



Testimony of

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On behalf of the

Independent Community Bankers of America

Before the

United States House of Representatives

Committee on Small Business

Hearing on

“The Next Steps for the Paycheck Protection Program”

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Chairwoman Velázquez, Ranking Member Luetkemeyer, and members of the Committee, I am Alice P. Frazier, President and CEO of the Bank of Charles Town headquartered in Charles Town, West Virginia. I testify today on behalf of the Independent Community Bankers of America where I am Chair of the Policy Development Committee and a Member of the Board of Directors.

Thank you for the opportunity to testify at today's hearing on "The Next Steps for the Paycheck Protection Program." The PPP has been a lifeline for small businesses in the communities I serve. The Bank of Charles Town is committed to reaching out to ensure that every qualifying small business, church, non-profit or other borrower has the information and the help they need to take full advantage of the Program. As I discuss below, if Congress chooses to create a third round of the Program, it should be targeted at those industries that have suffered the most: hospitality, travel, conventions, and others. These industries are major employers in many regions and will need assistance until the economy has fully reopened in every state.

I am pleased to provide our perspective to this important discussion. My comments reflect my conversations with literally hundreds of community bankers from around the country.

Our Story

The Bank of Charles Town, or BCT, was founded in 1871 in Jefferson County, West Virginia by a group of 38 farmers, orchardists, and business leaders who believed a locally based bank would create an economic and stabilizing influence in Jefferson County. Thousands of community banks around the country were founded on that same vision. Today, BCT is a \$620 million asset community bank with 108 employees serving the Eastern Panhandle of West Virginia as well as Hagerstown, Maryland and Loudoun County, Virginia.

Paycheck Protection Program

The Paycheck Protection Program (PPP) has rapidly and effectively deployed critical funding to small businesses and other borrowers nationwide. The Program has helped these businesses to maintain their employment, survive, and prepare for the reopening of the economy. We are in a better place today, poised for a robust recovery, because of the PPP. I thank this committee for your role in crafting the program.

The Program was a natural fit for the business model 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. 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.

The data tells the story: In the first round, community banks made 60 percent of PPP loans which supported the retention of over 33.7 million employees. Moreover, of PPP loans where

demographic data is available, community banks made 72.6 percent of the PPP loans to minority-owned small businesses, 71.5 percent of the PPP loans to women-owned small business, and 63.4 percent of the PPP loans to veteran-owned small businesses. 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. In the first round, we made 557 loans with an aggregate value of nearly \$55 million. Eighty-five percent of these loans were under \$150,000. In the second round, we have seen approximately half the demand. To date, we have made 272 loans with an aggregate value of nearly \$26 million. The loan size distribution in the second round has nearly matched the first round. Eighty-six percent of our loans have been under \$150,000, and more than half of our second-round loans have been microloans of less the \$50,000. In other words, our PPP lending, typical of a community bank, is disproportionately helping the smallest businesses.

Of course, the true purpose and value of the PPP is job preservation in an unprecedented economic crisis. BCT's first-round PPP lending has saved just over 4,000 jobs and the second round has supported 2,826 jobs thus far. This is an enormously positive impact in the small communities we serve and has staved off outright collapse. I know that other community banks have had similar results.

Bank of Charles Town Outreach to Marginalized Borrowers

We have found that a significant barrier to use of the PPP is lack of information and assistance that a potential applicant would need. The best way to serve and sustain our communities is not to passively receive applications. To overcome the information gap that prevents certain communities from taking full advantage of available resources, BCT is committed to conducting proactive outreach to potential applicants.

During the first round, we recorded podcasts and participated in local radio shows to educate the business community. In the second round, as we became aware that some minority communities did not have sufficient access to the Program, we initiated targeted programs to reach these communities. For example, BCT recently sponsored a webinar with the Jefferson County and Berkeley County, West Virginia NAACP. We recorded an educational webinar for the Loudoun County, Virginia NAACP which they made available for their members. Among the attendees, about 15 had not applied for a PPP loan before. We followed up with in-person meetings with five businesses to assist with paperwork gathering. Altogether we have helped 38 businesses to date obtain first draw loans in the second round. More than a few of these could not previously find help with paperwork or information or were declined as too small by their big bank.

It was soon apparent that the African American churches were generally not aware of their eligibility for a PPP loan. Just last week, one African American church in particular applied for a first draw loan. When we reviewed their application, we noticed that they could actually receive \$4,000 but had only requested \$2,000. They were concerned that it would not all be forgiven and did not want to have an outstanding loan should it not be forgiven. After additional education and coaching, they decided to take the full amount. This is the value that a community bank can

add: Spreading awareness, technical assistance, and simply helping an applicant overcome any reservations with the program. Those that need PPP funds the most face the highest barriers to access. That's where we come in.

