small business borrowers than other lenders.³ Our processing of forgiveness applications in house has not and will not delay the forgiveness process. We are working expeditiously and are as eager as our borrowers are to obtain full forgiveness so that they can focus on operating their businesses.

ICBA insists that the SBA respect lenders' choice to not use the Portal. On Monday, we and other PPP lenders received an email from the SBA informing us that to "avoid lender audits" we are "encouraged" to opt into direct forgiveness. We resent the coercive tone of this email. What's more, the SBA suggests that lenders are deliberately delaying forgiveness in order to manage

³ For example, the 2021 ["Small Business Credit Survey,"](#) conducted by the regional Federal Reserve Banks, found that 81 percent of community bank small-business loan applicants were satisfied with their experience, compared with 68 percent at large banks, 60 percent at finance companies, and 43 percent at online lenders.

recognition of fee income. That practice would be unacceptable and would cut against the grain of community bank service and relationship-oriented lending. I can assure you that no community bank that I know of is engaging in it. We appreciate the wide recognition we have received for our outstanding PPP lending and take offense at accusations that would diminish it.

Tioga State Bank and other community banks choose not to be cut out of the process by a direct SBA program. We are acting in the best interest of our borrowers for the reasons described above. More generally, the flagship SBA lending programs, 7(a) and 504, rely on bank underwriting, and the expertise that we bring and should continue to do so. Bank involvement is what makes these programs successful.

That said, the PPP and the subsequent Direct Forgiveness Portal were created under extraordinary circumstances that will hopefully never be repeated. Many of the participating lenders had no history with the SBA or with their new PPP borrowers. We support the creation by the SBA of the Portal an additional option for these lenders and hope that it is successful. But it must remain optional and free of coercion. Moreover, we hope that the Portal does not signal a trend in the direction of direct-to-borrower programs at the SBA. Community banks and other private sector lenders add significant value to their programs.

Moving Forward: Integrity Must Be Safeguarded in the PPP and Other SBA Programs

Moving forward, it is critical that both the PPP and future SBA lending programs aim to reduce fraud and abuse to the greatest extent possible. Safeguarding taxpayer dollars is essential to sustaining public support for future SBA lending programs.

At Tioga State Bank, we did our due diligence and, as noted above, have experienced no fraud and 100 percent forgiveness. This is typical of community bank PPP lenders. We own the consequences of our local lending decisions and underwrite with great care.

Unfortunately, reports indicate that fraud has been a significant problem in PPP. While certain safeguards were temporarily lifted for the sake of speed and efficiency in response to an emergency, as the environment returns to normal, the SBA should proceed with great caution as it considers changes to existing SBA programs. As PPP was implemented, numerous lenders with little experience in underwriting and no experience with the SBA crowded into the PPP and processed loan applications with limited due diligence versus what a community bank would apply. Not surprisingly, these lenders may be subject to a higher incidence of fraud.

Fraud puts all SBA programs at risk. Tioga State Bank and many community banks highly value a robust and sustainable 7(a) program. Under more normal circumstances, the 7(a) program generates sufficient revenue through fee collections and recoveries of collateral on purchased, defaulted loans to not require appropriations to issue new loan guarantees. This structure usually requires no appropriation of taxpayer dollars.

We are grateful for this committee's strong support for the 7(a) program. Significant reforms to this successful program must be taken with great caution and care. A high volume of poorly underwritten loans could cause the 7(a) program to prematurely exceed its lending cap and shut down, leaving applicants stranded.

SBA programs play a critical role in supporting small businesses and employment. Fraud has the potential to undermine these programs.

Conclusion

Thank you again for convening today's hearing and for the opportunity to offer the community bank perspective on the Paycheck Protection Program.

I'm happy to answer any questions you may have.