

WBA: Testifies at today's Wisconsin Assembly Hearing

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The Wisconsin Bankers Association has been invited to testify on the SBA Payment Protection Program before the Assembly Committee on State Affairs today. Below are highlights of the testimony given by Rose Oswald Poels, WBA president/CEO, in addition to her full testimony.

Testimony Highlights

- **Wisconsin's high PPP volume served over 43,000 small businesses.** Wisconsin's volume for the first round of PPP loans put our state in 14th place overall in the nation. In under two weeks, 43,395 small Wisconsin businesses received approval for a total \$8.3 billion in relief.
- **The rules for PPP loans continue to evolve.** Federal agencies hadn't fully written the rules before launching the program and continual to change and update them.
- **PPP Loan forgiveness is not automatic.** The over 43,000 borrowers are responsible for tracking and documenting how they use PPP funds.
- **PPP has broad reach.** According to SBA's data, the number of PPP businesses helped in WI is about 30% of all Total Employer Establishments in Wisconsin (according to 2017 Census numbers) and 71% of total Eligible Payroll - SBA Approvals through April 16.
- **Borrowers have access to a free WBA PPP guide and calculator.** The [guide](#) and the [calculator](#) are tools borrowers can use to better understand the forgiveness portion of PPP loans.

Full Testimony

Assembly Committee on State Affairs

Informational Hearing

April 30, 2020

Testimony of Wisconsin Bankers Association
By President/CEO Rose Oswald Poels

Thank you, Chair Swearingen, and Committee Members, for the opportunity to speak at this important informational hearing today. The Wisconsin Bankers Association is a statewide trade association representing nearly 230 financial institutions with a retail branch presence in the state of Wisconsin. I look forward to talking with you about the Paycheck Protection Program, which I have been asked to address, and its impact on Wisconsin businesses.

We are all living through unprecedented times, reacting to situations none of us have ever lived through before. It has been truly incredible to watch the power of people coming together to help solve problems while they are happening, all with the shared goal of helping to keep people healthy and safe as best we can.

Wisconsin's financial institutions are on the economic frontlines of this crisis and have been since its inception. Before government programs were even developed, financial institutions across the state already were proactively engaging with their customers to determine the impact the COVID-19 pandemic was having on their financial well-being. From the moment emergency health declarations were made at the state and federal level only 49 days ago, we started hearing concerns from customers about their financial stresses. After only a few days, economic hardship stories began surfacing as people took steps both on their own and in response to various government mandates and emergency orders to avoid public places or not go into an office building to help mitigate the spread of the virus.

Financial institutions across the state began their own relief programs to help customers through this difficult time. Many bankers worked with customers to defer payments; some were principal deferments, and some were both principal and interest payment deferments for 30, 60 or 90 day periods. Special small dollar loan programs were also created, among other initiatives. Shortly thereafter, government supported programs began surfacing at the federal level and in Wisconsin, WEDC launched its 20/20 program through CDFIs.

Overview of the Paycheck Protection Program

The focus of my testimony today is on the federal Paycheck Protection Program, or "PPP." This program was launched on March 27, 2020, when the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act) to provide emergency assistance and health care response for individuals, families and businesses affected by the coronavirus pandemic. The Small Business Administration (SBA) received an unprecedented amount of funding and authority through the Act to modify existing loan programs and establish a new loan program to assist small businesses nationwide adversely impacted by the COVID-19 emergency. Section 1102 of the CARES Act temporarily permits SBA to guarantee 100 percent of a new 7(a) loan type called the "Paycheck Protection Program (PPP)," and \$349 billion was allocated to this effort.

PPP provides for forgiveness of up to the full principal balance and accrued interest for loan proceeds used for covered purposes so long as employee head count and compensation levels are also maintained during the covered 8-week period. The maximum amount of money that can be borrowed is a formula based on the average monthly payroll costs as that is defined in PPP for calendar year 2019 multiplied by 2.5.

Within less than 10 days, this first round of money was completely allocated out to 1,661,367 small businesses by 4,975 lenders across the country. Wisconsin's volume put our state in 14th place overall after this first round of PPP money based on approved loan dollars at over \$8.3 billion. According to SBA's data, Wisconsin lenders approved 43,395 loans which means we helped 43,395 small businesses in this state since any business can only have one PPP loan.

