Testimony of

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On behalf of the

Independent Community Bankers of America

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"An Empirical Review of the Paycheck Protection Program"

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Chairman Phillips, Ranking Member Van Duyne, and members of the Subcommittee, I am Robbie Barnes, President and CEO of PriorityOne Bank in Magee, Mississippi. I testify today on behalf of the Independent Community Bankers of America where I am Chairman of the Legislative Issues Committee and a member of the Federal Delegate Board. I am also active in the leadership of the Mississippi Bankers Association.

Thank you for the opportunity to testify at today's hearing, "An Empirical Review of the Paycheck Protection Program." The PPP has been a lifeline for small businesses and the people they employ in the communities I serve in South Central Mississippi. As a community banker, and as Chairman of the Financial Services Committee of the Governor's economic response team that was organized shortly after the pandemic began, I can tell you that the PPP staved off economic catastrophe. I want to thank this committee, Congress, and the SBA for crafting, passing, and implementing an absolutely vital program.

Banks, and community banks in particular, are what made the Program work. Without bank involvement, the PPP would have been far less effective in fulfilling its purpose – providing timely, effective, and efficient support for employment in an historic health and economic crisis. I hope that one of the lessons of this hearing will be the importance of preserving community bank SBA lending. As I will discuss later, an experiment in SBA direct lending would be ill conceived and would jeopardize small business access to capital.

In the PPP, PriorityOne Bank was committed to reaching out to ensure that every qualifying small business, church, non-profit or other borrower had the information and the help they needed to take full advantage of the Program. I am pleased to provide our perspective to this important discussion. My comments reflect my conversations with literally hundreds of community bankers from around the country.

Our Story

PriorityOne Bank has a rich history of serving South Central Mississippi, tracing its roots back to 1905. Today, we are a $900 million community bank with 230 employees and 15 branches in five counties. Our markets are rural, suburban, and urban. We are a full-service community bank offering small business, consumer, mortgage, insurance, and brokerage services. We are also a Community Development Financial Institution, which by definition means that we serve a predominantly low to moderate income market.

It is notable that, as one of the poorest states in the country, Mississippi has the highest concentration of CDFI banks in the nation. Fifty of the nation's 68 CDFI banks are headquartered in Mississippi. As a result, the state also has the lowest average PPP loan balance, about $43,000, which is slightly higher than my bank's average PPP loan, $32,500. With established relationships in lower income communities, CDFIs were prepositioned to extend PPP loans to smaller businesses with smaller credit needs. Mississippi lenders led the nation with the highest overall percentage of PPP loans of less than $150,000 (96.2 percent), loans of less than $100,000 (94 percent), and loans of less than $50,000 (88.7 percent). Like any community bank, we have a vital stake in the communities we service. We prosper when our communities prosper.

PriorityOne's partnership with the Small Business Administration is critical to our community service. I have been an SBA lender for more than 35 years, and my bank is both a Preferred lender and an Express lender. The 7(a) program is invaluable in allowing us to support local small businesses that would not otherwise qualify for conventional credit. As discussed below, our experience with the 7(a) program gave us a leg up over other lenders in navigating a sometimes tortuous PPP. We are committed to the 7(a) program's integrity and long-term sustainability and deeply appreciate this committee's support for it. The 504 program, in which we participate, is also of great value in supporting community investment, and I wish to thank this committee and Congress for including an increase to the 504 authorization cap in the FY 2022 funding bill thus avoiding a harmful shutdown of this important program.

Paycheck Protection Program

The Paycheck Protection Program rapidly and effectively deployed critical funding to small businesses, self-employed workers, not-for-profits, churches, schools, and other borrowers nationwide. The Program has helped these entities to maintain their employment and survive the economic shutdowns of 2020 and early 2021. We are in a better place today because of the PPP.

The Program was a natural fit for the business model and geographic footprint of community banks. We are small business lending specialists, and our strength is personal relationships in our communities and direct knowledge of local economic conditions. We were pre-positioned to help borrowers navigate the application process. Our network of branches made us more accessible than other institutions. There are countless stories of small businesses in desperate need that, unable to secure a PPP loan from a larger bank in a timely fashion, turned to a community bank where they were promptly and effectively served, despite sparse and often conflicting guidance from the SBA. Community bankers, including many members of our staff, worked around the clock to meet an overwhelming demand for PPP loans from existing as well as new customers. Federal Reserve Governor Michelle Bowman described community banks as "irreplaceable" during the pandemic.[1]

The data tell the story: Community banks were the predominant PPP lenders to local small businesses and accounted for nearly 60 percent of the program's total loan amount. Moreover, community banks made nearly 72 percent of the PPP loans to minority-owned small businesses, 81 percent of the PPP loans to women-owned small business, and nearly 69 percent of the PPP loans to veteran-owned small businesses.

