



Checklist

# **Paycheck Protection Program:** Process and Risk Management Considerations for Lenders

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Over the course of just three months, the Paycheck Protection Program (PPP) is scheduled to disburse \$349 billion in Small Business Administration (SBA) loans through eligible lenders as established by the interim final rule issued by the SBA. That figure is more than 10 times the average amount the SBA normally lends over an entire year.

To handle so many applications from existing business customers and new customers in such a compressed time frame, participating lenders will need to take an “all hands on deck” approach. Here are some critical program, process, and risk management issues to consider.

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## ✓ Program highlights

- Applications and borrower eligibility requirements are streamlined for faster impact with limited requirements for analysis by the lender.
- Funds are distributed on a first-come, first-served basis. Unless the program is extended, applications can be submitted through June 30, 2020.
- Businesses with 500 or fewer employees may apply, with some exceptions (see interim final rule).
- Loan amounts can range up to \$10 million, with the amount tied to 2.5 times average monthly eligible payroll costs.
- All repayments may be deferred for the first six months with all funds to be repaid within two years.
- Up to 100% of the loan may be forgiven, contingent on maintaining employment levels and how loan funds are used.
- Existing certified SBA lenders are automatically given delegated authority to make PPP loans. Federally insured depository institutions, federally insured credit unions, and Farm Credit System institutions (other than the Federal Agricultural Mortgage Corporation) are eligible to participate in the Paycheck Protection Program unless they currently are designated in troubled condition by their primary federal regulator or are subject to a formal enforcement action by their primary federal regulator that addresses unsafe or unsound lending practices.

## ✓ Strategy and capacity questions lenders should consider

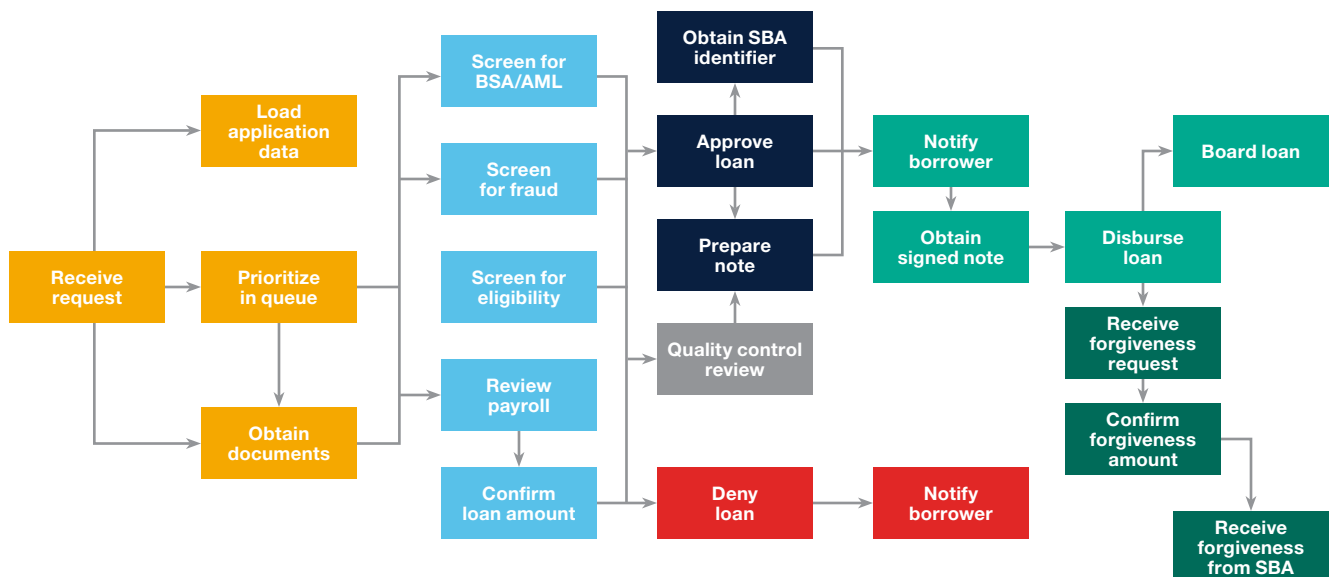
- How will we approach the market? What will be our message?
- Will we prioritize existing customers? If so, how?
- What is our anticipated application volume?
- Should we augment our existing staff to handle the volume? If so, how?
- How will these loans affect our balance sheet, and how do we plan to fund the expected volume?
- What is our approach to selling loans?
- Do we have a lending cap that we need to consider?
- What impact do these loans have on debt covenants with our existing borrowers?

## ✓ Process and system components

The PPP process will include four main phases:

1. **Application.** Communicate program information to customers, acquire applications and necessary documents, and upload data into system
2. **Processing.** Assess eligibility, perform due diligence and quality control, and track application with workflow management
3. **Funding.** Notify customer of approval or denial, close, disburse funds, and sell loan to SBA or secondary market
4. **Forgiveness.** Receive request and documentation, confirm eligibility and amount, process request to SBA, and record into loan system

### PPP process flow



Source: Crowe analysis

- To enhance speed and efficiency, the process should not be linear. Many steps must occur simultaneously to meet time requirements and competition for appropriated funds.
- Separate from the origination and forgiveness of PPP loans, there will be routine servicing of the portion of the loan not forgiven, if any, over the two-year term.

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## ✓ Technology requirements for lenders

- Dedicated website landing page for PPP customer applications, with information setting customer expectations regarding timing and prioritizing of customers
- Simple and secure sign-in and registration gateway, with capacity for uploading, retrieving, and tracking required supporting documents from applicants
- Effective application management system with workflow tracking and monitoring, either within existing loan origination software or in dedicated SBA/PPP platform
- Loan forgiveness phase of program will require comparable technology for requesting, documenting, submitting, and tracking forgiveness requests
- Automated boarding of loans to core system and established audit trails



## ✓ Risk and compliance issues

PPP lenders must maintain compliance with all applicable regulations, as no additional regulatory relief has been provided based on the interim final rule or current SBA FAQs, including, among others:

- *Equal Credit Opportunity Act*
- *Community Reinvestment Act*
- Fair lending and redlining requirements

*Bank Secrecy Act* and anti-money laundering (BSA/AML) requirements are overtly referenced with the interim final rule:

- Customer identification program
- Beneficial ownership
  - 25% ownership for new customers
  - The SBA FAQs indicate that PPP loans are not triggering events for the purposes of beneficial ownership for existing clients, unless required by the lender's risk-based program.
- Suspicious activity monitoring and reporting

Other risk management concerns might include:

- Third-party risk management for PPP vendors
- Financial reporting controls and documentation
- Compliance with applicable data security and data privacy rules
- Security risks stemming from remote working practices



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## ✓ Fraud concerns

High throughput in a very short time creates significant opportunities for fraud. Internal fraud risks from lender staff could include:

- Charging of prohibited loan fees or prepayment penalties by loan agent
- Fraudulent approval of incomplete or ineligible applications, either in collusion with borrowers or in response to management pressure to meet sales objectives
- Fictitious loan creation or presentation of multiple applications for same borrower
- Falsification of loan documents to meet requirements or increase processing fee revenue

Fraud risks borrowers might present include:

- Falsification of information in the PPP application process, including false certification
- Multiple PPP loans for same borrower, which is not allowed
- Falsification of documents at the time of application or in the forgiveness request, including use of funds for ineligible purposes or misrepresenting payroll amounts



## Learn more

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