



U.S. Small Business  
Administration

**Statement of Patrick Kelley**  
**Associate Administrator, Office of Capital Access**  
**U.S. Small Business Administration**

**before the**  
**Senate Committee on Small Business**  
**and Entrepreneurship**

**Hearing on Oversight of SBA's COVID-19 Relief Programs**  
**March 24th, 2021**

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## **U.S. Small Business Administration**

Good morning, Chairman Cardin, Ranking Member Paul, and members of the committee. On behalf of our new Administrator, Isabel Guzman, and the entire Agency, I want to start by thanking you for your strong support of the Agency's Paycheck Protection Program (PPP) and all SBA programs.

Since March 2021, I have served as the Associate Administrator for the Office of Capital Access (OCA). I previously served as Deputy Chief of Staff, Deputy Associate Administrator, and Senior Advisor for the SBA. While I only recently rejoined the Agency, throughout the past year I watched with tremendous respect and admiration as the SBA served as a lifeline for America's small businesses confronted with a devastating pandemic and economic crisis. I am humbled to help continue this work in my current role alongside OCA's civil servants who continue to work tirelessly to provide small business owners the relief they desperately need.

In my current role, I am responsible for the Office of Capital Access's administration of SBA's 7(a) business loans, the Community Advantage Pilot program, the 504 Loan Program, the Surety Bond Program, and the Microloan Program. Collectively, these programs connect credit-worthy small business entrepreneurs that otherwise are unable to obtain conventional sources of capital with participating private sector lenders willing to lend necessary capital to start or grow small businesses. SBA loans are behind companies and products that are now household names, like Ben & Jerry's Ice Cream, South by Southwest and Boppy Pillow.

### **Paycheck Protection Program**

About one year ago, the Office of Capital Access took on the role of administering the PPP, increasing loan volume ten-fold in a matter of weeks. In 2020, the SBA approved a total of 5.2 million loans for \$522 billion to America's small businesses and certain nonprofits. The Economic Aid Act extended the authority to make PPP loans through March 31, 2021 with an additional \$284 billion in subsidy and modified rules for PPP loan eligibility and forgiveness and allowed certain borrowers to obtain second draw PPP loans. More recently, the American Rescue Plan Act provided an additional \$7.25 billion in subsidy.

In the 2021 rounds of PPP, as of March 21, the SBA has approved 3.1 million loans totaling \$195.7 billion in loan volume with approximately \$79 billion in lending authority remaining. This year, the SBA has prioritized reaching the smallest businesses, LMI communities, rural areas, and achieving equitable distribution. Without congressional action, the program is set to expire on March 31, and the Administration supports extending PPP through May 31, and allowing pending lender applications to be processed through June 30.

Delivering over \$708 billion in relief would not have been possible without the partnership of over 5,000 lenders that participated in the PPP. We are extremely grateful for all of their hard work and dedication in executing this program with us. Administrator Guzman is committed to mitigating the challenges in the program as they arise. With the involvement of community banks, credit unions, Community Development Financial Institutions, Minority Depository Institutions, farm credit lenders, financial technology firms, and traditional lenders

we have been able to reach small business owners across America and support millions of jobs. We hope to continue to foster these relationships and expand access to capital even after the PPP.

## **Addressing Fraud Waste and Abuse**

One of the biggest criticisms of the PPP was the lack of eligibility and fraud checks on potential borrowers. As a result, the Office of Capital Access developed a detailed loan review plan in October of 2020. The process is designed to maximize program integrity and optimize the use of SBA's loan review resources, while considering the challenges posed by the high volume of PPP loans and the statutory timeframe for remittance of forgiveness payments.

As part of this process, in late 2020 the SBA reviewed the entire portfolio of PPP loans through the use of an automated screening process comparing loan data with publicly available information and applying eligibility and fraud detection rules. Based on the results of this automated screening process, SBA placed hold codes on loans. Because these hold codes indicated that a borrower may have been ineligible for the First Draw PPP loan it received or for the loan amount received by the borrower, the borrower is prevented from receiving a guaranty of a second draw PPP loan or loan forgiveness until the hold code is resolved. There are currently approximately 190,000 loans with outstanding hold codes.

Additionally, unlike in the first rounds of PPP, 2021 guaranty approval is now contingent on passing front end SBA compliance checks during the application process. The implementation of these checks means there is no longer instantaneous approval. SBA now approves more than 96 percent of guaranty applications within 48 hours after submission.