Community banks also provided the majority of PPP loans to small businesses within demographically and socioeconomically underserved communities. Community banks made over 75 percent of PPP loans to majority-minority communities. They also provided more than 90 percent of PPP loans to communities with an average household income of less than $40,000 per year and more than 75 percent of PPP loans to communities with a poverty rate of at least 20 percent and long-term unemployment above 10 percent. Community banks accounted for 85 percent of PPP loans in rural communities. I am proud that my industry stepped up to support the

[1] Greely, Brendan. "How US community banks became 'irreplaceable' in the pandemic." Financial Times. August 30, 2021.

survival of these diverse and economically challenged businesses and communities in a time of crisis.

My bank's PPP lending is typical of a community bank. We made over 1,200 loans for approximately $40 million. Our average loan amount was $32,500. The smallest was for just $335, and the largest was for $617,000. In other words, our PPP lending disproportionately helped the smallest of small businesses. Thirty-nine percent of our loans were to minority and women-owned businesses. I should also mention that many self-employed farmers and other self-employed borrowers, who initially qualified for lower loan amounts under the net income calculation, were able to obtain larger loans after Congress made changes that allowed them to use gross income to calculate their loan amounts.

This is an enormously positive impact in the communities we serve. PriorityOne Bank's long history as a 7(a) lender helped us to navigate sometimes confusing SBA channels on behalf of our borrowers. I also know that other community banks have had similar results.

I would like to provide some examples of PriorityOne's PPP loans to illustrate the enormous value of the Program. Gulf South Products in Hattiesburg, MS is a live event production company that operates in four South Eastern states. This growing business came to a sudden halt in March 2020. Contracts were cancelled through the first quarter of 2021. This company had been banking with us since 2015. When they reached out to us, we assured them that we would do everything we could to help them survive the crisis, beginning with modification of their existing loans. With the rollout of the PPP, we walked them through the application process and extended a loan which allowed them to maintain their payroll in the second half of 2020 after they had exhausted their funds. As the pandemic persisted through 2020, we extended a second round PPP loan which allowed them to maintain payroll and pay rent into 2021. The business's PPP loans totaled $89,000. Business finally began to come back in the middle of 2021, and the business has resumed the growth that was abruptly cut off by the pandemic and projects strong growth, new hiring, and investments in the coming years. As the owner wrote to us, "As a result of being able to obtain PPP funding, we were able to ensure that our staff was ready when the lights came back on. None of this would have been possible without PPP funds."

Another PriorityOne customer, a startup fast food restaurant in central MS which we financed several years ago, has now expanded to over 12 locations and employs nearly 300 hourly employees, most of whom are low or moderate income minorities. With the onset of the pandemic, PPP loans allowed the business to continue paying their employees while transitioning to drive-thru only for several months. Without this assistance these employees would have lost their jobs, and the business would have failed. Today these employees are continuing to work and support their families.

A minority-owned sole proprietor nail salon secured an $11,689 PPP loan from PriorityOne. Our PPP loan helped her survive the pandemic when the salon was mandated to temporarily close. In April 2021, this same borrower applied online with us for a second draw PPP loan. She did not initially qualify, but we worked with her and determined that her 40 percent drop in revenue was due to the pandemic shutdown and helped her receive funding. As a result, this business was allowed to remain open.

These are just a few of numerous additional examples I could provide in which PPP saved businesses and jobs in my market.

Challenges of the PPP

While the PPP has been effective in its fundamental purpose, we must acknowledge that it created significant frustration for borrowers and lenders, particularly in its early phases. A surge in applications overwhelmed the technological capacity of the SBA, for which of course it cannot be faulted. An agency accustomed to working with some 1,500 lenders had to scale up at short notice to accommodate some 5,000 lenders. Program guidance was vague and shifting, causing lenders to engage in guess work and repeatedly readjust their processes. Answers to basic program questions were sometimes hard to find. Of course, these criticisms should be held in perspective. The SBA was dedicated to making the program work and continued to adapt to circumstances and improve their processes. Community bank lenders were persistent because they knew how much was at stake for borrowers, and these frustrations were eventually overcome.

PPP Forgiveness

A critical component of a PPP loan is the opportunity for forgiveness. If conditions are met, a PPP loan is essentially a grant. The front-end process of approving applications and deploying funds for qualified borrowers is followed by a back-end process of determining whether a borrower qualifies for forgiveness in full or in part and documenting that determination. Our upfront processing, including knowing and having existing relationships with most of our borrowers, made forgiveness on the back end relatively straight forward. We did not make loans that we were not confident would qualify for forgiveness because we did not want to saddle anyone with unintended debt.