I am so proud of how quickly Wisconsin financial institutions jumped into this program to help customers despite the rules not being fully written and continually evolving even to this day. And because the volume of lenders across the country participating in this program was so high, our bankers worked late nights and over weekends to ensure that small businesses in Wisconsin could participate in this program because the systems were open virtually 24/7.

Even before the first round of money was exhausted, it was clear that a second round of PPP funding would be needed to meet the demand. As a result, on April 24, 2020, the President signed the Paycheck Protection Program and Health Care Enhancement Act, which provided another \$310 billion of additional funding and authority for PPP. Applications for this second round of PPP opened this past Monday and nationally as of 4 p.m. yesterday, April 29, there were over 960,000 approved

loans from over 5,300 lenders totaling nearly \$90 billion. The breakdown by size of lender is as follows:

Lenders < \$10B:

Number of approved loans: 587,000+

\$ volume of approved loans: \$43B+

Lenders btw \$10B - \$50B:

Number of approved loans: 206,000+

\$ volume of approved loans: \$20 billion+

Lenders > \$50B:

Number of approved loans: 167,000+

\$ volume of approved loans: \$25 billion+

Small Business Considerations in Forgiveness Phase

With all the media attention surrounding the program, and the constantly evolving, and sometimes changing nature of interpretations by the SBA and Treasury, both small businesses and lenders continue to have unanswered questions. At this point, many of the outstanding issues are focused on the forgiveness phase of the program. As a result, WBA created a toolkit along with a forgiveness calculator for small business borrowers that I included with my testimony for your information, to try and help both lenders and small businesses better understand what we believe the forgiveness phase will look like based upon current law and rules. However, we are all waiting for guidance to be finally issued so this document is subject to change based on final rules.

When PPP was first available, there was a race to get an application in for the justified fear of the money running out. Congress provided for the program to be available until June 30, 2020, so many thought that a borrower could start the 8-week covered period at any point in time during the program. However, through the issuance of an FAQ, it became clear that the payroll costs that would be forgiven were only those actually incurred during the 8-week period that began when the loan proceeds were first disbursed. And, that same FAQ stated that lenders must disburse loan proceeds within 10 calendar days of an application's approval. Consequently, some businesses that participated in the program assuming their entire loan amount would be forgiven by SBA will discover that is not the case because their actual payroll costs incurred during this 8-week covered period are

significantly less than the formula used to calculate their maximum loan amount.

In addition, forgiveness amounts are reduced by one or more factors based on applicability. For example, while payroll costs include employer costs for family, medical or sick leave, any qualified sick and family leave wages for which a credit is allowed under the Families First Coronavirus Response Act, will be excluded from the definition of “payroll costs.” Loan forgiveness will also be reduced if full time equivalent employee headcount decreases, and/or if the business decreases salaries and wages by more than 25% for any employee who made less than \$100,000 annualized income in 2019. Finally, no more than 25% of the total amount forgiven can be comprised of non-payroll costs, which are interest on covered mortgage obligations, rent pursuant to a covered lease obligation, or covered utility payments.

The burden to track and document all of these expenses is on the small business borrower in order to request forgiveness of the loan. In the toolkit, WBA provides a minimum documentation checklist to help borrowers understand what they should be tracking during this 8-week covered period. For any monies not forgiven, it results in a 2 year loan at an interest rate of 1% with the first 6 months of principal and interest payments deferred.

Finally, I want to thank the members of this committee, along with the other members in the Assembly and Senate for working on critical legislation needed to ensure that businesses were not taxed at the state level on the forgiveness amount of any PPP loan. WBA appreciates the Governor signing WI Act 185 to provide parity for small businesses in our state tax law with that of the federal law for these forgivable loan amounts.

Conclusion

The impact of this pandemic is being felt by everyone, and Wisconsin financial institutions are doing all they can to work with their customers to mitigate the financial impact as much as possible. WBA member banks have led the way in actively advocating for Wisconsin small businesses through our high participation rates in PPP, among other relief efforts. Banks are the cornerstones of their communities, driving Wisconsin’s economy. The trusted advisor role our bankers serve for their customers has never been more important than it is now to help ensure their financial well-being through this health crisis.



Thank you very much for the opportunity to speak on PPP at today's informational hearing. I would be happy to answer any questions.