

Thomas G. Zernick, President of SBA Lending
First Home Bank

“Small Business in Crisis: The 2020 Paycheck Protection Program and its Future”

Chairman Rubio, Ranking Member Cardin, and Members of the Subcommittee—my name is Tom Zernick and I am the President of First Home Bank’s SBA lending division named CreditBench. I began working on SBA loans over 30 years ago and today manage a team of 60 dedicated CreditBench individuals. Last year, Credit Bench, a nation-wide lender, was a top-10 producer in both volume and units, and the number one lender in the country in volume for 7(a) loans under \$350,000. Prior to PPP, First Home Bank was a \$600 million community bank that grew to \$1.5B in assets due to our PPP loan originations, taking advantage of the PPP Liquidity Fund to obtain the necessary liquidity to fund this explosive asset growth. As a relatively small community bank, my institution supported 8,947 businesses around the country and funded \$876 million in PPP loans, directly impacting approximately 105,000 jobs. Please see the Exhibit A attachments that demonstrate some of our PPP recipient’s appreciation for the PPP loan program.

I am honored to testify today as a longtime, successful SBA lender who knows first-hand what it is like to deliver PPP loans. I appreciate this opportunity to hopefully provide a voice of reason on behalf of my lender peers and my small business borrowers struggling with the impacts of the COVID-19 pandemic. Nationally, lenders helped over 5.2 million businesses by funding over \$525 billion dollars of PPP loans. This was only possible because of the roughly 5,460 participating lenders that committed to serving small businesses through the PPP process. What an accomplishment during such difficult times.

I plan to focus my testimony on my boots-on-the-ground perspective of the success of PPP Round 1 and the difficulties associated with that success. On April 2nd our lives changed. We made a management decision to temporarily suspend regular 7(a) lending and dedicate our 60 CreditBench team members to the rollout of PPP. We drafted an additional 60 members from around the bank to ensure we had adequate resources dedicated to processing these loan requests. Our team, from our CEO to junior staff, worked countless hours, 7-days a week. We were building an Indy racecar while participating in the Indianapolis 500. The design blueprints seemed to change weekly through Interim Final Rules (IFRs), Frequently Asked Questions (FAQs), and policy notices.

While I understand the need for quick action to implement this emergency relief program, the lack of direction and clear and concise guidance that continues to plague the program has hindered our ability to efficiently handle the thousands of applications from small businesses coming from across the country. Our small business borrowers also have struggled through numerous burdensome and confusing elements of the program, and many are fearful that they are going to do the wrong thing which could result in either being at odds with the federal government or saddled with unexpected debt that they cannot afford.

Subsequently, both lenders and borrowers find themselves in the same position: worried that without certain common-sense, no-cost changes to PPP policy we will not be able to participate in a next round of PPP in the same way we did in the first round. Additionally, the assistance provided by PPP will not, by itself, be enough to see the small business economy through unprecedented times, and other long-term recovery measures that turn back to the traditional SBA loan programs should be considered. My testimony will touch on the simple ways in which Congress can ensure that both lenders and borrowers will feel more comfortable with participating in a next round of PPP and find opportunity in other recovery provisions focused on long-term recovery to see borrowers through the continued pandemic.

Simplified Forgiveness and Other Key PPP Fixes: Round 2 Must Look Different than Round 1

To date, lenders have not received clear guidance from the Treasury and the SBA on our role in the PPP forgiveness process. The complexity of the forgiveness process is causing delays for borrowers in obtaining loan forgiveness. Two of the most problematic areas include: 1) the determination of the covered period, and 2) the calculation of full-time employees (FTEs) required during the application process. Despite the numerous private-sector webinars made available to businesses explaining how PPP forgiveness works, our borrowers still find the

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process unreasonably burdensome and complex. Potential forgiveness reform for Round 1 PPP Forgiveness should consider an elimination of the covered period and the elimination of the FTE calculation. Furthermore, Treasury and the SBA should clearly define the lender's role in the forgiveness application process by clarifying that the borrower shall certify the forgiveness amount and that the lender is held harmless on the calculation of the forgiveness amount.

If we don't simplify the rules around the forgiveness calculations for PPP Round 1 and any subsequent round of PPP loans, lenders like us will be inundated with the task of processing applications without clarification or confidence in our role, and, as a result, find ourselves hesitant to participate as heavily in a next round of PPP because of continued confusion and burden.

