

PPP Loans – Entering the Next Phase  
Addressing borrower forgiveness and  
future compliance considerations

## On the webcast today



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# Topics we will cover today

**1. Forgiveness Timeline and Context**

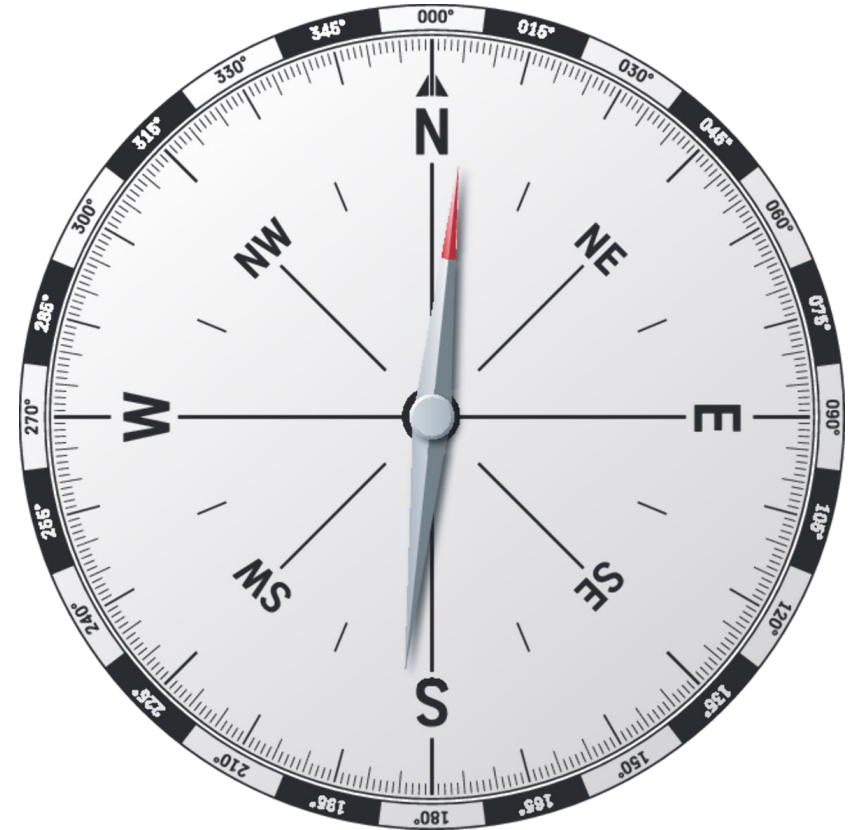
**2. Lessons Learned and Forgiveness Expectations**

**3. Projected Challenges with Loan Forgiveness**

**4. Operationalizing Considerations**

**5. Utility Solution**

**6. Q&A**



# Polling question #1

**How many PPP loans has your institution processed?**

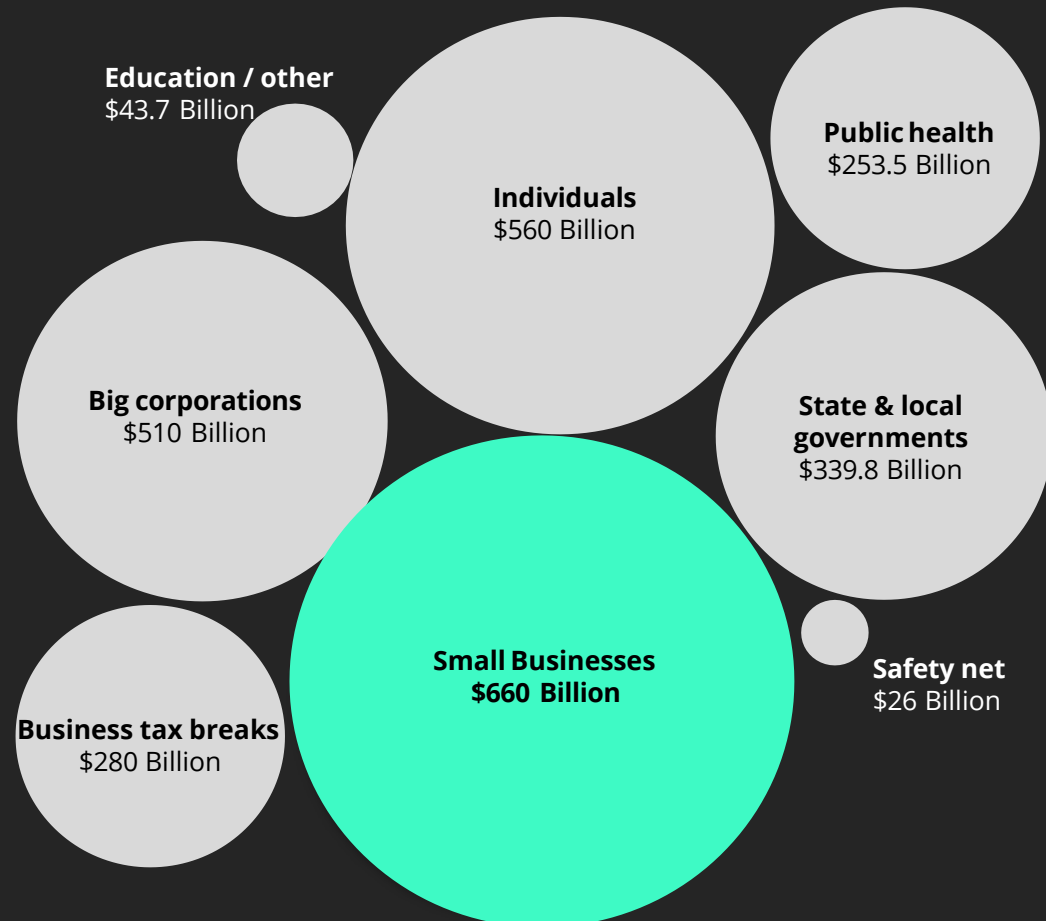
- a. 0 to 500
- b. 500 – 1,000
- c. 1,000 – 2,500
- d. 2,500 – 4,000
- e. More than 4,000



