



NATIONAL
ASSOCIATION FOR
LATINO
COMMUNITY
ASSET
BUILDERS

Testimony of Marla Bilonick

President & CEO of the

National Association for Latino Community Asset Builders-NALCAB

Provided to the House Small Business Committee

September 1, 2021

Good afternoon, Chairwoman Velasquez and members of the Committee. It is my sincere honor to be addressing you today about Paycheck Protection Program forgiveness and what comes next. I am speaking on behalf of the National Association for Latino Community Asset Builders (NALCAB) and our member organizations that support small, Latino-owned, and other underserved businesses across the nation. I am also representing the experiences of their small business clients that were able to utilize PPP as a tool to weather the adverse economic effects of the COVID-19 pandemic and that are now seeking loan forgiveness.

NALCAB Background

NALCAB is the hub of a national network of over 140 mission-driven organizations that are anchor institutions in geographically and ethnically diverse Latino communities across the nation. Members of the NALCAB network invest in their communities by building affordable housing, addressing gentrification, supporting small business growth, and providing financial counseling on issues such as credit-building and homeownership. A majority of the people served by the NALCAB network are low-to-moderate income individuals who are immigrants, or the children of immigrants.

NALCAB's vision is to dramatically scale the flow of public and private sector capital that responsibly meets the asset building needs and opportunities in the communities and families we serve. As a grantmaker and US Treasury certified CDFI lender, NALCAB strengthens and coordinates the capacity of the NALCAB Network to deploy capital. NALCAB also supports our membership through grantmaking, capacity-building, and training.

Since 2007, NALCAB has provided our network members with over \$20 million in grants and a wide range of technical assistance. NALCAB has also trained more than 1,000 practitioners and graduated 137 next generation Latino leaders from the Pete

Garcia Community Development Fellowship. With NALCAB's support, member organizations have secured more than \$400 million for affordable housing, small business and financial capability programs. NALCAB has also influenced how local and federal government agencies are deploying hundreds of millions of dollars for community development and disaster recovery. We know that the strength of the US economy relies on the fast-growing Latino community's hard work, entrepreneurial spirit, spending power, and leadership

Economic Impact of COVID-19 on Latino-owned Small Businesses

While the Latino community in the United States is often heralded for starting small businesses at rates higher than other ethnic groups; the adverse economic effects of the pandemic have disproportionately impacted Latino business owners. Stanford's Latino Entrepreneurship Institute surveyed 7,000 small business owners and cites that 86% of Latino-owned businesses suffered immediate negative financial impacts from the pandemic. At the same time, Latino business owners were successful at securing PPP loans at only half the rate of their white counterparts, and only 3% of Latino-owned businesses received their full funding request.

Latino-owned businesses have a strong presence in industries that have been hard-hit by the pandemic such as the restaurant industry. Industries that were mostly shielded from the effects of the pandemic, such as finance and information are led by and/or employ some of the lowest percentages of Latinos. At the outset of the pandemic Latinos (and specifically Latinas) showed the highest unemployment rates in the nation.

In 2019, before the pandemic hit, Latino-owned businesses had hit a record-breaking stride, with their average annual revenue increasing 10% to over \$525,000 per year. We are hopeful that this upward trajectory can be harnessed again in the future. This will partly be achieved through the success of programs such as PPP and subsequent PPP loan forgiveness.

NALCAB and PPP

Just as Latino-owned small businesses face challenges to accessing capital; when it came time for NALCAB member organizations to secure additional capital in order to make PPP loans, they also faced challenges. Therefore, NALCAB was called upon to provide capital to several members to facilitate their PPP lending. As a CDFI in our own right, we ultimately loaned our members close to \$12 million for PPP lending which resulted in them making 640 PPP loans to small businesses in their communities (at an average loan size of \$18,750).

NALCAB member CDFIs including heavy-hitters like Accion Opportunity Fund, Self-Help, LiftFund, and CDC Small Business Finance were able to provide business clients with PPP loans when banks could not, or would not. In fact, NALCAB member and CDFI, Prestamos CDFI/Chicanos Por La Causa was the third highest PPP lender in the nation, including traditional commercial banks. “Prestamos made close to 500,000 PPP loans, averaging around \$15,000 each for a total of close to \$8,000,000,000 in PPP lending. JP Morgan Chase and Bank of America topped the ranking with over \$12,000,000,000 and over \$9,000,000,000 respectively.”

Observations on the PPP Forgiveness Process To Date

As of August, 2021; 11,492,021 PPP loans had been made from 2020-2021 and just 5,604,139 applications for forgiveness had been submitted. So, roughly only half of PPP borrowers had submitted forgiveness applications, with the other half remaining outstanding.

In April of this year, House Republicans requested clarity on the SBA’s backlog of PPP forgiveness applications, despite the SBA having provided decisions on 2.7 million PPP loans at that stage of their review. Advances have been made to streamline PPP forgiveness, including the July launch of the *Direct Forgiveness Portal* which is an immediate and simplified clearinghouse for forgiveness applications attached to loans of \$150,000 or below. Discussions with CDFI members of NALCAB point to the Portal now being the primary channel for their work in seeking loan forgiveness for their small business clients. The figures cited above demonstrate that between April and August the forgiveness applications processed practically doubled from the number reported in April. This may be partially attributed to the *Direct Forgiveness Portal*.