In order to create capacity for lenders to originate Round 2 PPP loans, lenders need more simplified forgiveness application requirements. For example, borrowers with loans \$150,000 and less should be able to take advantage of a streamlined forgiveness process, and the lenders role in submitting these smaller loans for forgiveness should be simplified as well. Treasury and the SBA need to clearly state that lenders are not required to calculate the forgiveness amount, nor should lenders be required to independently certify the documents provided by the borrower in order to justify the amount of the loan forgiveness request certified by the borrower. These changes in the forgiveness application and process will free up lenders' staff that will allow us to actively participate in Round 2 of PPP while continuing regular 7(a) production efforts.

There also needs to be further PPP reform fixes that are no-cost policy enhancements so that a next round of PPP can work for both lenders and borrowers in the way I believe Congress intended. Some of these PPP policy fixes should include:

1. Repeal the provision that the EIDL advance amount is deducted from the eligible forgiveness calculation. We are finding out that in certain instances 100% of the loan amount are not being forgiven due to our customers having accepted an EIDL advance of \$10,000 or less;
2. Strengthen lender hold harmless provisions to help lenders better understand their role and responsibilities in the PPP process;
3. Prohibit the agencies from clawing back a lender's processing fee based on an after-the-fact determination of ineligibility, especially given the confusion around eligibility guidance;
4. Allow a borrower to reapply for a PPP loan if it repaid or cancelled the loan because it misunderstood the changing PPP implementing guidance but now has proper documentation to qualify for a PPP loan. This reinstatement process should also be available if the PPP loan was inadvertently cancelled. Also allow for the borrower to adjust its PPP loan size if the lender or borrower miscalculated or entered data incorrectly regarding the eligible loan amount while processing thousands of loans in an incredibly short period of time;
5. Enhance and broaden the eligible use of proceeds under PPP to include all eligible business purposes. While payroll protection is important, business survival is more important today. We need to give small businesses access to capital to fund all of their normal operating expenses, including paying business debt obligations, purchasing inventory, paying payables, and paying other expenses including payroll, rent, utility bills, etc.; and
6. Simplify the calculation of the PPP loan amount. For example, by using the applicant's business 2019 tax return, a loan amount could be easily calculated with 4-6 months of their average operating expenses. This would provide borrowers with 4-6 months of operating cash flow, allowing them to weather the storm until a COVID-19 vaccine is broadly distributed. The original PPP loan was an injection of cash sufficient to cover a 10-week payroll period. Nobody, including Congress, had any idea that this pandemic could last for 18 months or more. We could also receive three months of bank statements to prove the business is still in operation along with a certification from the applicant that it has been negatively impacted by COVID-19.

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These are just some of the many examples of key policy tweaks that could make both Round 1 and Round 2 of PPP loans achieve the desired objectives.

First Home Bank is committed to participating with the Treasury and SBA in funding Round 2 PPP loans. But, if Congress does not make changes to the implementation of PPP by eliminating hurdles and inefficiencies for borrowers and lenders, both at application and forgiveness, the PPP distribution chain during Round 2 could be significantly impaired by the lack of lender participation and unwillingness of businesses to navigate a complex program that presents too many hurdles. Simply administering Round 2 the same way we administered Round 1, without these reforms, in my opinion, would be a tragedy.

Long-term Recovery Measures in Traditional SBA Program Enhancements & Section 1112 Payment Extensions: A Critical Need for Small Business Borrowers and Lenders

The country finds itself at a pivotal moment--no longer are we only battling COVID-19, but we are also battling against the clock to save Main Street America. Swift action is necessary to save these small businesses and the solutions lie not only in short-term PPP loans, but also in long-term recovery measures. It is imperative that we focus attention on enhancing and stabilizing SBA's flagship 7(a) loan program. It is the 7(a) loan program that has always played a critical role in access to capital for small businesses during good times and bad.

First, I urge Congress to include a series of common-sense, low-cost enhancement provisions to the 7(a) loan program in order to encourage continued access to long-term working capital for small businesses—a critical tool to any economic recovery effort. During the Great Recession from 2009 to 2011, I experienced firsthand the benefits of lending and managing SBA loan production under an increased 90% SBA guarantee coupled with program fee waivers for lenders and borrowers. These provisions and others allowed my bank and those of my peers to facilitate access to capital for borrowers that was not available through conventional means to the small business community, and undoubtedly increased the ability for our institution to reach even more borrowers than we would have been able to without these program enhancements during those difficult economic times. The uncertainty we are facing with this pandemic goes far beyond the capital crisis faced during the 2009 recession. I encourage you not to overlook the importance of including these types of long-term recovery measures in any next relief package.