# CARES Act: What's in it?

On March 27, CARES Act was signed into law to provide over \$2 trillion of relief focused primarily at small businesses and middle-income and lower-income Americans. One of the major components is Paycheck Protection Program which extends emergency grants and forgivable loan to eligible small businesses which include companies and non-profits with 500 or fewer employees

## How The \$2.6 Trillion Breaks Down



Source: Estimates for third relief bill based on bill text, committee and administration numbers

## Paycheck Protection Program

In two rounds of funding, \$659 Billion has been allocated for the SBA to provide loans of up to \$10 million per business, with heightened audit of loans over \$2M.

- **Portions of the loan** used to maintain payroll/keep workers on the books, pay rent, mortgage interest, utilities and other qualified expenses **could be forgiven**, provided workers stay employed through the end of June 2020, but these guidelines are being reconsidered in pending legislation
- Small businesses and other eligible entities will be able to **apply for a loan** if they were harmed by COVID-19 **between February 15, 2020 and June 30, 2020 and had limited options for other liquidity sources**
- A number of borrowers were given a **safe harbor period through May 18, 2020** to return loans which resulted in ~\$24B being returned as businesses self-identified that they did not in fact satisfy the economic need criteria

## The small business lending market has grown exponentially in recent weeks

**33.2M**

Total Small Business in the US

**5.5k**

SBA Lenders nationwide and SBA has opened program to non-SBA lenders and FinTechs

**100x**

Anticipated volume compared to Total SBA 7(a) loans made in FY19 (60k loans totaling \$30bn)

**\$511B+**

PPP Loans Disbursed\*

**4.42M+**

"PPP" loans approved\*

**~\$18B**

Processing fees paid to Lenders\*

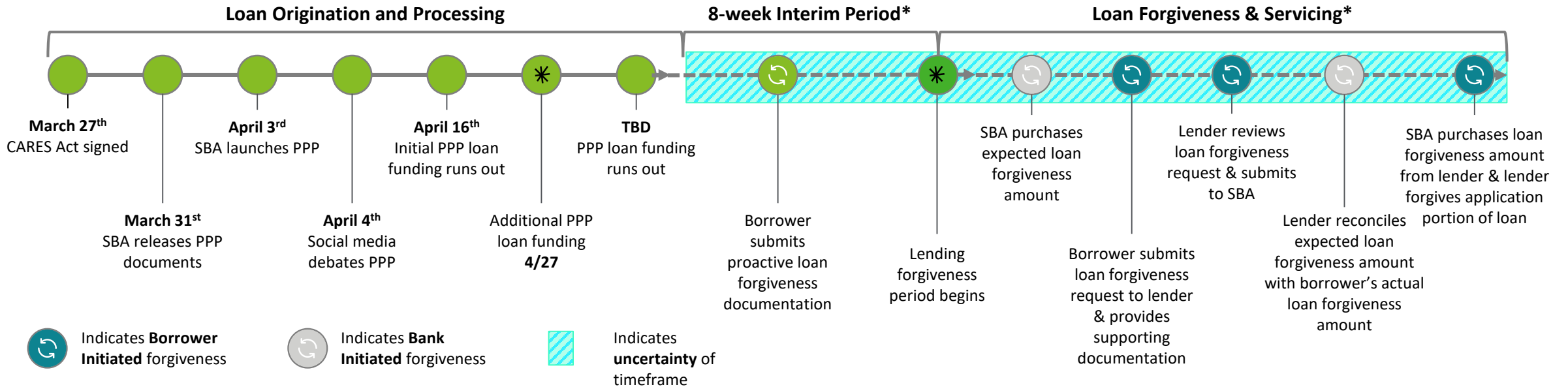
\* As of 5/23 - average loan size: ~\$116k

