

Oral remarks from Tracy Ward for September 1, 2021 before HSBC

Good afternoon, Chairwoman Velázquez, Ranking Member Leutkemeyer, and members of the committee. My name is Tracy Ward, and I represent Self-Help, a Community Development Financial Institution and a PPP lender. Thank you for the opportunity to provide testimony today.

At the start of the pandemic, Congress came together to create the Paycheck Protection Program, delivering urgently needed funds to small businesses, to limit mass layoffs and business closures. Congress designed PPP as a forgivable loan with the explicit promise that funds spent properly would not have to be repaid. Today we are asking for several fixes to PPP forgiveness to ensure that promise can be kept.

SBA implementation of this unprecedented program was remarkably fast – but it came with a complex and constantly changing set of rules, and Congress placed the burden of understanding these rules on small business borrowers, quite a challenge for small businesses in survival mode, scrambling to access limited funds. And as a result, many of the smallest businesses are not getting that promised forgiveness, even when they have spent every penny properly.

For example, an independent contractor in Illinois received a much-needed PPP loan of just under \$20,000. Two days before he applied, SBA issued a new rule, effective immediately, that limited the way businesses like his could document the request, so now his loan is not forgivable, even though he completed his application in good faith and spent the funds properly. This Black-owned microbusiness – instead of being able to recover – is being held back by an unexpected \$20,000 debt trap.

Congress and SBA have recognized and addressed some of the unintended challenges faced by the smallest businesses in accessing PPP loans. One significant change was an adjustment in the loan amount calculation for most microbusinesses – sole proprietors, independent contractors, and self-employed individuals – the smallest of the small. But that change was not applied retroactively, denying thousands of businesses adequate relief.

One such business is a Black woman-owned child care in North Carolina, which received only \$2,750 in PPP funding; had this change been retroactive, this business would have been eligible for an additional \$14,000. And despite Congress making this exact same change retroactive for small farmers and ranchers, other microbusinesses, like this child care, were left out.

It is important to remember that these challenges are exacerbated for small businesses of color, which are overwhelmingly microbusinesses that entered the pandemic credit-starved, and with limited access to mainstream banking services due to structural limitations that have been well-documented by our affiliate, the Center for Responsible Lending, and others.

We propose several clear fixes to the forgiveness rules to ensure fairness, provide the critical support Congress intended and upon which businesses relied, and to avoid inadvertently causing further harm to the smallest businesses least able to sustain it.

1. Eliminate “gotcha” denials of loan forgiveness due to sudden changes in rules that were imposed without advance notice.

2. Rescind SBA's January 15, 2021 rule denying forgiveness to borrowers who made good faith errors.
3. Require lenders to opt in to SBA's Direct Forgiveness Portal if they are unduly slow processing forgiveness or if they are unresponsive to their borrowers.
4. Alleviate unnecessary paperwork burdens for the smallest businesses by automatically forgiving loans of \$25,000 or less – loans to microbusinesses that overwhelmingly should qualify for full forgiveness.
5. Finally, improve and refocus SBA's loan review process to ensure fraudulent activity is prosecuted, and that businesses who applied in good faith are not harmed by uncertainty and delay.

In this on-going crisis, small businesses need responsible follow-through on PPP's promise so they can get back to running their businesses and employing their communities. Without changes, the forgiveness stage of PPP will exacerbate pre-existing inequities, and for many of the smallest businesses, will turn Congress's promise into a bait and switch.

Thank you for addressing this important matter and I look forward to your questions.