While the percentage of guaranty applications subject to a longer approval process due to compliance checks is small, the additional documentation and time needed to resolve the checks has resulted in minor delays. SBA has worked diligently to help provide solutions to streamline the compliance check resolution process, such as developing a lender certification process as well as analyzing historical data associated with case reviews and disposition.

## **Forgiveness Process**

While working diligently to approve new PPP loans, OCA has also been processing lender forgiveness decisions. PPP loans are eligible for forgiveness if funds are used for eligible payroll costs (at least 60% of total funds), and nonpayroll costs such as mortgage, interest payments, rent or lease payments, utilities payments, operations expenditures, supplier costs, property damage costs, and worker protection expenditures during the Covered Period. The Covered Period is the 8 - 24-week period after disbursement of the loan. To date, SBA has processed 2.1 million lender forgiveness decisions or approximately 40% of 2020 loans, totaling \$181 billion. Of the 40% of 2020 forgiveness applications that have been processed, greater than 99% received full forgiveness.

To receive loan forgiveness, borrowers are responsible for submitting a Loan Forgiveness Application (SBA Form 3508, SBA Form 3508S, SBA Form 3508EZ or a lender's equivalent)

and, for loans of more than \$150,000, borrowers are required to submit supporting forgiveness documentation to their lender (or to the lender servicing the loan). Lenders are then responsible for reviewing the documentation and issuing a decision on loan forgiveness to SBA within 60 days of receiving the application.

Within 90 days of the lender issuing its decision to SBA, and subject to any SBA review of the loan or the loan application, SBA will remit the appropriate forgiveness amount to the lender, plus any interest accrued through the date of payment. OCA continues to manage resources and look for ways to streamline existing processes to allow for greater efficiency in forgiveness reviews.

Currently, we have not received lender forgiveness decisions on 2.8 million 2020 PPP loans. If the borrower does not submit a Loan Forgiveness Application within 10 months after the last day of the loan forgiveness covered period, the loan deferral ends, and the borrower must begin making payments on the loan. As the loan deferral end date quickly approaches for many 2020 borrowers and given the forgiveness trends in the 2.1 million processed forgiveness decisions, streamlining forgiveness for as many borrowers as possible is one of our top priorities.

### **Debt Relief Program**

The CARES Act created the Debt Relief program, also referred to as Section 1112 payments, under which SBA began, in April 2020, to provide six months of principal, interest, and fee payments on preexisting and new SBA 7(a), 504 and microloans. These payments provided critical economic stability for hundreds of thousands of small businesses, while also protecting lenders and SBA's loan portfolios, and stimulating new lending of long-term capital for small businesses. Under the original CARES Act, SBA has provided \$8 billion in debt relief to more than 300,000 small businesses. In December, Congress provided an additional \$3.5 billion to resume the program on February 1, 2021. These funds are being used to make additional payments on loans that received aid under the original CARES Act and new loans made on or after February 1, 2021, as well as to provide even more debt relief to credit-challenged small business in the service industries hardest hit by the pandemic, in particular restaurants, hotels, daycare providers, and fitness centers.

### **Higher Guarantees, Fee Waivers, and Microloan Enhancements**

The Economic Aid Act also included \$1.9 billion to carry out changes to the SBA's two largest loan programs, 7(a) and 504, that proved successful in jumpstarting lending during the Great Recession, including temporarily waiving fees on borrowers and lenders, increasing the guaranty on 7(a) loans, increasing the maximum loan amount for SBA Express, and expanding 504 refinancing options. The Economic Aid Act funding also provided up to \$64 million more in microloans and temporary changes to reach the most vulnerable small businesses, such as extending their time to repay loans from six to eight years. These changes are all critical to providing affordable long-term capital to small businesses now, but especially for recovery in the coming months as vaccinations and testing increase and customers feel safe in public spaces.

## **Closing**

I am incredibly grateful for the tremendous amount of work the OCA staff has put in over the past year to get over \$700 billion dollars of relief to small business owners and nonprofit organizations. Despite unthinkable circumstances and devastating loss, this team quickly executed on the largest SBA program in history protecting millions of Americans and their livelihoods. Additionally, I'd like to thank the members of this committee for your support of the Agency throughout the implementation of the Paycheck Protection Program, and for your dedication to these small businesses. Small business is the lifeblood of our nation's economy and our communities. I will continue to put my whole soul into our efforts to deliver necessary relief so they can rehire and retain workers, safely reopen, and deliver the essential goods and services our communities depend on.