Members we spoke to noted that, for the borrowers that do not submit forgiveness applications within the group of their CDFI’s PPP loans made; there is a significant risk of imposing a large-scale administrative burden on CDFIs that will need to begin collecting payments on said loans. CDFIs have ultimately out-performed their \$15 PPP billion set-aside from congress by making over \$30 million in PPP loans.

The implied administrative burden of non-forgiveness would only add to the out-sized administrative load that CDFIs have borne through their more intensive work with small business clients to help them first to obtain PPP loans and now to shepherd them on the path to PPP loan forgiveness. NALCAB CDFI members report extensive investments of time and effort on activities ranging from communications to borrowers, support on filling out forgiveness forms, and liaising between clients

and the SBA when there are issues with forgiveness applications or missing documentation discovered during CDFI portfolio audits.

The SBA's Direct Forgiveness Portal

#3-ranked PPP lender and NALCAB member, Prestamos CDFI (based in Phoenix, and providing PPP loans nationwide), reports that they are directing clients almost exclusively to the SBA PPP Forgiveness portal and have found that to be a straightforward avenue for achieving forgiveness. However, they noted that they fear some clients are missing out on forgiveness due to lack of awareness of the process and/or lack of access to technology to connect to the portal. This challenge, of course, disproportionately affects LMI and/or minority-owned businesses in the very communities that NALCAB members serve. With almost half a million PPP clients in their portfolio, the ability for Prestamos CDFI to follow-up directly with each PPP borrower is a nearly impossible challenge.

The good news is that, as of the end of July, only 18% of 2020 PPP borrowers nationwide had not submitted their forgiveness applications, implying that over 80% of 2020 borrowers had, in fact, submitted forgiveness applications.

The Latino Economic Development Center-LEDC, a CDFI based in Washington, DC shared that they are funneling all clients to the portal now. They noted that they feel their business clients that received PPP loans from banks are having trouble receiving guidance on forgiveness because their loans are too small to warrant the bank's attention. LEDC and other CDFI members of NALCAB report that they are supporting these businesses through the forgiveness process, even in the cases when the loans were not made through their CDFI but, rather, by an external lender.

\$350,000 Threshold for Simplified PPP Loan Forgiveness

While only a sliver of NALCAB member PPP loans were even over five figures, we are supportive of stretching the simplified forgiveness process for loans up to \$350,000. This would further ease the burden on even more small businesses that are doing their best to power through recovery. In addition, it would lighten the administrative load of the lenders that have supported those businesses through their PPP journey. We agree that PPP loans of \$350,000 and above are in a different class that justifies higher scrutiny.

The most recent data states that 86.5% of PPP loans were made at the \$150,000 and below range. Expanding simplified forgiveness to apply for loans up to \$350,000 would widen the tent and cover an additional 7.7% of loans made, bringing the total up to 94.2%.

Excess Loan Amounts

Loans that were made in the initial stages of the Paycheck Protection Program in 2020---when there was some confusion regarding calculations around loan sizing---have resulted in good faith errors that generated some PPP loans that exceeded borrowers' correct maximum amount. In January of 2021 the SBA's Procedural Notice informed PPP lenders of said excess loan amount errors.

Unfortunately, the responsibility has fallen on borrowers to repay and/or not be granted forgiveness on excess loan amounts. While we do not support the forgiveness of fraudulent loans, we do not think it is correct to penalize borrowers for good faith errors that they, or especially their lenders, made in misinterpreting the original PPP lending guidance. Especially in cases of small loan amounts, this seems like undue effort to squeeze dollars out of the very borrowers that the PPP program was designed for---borrowers that most certainly used every cent of their PPP loan to ensure that their business stayed afloat and to keep their employees on payroll.

Recommendations

As a member of the Opportunity Finance Network's (OFN) Board of Directors, I would be remiss if I did not underscore a key point from their May, 2021 Memorandum to Administrator Guzman requesting **universal loan forgiveness for all PPP loans made at \$50,000 and below**. NALCAB supports this level of automatic forgiveness. Blanket forgiveness for those borrowers on the lower end of the loan scale would alleviate the pressure on the very mom-and-pop small businesses that the PPP product was intended for, such that they can turn to continued focus on stabilizing and growing their businesses.

NALCAB would also like to endorse **raising the bar for loans eligible for simplified loan forgiveness (form 3508S) up to loans of \$350,000 and below**. This would allow for over 90% of PPP borrowers to streamline and accelerate their loan forgiveness. It would also benefit lenders by eliminating significant administrative pressures.

Lastly, NALCAB supports determining a maximum loan amount for leniency for those early-stage PPP loans that were made where good faith efforts resulted in accidental excess loan amounts. Our members have seen cases where excess loan amounts are not being forgiven for amounts under \$5,000. It doesn't seem practical, let alone fair, for small-dollar PPP borrowers to be held accountable for repaying excess funds that were loaned to them (by a lender that was operating in good faith, but simply misinterpreted calculation methods). *Many thanks for your time this afternoon. I look forward to discussing these recommendations with you today.*