In addition, Congress needs to extend the Small Business Debt Relief payments that were created by Section 1112 of the CARES Act—a no-additional-cost provision given the amount of already funded dollars that remain available. Section 1112 provided six months of payments for all existing and new borrowers in the traditional SBA loan programs, including 7(a), providing vital, tangible, and quick relief to borrowers. Not only did these payments provide stability to the 7(a) loan portfolio, but they also provided an impactful stimulus for new lending, as well. Now that the majority of the six months of Section 1112 payments are coming to a close for our borrowers, my bank is starting to become inundated with deferral requests from SBA borrowers who simply cannot make their payments given that the economic conditions for most of these borrowers remain unchanged since March. The inability to make loan payments and meet other operational expenses will force many small businesses across the country to close their doors permanently. These payments are all the more critical because the small business borrowers in the traditional SBA programs are different from PPP borrowers in that the traditional loan programs require significant needs-based assessments for program eligibility, with the result being that regular SBA borrowers are some of the most vulnerable small businesses in the country. In short, these are exactly the borrowers we should be helping the most right now. I strongly recommend that Congress include Section 1112 payment extensions in any next package aimed at providing relief to the small business economy, with such extension ongoing for a period sufficient for the virus to be eliminated as a significant threat to these businesses. Otherwise, I am fearful that in the following months and years, the government will start to see significant stress on their SBA government guaranteed portfolios and will pay the price through backing increased defaults, rather than taking advantage of the already funded Section 1112 preventative relief.

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Thank you so much for allowing me the opportunity to provide you a boots-on-the-ground observation on the successes of PPP and the difficulties created by these successes. My suggestions on reform are intended simply as a means to increase the availability of access to capital for small businesses as quickly and efficiently as possible. We appreciate all the hard work that Congress, the SBA, and the Treasury have undertaken and stand ready to actively participate in Round 2 PPP and traditional SBA lending given what we hope will be a relief package that strikes the necessary balance between thoughtful fixes to PPP and long-term recovery measures. First Home Bank looks forward to continuing its leadership in serving the small business community.

Exhibit A

I just wanted to thank you. You guys are freaking rock stars and obviously working around the clock to help us. Thank you so much! This is a super scary time for us as business owners and I am glad to know that we might be able to salvage something we've worked so hard to build.

-Unnati Patel Hall | Owner



Tom,
I wanted to take a second to thank you for making the application process for the PPP loan so straightforward and easy. I'm a BofA customer and just found out this morning that since I don't have a loan with BofA they will not process the loan for me. A friend of mine sent you link to me and I was able to apply quickly. After so much distress caused by BofA its a pleasure to see someone take other people's business seriously. My employee's thank you!

BTW... I will soon be moving my business away from BofA due to their self-serving behavior during this trying time. First Home Bank may well be where we land.

Celebrating 20 Years of Service and Excellence.



Act Quickly. Fill a Knowledge Gap. *Produce More.*

Thank you so much Tom I am super grateful and want to keep my employees employed!

Thank you,

David T. Aronberg, Esq.
Aronberg, Aronberg & Green, Injury Law Firm

Hello Tom,
I am collaborating with a few small business owners and I have directed them to your web-site to apply for the PPP. I would like to let you know that you are 1 of a few lenders in the area that would even respond back let along provide a seamless application process. THANK YOU SO MUCH FOR THIS.

I know your website is probably bombarded by applications and so we wanted to know when do you think we will have a response on the application?

Thanks again!
Viera Vorasarn
Realtor

Tom and Team,
I wanted to THANK YOU for making it such a streamlined and easy process to apply for PPP. Bank of America, the bank we've done business with the last few years, is creating major obstacles, and you are a breathe of fresh air. When this passes we will happily be moving all of our business relationships to First Home.

I just completed the application. Let us know if you need anything further!

Best,
Ryan Ayotte
Simple Skiff Beverages, LLC

Cheryl,
Without your long hours and commitment to helping as many businesses as possible, we would not have survived the stress of PPP. I hope you know how much I appreciate you. You are and were responsive and kind. I never thought we would communicate after 9:00 at night but there you were diligently doing all you could. AMAZING

There were other folks in your bank who helped us but their work was done in more anonymity.

Please let everyone on the team know that I am grateful.

Once we can get back under single roofs I would like to find a way to move some business to your bank. Although there is a local office my bank here totally failed each and every one of their business customers. First Home bank stepped up.