Ideally, this process should be minimally burdensome for the borrower, especially for smaller loans. This is how the success of the Program must be measured: straightforward, relatively simple processing of loans and forgiveness for qualified borrowers with minimal fraud.
At PriorityOne Bank, approximately 90 percent of our PPP loans have been forgiven. We have experienced no cases of fraud or default in the more than 1,200 loans we have made. We recognize and appreciate the progress the SBA made in streamlining the forgiveness process over time. The Agency has worked under extraordinary circumstances. We are grateful to this committee and Congress at large for its role in making statutory changes and advocating for streamlined processes.

Like many community banks, our true value proposition is relationship lending. We believe we have a responsibility to our borrowers from loan origination until the loan has been successfully repaid. We want to ensure that the process works well for our borrowers from beginning to end. If there are technical or communications problems with the SBA, we want to use our expertise and relationship with the Agency to assist the borrower in resolving them. This type of relationship lending explains why community banks have higher satisfaction ratings among small business borrowers than other lenders.[2]

Moving Forward: Integrity Must Be Safeguarded in the PPP and Other SBA Programs

It is critical that future SBA lending programs aim to reduce fraud and abuse to the greatest extent possible. Safeguarding taxpayer dollars is essential to sustaining public support for SBA lending programs.

At PriorityOne Bank, we did our due diligence and, as noted above, have experienced no fraud and expect to receive 100 percent forgiveness. This is typical of community bank PPP lenders. We own the consequences of our local lending decisions and underwrite with great care. Because we were on the ground in our communities, we knew which applicants were legitimate and viable. A fraudulent application would have been flagged immediately.

Fraud puts all SBA programs at risk. PriorityOne Bank and many community banks highly value a robust and sustainable 7(a) program. Under normal circumstances, the 7(a) program generates sufficient revenue through fee collections and recoveries of collateral on purchased, defaulted loans to not require appropriations to issue new loan guarantees. This structure usually requires no appropriation of taxpayer dollars.

We are grateful for this committee's strong support for the 7(a) program. Significant reforms to this successful program must be taken with great caution and care. A high volume of poorly underwritten loans could cause the 7(a) program to prematurely exceed its lending cap and shut down, leaving applicants stranded. SBA programs play a critical role in supporting small businesses and employment. Fraud has the potential to undermine these programs.

SBA Direct Lending Has a Poor Track Record and Is Costly for Taxpayers

As you consider the future of SBA lending, I wish to emphasize that direct lending is not the answer to capital access for small business. SBA direct lending has been tried and has failed. I ask you to consider the finding of a recent Congressional Research Service report:

> The SBA has authority to make direct loans but, with the exception of disaster loans and loans to Microloan program intermediaries, has not exercised that authority since 1998. The SBA indicated that it stopped issuing direct business loans primarily because the subsidy rate was "10 to 15 times higher" than the subsidy rate for its loan guaranty programs.[3]

The SBA retreated from direct lending as an ill-conceived experiment. Congress must not repeat this mistake. The recent Economic Injury Disaster Loan (EIDL) program, an SBA direct loan

[2] For example, the 2021 "Small Business Credit Survey," conducted by the regional Federal Reserve Banks, found that 81 percent of community bank small-business loan applicants were satisfied with their experience, compared with 68 percent at large banks, 60 percent at finance companies, and 43 percent at online lenders.
[3] Congressional Research Service. "Small Business Administration: A Primer on Programs and Funding." Updated February 22, 2022. Page 12.

program, has been rife with fraud and poorly executed. Congress should heed this warning before creating a direct 7(a) program.

The involvement of banks is critical to reducing fraud. Community bankers know their customers. They know the difference between a legitimate business and a fake business set up to perpetrate fraud because they meet with business owners, visit their businesses, and see their operations. The SBA is not on the ground in many local markets and cannot assess borrowers firsthand. This distance from the borrower makes direct lending vulnerable to fraud.

In addition to the problem of fraud, the SBA simply does not have the resources to reach thousands of small businesses in need of credit. Today, there is a strong network of community banks, Community Development Financial Institutions, and other lenders already in place to meet demand for small business borrowers. Direct lending is a poor and costly alternative to private sector lending and would reach fewer borrowers.

Conclusion

Thank you again for convening today's hearing and for the opportunity to offer the community bank perspective on the Paycheck Protection Program and other SBA programs.

I'm happy to answer any questions you may have.