Blanket Forgiveness: 3 Courses of Action

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Blanket forgiveness for Payroll Protection Program (PPP) lending is the talk of the town, but much is unknown. Since Independence Day, lobbyists, associations, PPP lenders, and borrowers have demanded Congress make blanket forgiveness a reality for millions of PPP borrowers.

With Congress in recess until after Labor Day, it is unlikely that guidance will come from the Treasury or Small Business Association before then. This downtime has provided plenty of time to consider how Congress will act when they resume on September 8th, and what impacts this will have on PPP lenders and borrowers. Here are three possible courses of action:

Course of Action 1 - Blanket Forgiveness As We Know It

Before Congress took their leave in August, the most likely scenario was a proposed bill by Rep. Chrissy Houlahan (D-Pa.) and Sen. Kevin Cramer (R-N.D.), proposing all PPP loans $150,000 and less to be granted blanket forgiveness.
If the bill is passed as proposed, borrowers would need to attest they spent the money as intended under PPP, and the full amount will be forgiven. The loans less than $150,000 effectively become grants. The hope is to accomplish this with a simple, one-page document submitted to the SBA.

Although not expressly written in the bill, there is also a push for loans from $150,000 to $2 million to require less documentation than what’s currently in place - SBA’s EZ form. This would allow businesses and lenders to process and submit paperwork to the SBA for forgiveness quickly. For remaining loans $2 million and above, the forgiveness process would not change, and borrowers and lenders would continue using the SBA Form 3508 or 3508EZ, as applicable.

The loans that would receive forgiveness under this bill is staggering, as loans less than $150,000 represent roughly 4.5 million loans and almost 87% of all PPP loans. Although this course of action seems likely, the bill hasn’t passed, and as we have learned during this PPP journey, anything can happen.

Even if this bill becomes law as it is written, it appears that there will still need to be processing for all loans, regardless of size. Those who borrowed $150k and below will need to certify that they spent the funds as intended, which will require, at a minimum, the completion of an SBA-issued form. The bill does not address whether the SBA will still conduct reviews of selected loans under $150k. If the review process is not eliminated for loans under $150k, then borrowers and lenders will still need to be prepared to submit the documentation required for review upon the request of the SBA. This legislation, welcomed by most borrowers and lenders, does not entirely release borrowers of their forgiveness obligations.

**Course of Action 2 - Blanket Forgiveness, But With A Twist**

There is a possibility that Congress approves blanket forgiveness, but not in an anticipated way, once they resume session. With Congress’s inability to approve legislation before their recess, it seems there is work to be done on the bipartisan proposed bills, including regarding documentation requirements for forgiveness. This could mean that there may be discrepancies in what portion or amounts Congress feels is appropriate to forgive, and exactly how to do so.
The currently enacted rules require payroll records, receipts, and other financial records to be submitted and/or retained by borrowers in connection with their forgiveness application, putting a strain on borrowers to retain and lenders to process. However, there is pressure to include the removal of these document requirements in the legislation going forward.

**Course of Action 3 - Keep On Keeping On**

This scenario is least likely. In this case, no new legislation passes, and borrowers and lenders have to carry on with forgiveness obligations as they are now. This scenario is unlikely due to tremendous pressure on legislators from lobbyists, PPP lenders, small business owners, and the public, making it unpopular for Congress to take no action. Many argue it is a waste of government resources to scrutinize loan documentation for small businesses that received less than $150,000. No one wants a small business owner who received a $17,000 PPP loan fined or imprisoned due to a small error on a complicated SBA form.

**The Wild Card - Starting Anew**

Regardless of blanket forgiveness, as the country struggles to recover from COVID-19, another round of relief funding may be on the horizon. Businesses are nowhere near back to normal, and the world’s economic recovery trajectory is slower than anticipated. One in five business owners reports that they will have to close shop if the economic downturn continues.

Congress will likely need to propose a plan for more funding for America’s businesses. This will put PPP lenders back into the game if they choose to lend for subsequent funding rounds. More importantly, it may re-open additional funding opportunities to small businesses that received funding during the initial rounds of PPP lending. It is unclear how Congress plans to do this, but it seems likely that we will see legislation in September, and we need to be prepared for it.
Finding a Partner Can Help

This has been a tough road since March. However, one of the few glimpses of light has been the great partnerships between lenders and fintech vendors to navigate this unknown territory and create solutions for borrowers. Never before has the relationship between financial institutions and fintech vendors been so crucial to millions’ lives. At StreetShares, we have partnered with dozens of PPP lenders to provide PPP lending and forgiveness technology solutions.

StreetShares is offering a Labor Day promotion with flexible pricing solutions, because we understand the uncertainty and complexities of blanket forgiveness and its impact on lenders and borrowers.

Please contact us to learn how to help ease your PPP forgiveness workload and prepare your institution for what’s next in the Paycheck Protection Program journey.