Warm regards,
Dave Dart
Managing Partner Morisey-Dart Group

To the team and personnel at First Home Bank who have been under tremendous pressure to get done all these PPP applications.

I would like to express our sincere thanks by sending out a humble token of our appreciation via a care package to you and your professionals. In addition, I would like to send a sincere and genuine letter of thanks to the management and executive team expressing our gratitude.

**KELLY ALLEN, CPA, CVA, ABAR, CFF, MAFF, MST
LEVEL ADVISORS**

Hello Team,

I just received in a text a big thank you from Bill Leonhart at Kaw Valley Companies... his wire just hit and he is breathing again! Thank you so much for all of your help as this was a very dire situation! You saved approximately 80 families from dealing with layoffs... this is the root of the work we are all doing. I truly appreciate everyone's help on this!

On a side note we are still tracking down the funds for Scrap Management but I truly believe the issue is with their bank and not us... I will let everyone know once I have confirmation so you can wipe it from your lists...

Coming from Kansas City a giant thank you to everyone from Bill Leonhart at Kaw Valley Companies!!!

Michele

Jack:
The funds showed up today!!
Thank you so much for all of your help.
Once things are a bit calmer I will be reaching to you regarding moving my business to your bank. You have been so helpful, reassuring, honest, and responsive. I just can not thank you enough!!

Please forward this email to whomever you report to. I know you are crazy busy but you would take the time to respond to my constant emails and you also followed up with a phone call.

I really do not know how big your bank is, but you do not act like a big bank. Have a great weekend.

Doug Anderson

Good morning John and Tom,

First of all, I hope all is well for you, your families and co-workers.

We received the PPP monies this morning. Thank you for all your efforts. Thank you for helping Michael Aiello Construction Inc bring back its valued employees. We are most grateful for your efforts.

On a personal note, thank you for being patient with me and my worries about not getting this money.

Please be safe. Enjoy your day. May it be a blessed day.
Sincerely,

Dan Brennan
Michael Aiello Construction Inc.

Michelle,

Thank you for working with us. I just submitted the closing signatures. Have a great weekend!

p.s. You made mine so much better!

John Peck

Katie,

Thank you for your attention to my loan needs and helping me complete my documents. I signed the closing documents today.

I appreciate what you guys have done and the long hours that have been thrown upon you during this pandemic. Know that it made a difference today :)

Dr Roger Harris.



To whom it may concern,

My name is Jim Scherer and I own Broke N Bored Grill on Redington Shores. I've been open for 2 1/2 years. Hurricane Irma hit 10 days after I opened, red tide followed the following year. Those experiences were nothing in comparison to the difficulties of Covid-19. My business had been experiencing 30% annual growth since opening. I proudly employed 19 people. The business was debt free, savings in the bank and was starting to really turn a profit. Then a very abrupt shutdown was forced and I closed. All 19 people were laid off. I took the savings account and paid all outstanding debts and started planning.

Rewind back to January. Mike Giasone and I had started talking about a SBA commercial property loan. I currently lease the restaurant property and have first right of refusal. I was developing a game plan to come out of a strong season with enough money in the bank for the down payment. That's obviously off the table now, but the connection was critical.

I have banked with Fifth Third since opening. They have served me well and are conveniently located a couple blocks from the business. When the PPP rolled out, I anxiously waited to apply for the program with them. I signed an online inquiry form and waited for correspondence. I called the branch every morning for instructions. I was told to wait. So I did. The program ran out of funding a few days later.

During my time waiting for Fifth Third, I called Mike. I figured, he was familiar with SBA loans, he'd have answers. My hunch was right. He returned my call, and put me into the application process right away. I submitted my application and the program ran out of money that same day.

Fast forward a few days. Mike calls. I followed his instructions and submit a new application. Again, we wait. The program was funded and I get the best news. Approval.

Wow. Tears of joy and relief as Mike tells me over the phone. My fear is starting to subside and I can finally think positively again. I can feed my kids. I can pay the rent, call my employees and get them back working. All because of Mike and the amazing team at First Home Bank. Although I've not met any of you, I want to tell you what kind of impact your hard work is having on small business owners such as myself.

I know that if it wasn't for the hard work, dedication and customer service from the employees at First Home Bank, I wouldn't have received PPP funding. I will be moving my banking business to First Home Bank and look forward to a strong relationship moving forward.

Keep up the hard work. Your dedication has kept this small business owner and my employees out of the unemployment line.

Sincerely,
Jim Scherer
Chef/Owner
Broke N Bored Grill