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May 21, 2020

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Charles Schumer
Minority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Majority Leader McConnell, Minority Leader Schumer, Speaker Pelosi, and Minority Leader McCarthy:

On behalf of community banks across the country, with more than 52,000 locations, thank you for your tireless work in developing and enacting policy to confront a historic crisis. I write today to urge you to take our recommendations into consideration for inclusion for the next legislative package to address the fallout from the current pandemic on small businesses and jobs. These recommendations were developed in consultation with community bankers from across the country representing rural, suburban, and urban markets. These bankers have a critical stake in finding solutions that will help their communities survive the crisis and rebound strongly once restrictions are lifted.

Paycheck Protection Program Loan Forgiveness

More Flexible Spending to Preserve Small Business Viability and Employment

- Provide more flexible forgiveness terms by allowing borrowers to spend up to 50 percent of loan proceeds on allowable, non-payroll expenses. Currently, a borrower may spend no more than 25 percent of loan proceeds on these expenses.
- Provide more flexibility on the current 8-week period for spending PPP funds.

The Nation's Voice for Community Banks.®

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

866-843-4222
www.icba.org

Reason for Change

- Many borrowers will be forced to close and lay off employees if they cannot meet fixed expenses such as rent. More flexible spending parameters would allow business to remain viable when COVID-19 restrictions are lifted.
- The current 8-week period has proved to be a significant impediment to the use of PPP funds. Many borrowers have not yet reopened or have only recently reopened their businesses.

Easy-to-Use Forms and Procedures

- For all loans with an original balance of \$1 million or less, allow a presumption of compliance based on the borrower's certification that the funds were used in accordance with the terms of the program.
- Require Treasury and the Small Business Administration (SBA) to promptly provide a straightforward, easy-to-apply approach to loan forgiveness. Nearly all community bank PPP loans are less than \$1 million and the vast majority are less than \$100,000. The 11-page loan forgiveness application released by Treasury on May 15 is overly complex and detailed.
- Provide PPP loan forgiveness calculator to allow the borrower and lender to easily determine the forgiven amount.

Reason for Change

- A presumption of compliance for these borrowers will allow business owners to focus on their businesses and the safety of their employees and customers. A threshold of \$1 million for presumed compliance would be consistent with Secretary Mnuchin's intention to focus audit resources on loans in excess of \$2 million.
- The certainty provided by a calculator or other simplified process would allow borrowers to focus on sustaining the viability of their businesses. Complex calculations are an unnecessary distraction in a challenging environment. Overly detailed review of each loan is simply not practical for borrowers or lenders.
- Borrowers should not have to hire accountants at expensive and predatory fees to assist with loan forgiveness.
- Borrowers whose first language is not English are struggling with the forgiveness forms and procedures.

Preserve Expense Deduction for PPP Borrowers

- Allow PPP borrowers that also obtain loan forgiveness to deduct payroll and other business expenses. (Small Business Expense Protection Act of 2020, S. 3612)

Reason for Change

- The inability to deduct normal business operating expenses effectively reduces the value of loan forgiveness for struggling businesses and adds unnecessary complexity to tax preparation. We do not believe this was the intention of Congress in creating the PPP.

Bank Capital and Accounting Relief

- Extend Troubled Debt Restructuring (TDR) provisions of the CARES Act through December 31, 2021 and suspend impairments of COVID-19-related assets for a period of two years.
- Allow banks to amortize COVID-19-related loan losses over a 7- or 12-year period depending on the type of collateral backing the loan.
- Ensure that the origination and/or holding of PPP loans would have no impact on a community bank's risk-based capital and leverage ratios.
- Suspend FASB's Current Expected Credit Losses (CECL) implementation until 2025.
- Make 8% Community Bank Leverage Ratio (CBLR) permanent for institutions of \$10 billion or less in assets.

Reason for Change

- These measures are necessary to support borrowers and lenders facing historically challenging circumstances.
- Banks' strong capitalization at the beginning of the crisis means that the recommendations noted above could be implemented without compromising safety and soundness.

Liability Protection

- Create liability safe harbor for businesses from COVID-19-related suits.

Reason for Change

- Community banks and small businesses have every incentive to ensure the safety of their employees and customers.
- Fear of opportunistic class actions or other suits will inhibit the restoration of economic activity and potentially transfer wealth from employers to trial lawyers.

Tax Proposals

- Allow interest on loans secured by agricultural real estate or primary residences in rural communities to be tax-exempt as provided for in the Enhancing Credit Opportunities in Rural America (ECORA Act, H.R. 1872/S. 1641).

Reason for Change

- These provisions would support a higher volume of community bank credit at lower interest rates to support a farm economy facing a historic crisis.

Mortgage Proposals

- Extend the government sponsored enterprises' qualified mortgage patch to January 2022. Extending the patch would help avoid additional disruption as the economy and housing market recover from the current crisis.

- Provide aid to state and local Housing Finance Agencies for helping borrowers with mortgage payments, forbearance, and loan modifications.
- Establish a liquidity facility for all mortgage servicers.

Reason for Change

- These provisions will support the health of the mortgage sector which plays a critical role in the overall economy.

Support for Local Regions

- Raise current bank-qualified municipal bond annual issuance limit to \$50 million from \$10 million to expedite low-cost funding for local projects.

Reason for Change

- This was a successful provision of the 2009 American Recovery and Reinvestment Act. It would help finance needed municipal projects to support health, infrastructure and jobs as municipalities struggle as a result of lower tax revenues.

Agricultural Proposals

- **Financial Assistance to the Farm Sector.** Provide additional direct financial assistance to farmers, ranchers and others involved in the food sector.
- **Enhance USDA Guaranteed Lending Programs:**
 - Increase funding for USDA direct and guaranteed loan programs.
 - Increase loan limits for USDA guaranteed farm loans to \$2.5 million to assist a broader segment of family farmers and ranchers.
 - Allow the Farm Services Agency to reimburse borrowers for guaranteed loan fees through 2021.
 - Temporarily suspend term limits on FSA direct operating loans through 2021.
 - Provide lenders and borrowers the choice of which county office to access for approval of guaranteed loan applications to speed up loan application approvals and reduce backlogs.
- **Forbearance for Banks and Bank Customers.**
 - Ensure regulators do not classify agricultural loans as substandard.
 - Allow additional time for borrowers to work out farm loan repayments.

Thank you for your consideration. We look forward to continuing to work with you to sustain the American economy as this crisis evolves.

Sincerely,

/s/

Rebeca Romero Rainey
President & CEO

CC: Treasury Secretary Steven Mnuchin
Small Business Administration Administrator Jovita Carranza
Members of the U.S. House of Representatives
Members of the United States Senate

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