Approaching deadline must not strand applicants

As you know, the second round PPP closes three weeks from today on March 31. While demand for the Program has slowed, there are still business and non-profits that desperately need these funds. To maximize the value of the Program, our shared goal must be to ensure that every potential borrower that needs a loan gets one before the window closes.

At this moment, we are very concerned about thousands of applications that have been submitted to SBA but are in limbo because they were put on hold by an automated program for possible waste, fraud, or abuse. We also have borrowers who worked with large banks in the first round that have unresolved errors that are now holding up their applications in the second round. These applications require SBA review in order to be cleared of holds and be funded. Rejecting PPP applications made prior to the March 31st deadline, but not approved by the SBA before the program closes, would be unfair to the small business borrowers who desperately need these funds. We ask this committee's help in urging the SBA to recognize the urgency of their task and expedite review of these holds.

My bank will do everything in our power to complete and submit applications before the deadline. I'm sure that other community banks will do the same. But these efforts are futile unless the SBA commits to processing every application submitted before the deadline. We believe that any application submitted by March 31 should be eligible for approval and funding.

Changes contingent on Program extension

If Congress chooses to extend the PPP beyond March 31, ICBA urges Congress to make statutory fixes to resolve the problems identified below.

First Draw Increase Eligibility. Certain borrowers who have not yet filed for and received forgiveness of their first draw 2020 PPP loan may apply for an increase in that loan. However, borrowers whose first draw 2020 loans have already been forgiven cannot apply for a first draw loan increase, even if they otherwise meet the criteria for an increase. This is unfair because it punishes borrowers who filed forgiveness applications early. The statute should be amended to allow borrowers who have received first draw loan forgiveness to be eligible to receive a first draw loan increase.

Second Draw Eligibility. Those applying for a first draw in 2021 should be allowed access to a second draw. Above I told the story of an African American church that only last week applied for first draw loan. If that church had more information and better advice last year, it would have applied for a first draw loan in 2020 and would now be eligible for a second draw loan. The church has effectively left money on the table that could be used for critical expenditures. It should not be punished for not applying for a first draw loan in 2020.

Second Draw Use of Proceeds Requirement. Borrowers with a modest shortfall in using first draw dollars for eligible purposes shouldn't be shut out from second draw loans, especially if they've already repaid the remaining balance on the first draw loan. Congress should consider creating a percentage-based de minimis test to define a level of spending on ineligible expenses that would not disqualify a borrower for a second draw loan.

Farm Partnerships. Current law allows self-employed farmers and ranchers that report farm income on Schedule F to use the gross income method, rather than the net income method, to calculate their maximum loan amount and owner's compensation. However, SBA has limited this treatment to 1040 Schedule F filers. It is not available to thousands of self-employed farmers and ranchers whose businesses are organized as partnerships or S corporations. Congress should direct the SBA to make the gross income method available to these farmers and ranchers.

Schedule C Borrowers. Schedule C filers should be able to apply for an increase under new SBA rules that allow Schedule C borrowers to use the gross income method. One of our clients, a small video production company, is a schedule C business with no employees. Based on the net profit of his company, he qualified for a PPP loan of approximately \$4,000 in each round. Because this was not enough to support him, we assisted him with an SBA Express Loan for \$16,000.

Last week's rule change, which allow Schedule C businesses with no employees to use gross income rather than net profit to determine the loan amount, would have increased his PPP loan by \$16,000 each time and would have tremendously boosted his ability to pay his expenses. We believe that Schedule C borrowers such as my customer should have the opportunity to increase their prior loans using the gross income method.

Save Our Stages Applicants. Live action venues eligible for Save Our Stages grants should be allowed to apply for PPP loans while waiting to find out if they will receive a grant. If such a venue eventually does receive a grant, the amount of the grant could be reduced by the amount of the PPP loan, thereby avoiding the double dipping prohibited by the statute.

Considerations for a third round of PPP

If Congress decides to create a third round of PPP, I believe that it should be targeted to those specific industries that have been most severely impacted by COVID restrictions, including restaurants and bars and the convention and travel industries, which employ a significant number of people nationwide. Until we reach true herd immunity, these industries will continue to operate under restrictions in many states. A third round of PPP could have a significant, positive impact on national employment.

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.