Source: Treasury PPP Reports: [5/23 Approved Lending](#)

# Forgiveness Timeline and Context

The PPP Forgiveness timeline is rapidly approaching; while many of the same uncertainties still remain, lenders have the responsibility of implementing an Operating Model to effectively manage the post-application and forgiveness processes

## PPP Uncertainty Requires An Urgent, Time Sensitive Response



### PPP Loan Forgiveness Processes

- 1 Borrower Outreach and Forgiveness Request
- 2 Borrower Document Submission & Review
- 3 Finalize Forgiveness Application
- 4 Submission to SBA
- 5 SBA Decision & Dispute
- 6 Loan Closing / Initiate Servicing

**\*PPP Extension Act (Senate proposal) is under review & PPP Flexibility Act (House proposal) passed on 5/29. If approved, we expect significant changes in forgiveness guidelines**

## Polling question #2



**What is the biggest challenge you anticipate having in managing loan forgiveness?**

- a. Evolving rules and regulatory guidance
- b. Designing processes (operating model) to manage the forgiveness processes
- c. Resource constraints
- d. Lack of available technology
- e. Managing fraud and legal risks

# Lessons Learned and Forgiveness Expectations

While we expect greater clarity on PPP forgiveness in the coming days, we also believe this program will have similar “after the fact” scrutiny akin to what was experienced after the recovery programs launched from the financial crisis.

## Drawing from past recovery programs

Troubled Asset Relief Program (TARP)

Volcker Rule / Comprehensive Capital Analysis and Review (CCAR)

Resolution Planning / Living Wills

### 1 Regulatory impact



Regulatory Reviews, Look-Backs and Internal Audit



Significant Reporting Requirements



Operational Changes



Ongoing Costs

### 2 Reputational fallout



Congressional Testimony



Claims of Discrimination with regards to demographics



Negative News Cycles (Web, Social, Print, TV, etc.)

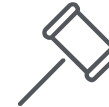
### 3 Legal / litigation risk



Corporate and Securities Litigation



Government Led Investigation (DOJ)



Class Action Lawsuits / Private Civil Litigation



Mortgage Settlement Litigation

## Principles from Past Learnings

- Do the right thing for the customer
- Create clear and demonstrable procedures to enable a consistent process
- Expect a tremendous amount of scrutiny from regulators and the public



# Projected Challenges with Loan Forgiveness

PPP forgiveness poses a number of challenges, primarily due to application volume, condensed timeframes, heightened stakeholder expectations and the need to manage the inherent credit and operational risks associated with implementing new processes.



## Customer service complexity and volume

- Disjointed information to support customer contact
- Volume and complexity of customer inquiries and disputes
- Dealing with frantic customers in an unstable economy
- Having a pulse on quality of on-going customer conversations



## Operational complexity

- Documents received in wide range of forms and formats
- Potential for human error, given the large number of requests
- Managing anomalies in forgiveness documentation
- Creating and integrating operating procedures at scale



## Credit and servicing

- Unclear loan forgiveness credit & governance policy expectations
- Data quality impacting ability for portfolio segmentation
- Identifying and applying governance monitoring & credit reporting requirements



## Exception cases and fraud detection

- Complexity of forgiveness calculation will lead to disputes
- Distinguishing uninformed behaviors from fraud
- Identifying falsified or fraudulent documentation
- Dealing with necessary process disparities between lines of businesses



## Controls, reporting and analytics

- Heightened expectation of audit and regulatory review (SBA, Treasury)
- Data storage and reproduction for compliance reporting
- Standardizing reporting and analytics to align with reg. expectations



## Operating model impacts

- Defining strategy to manage PPP portfolio, as stand-alone or part of larger portfolio
- Remaining agile to address uncertainty and variability and to mitigate reputational risks
  - Configuring G/L and accounting systems and reports

## Polling question #3



### **What type of loan forgiveness solution are you considering?**

- a. In-house: We have the people and technology to manage it
- b. Third-party platform only: We have the people, we just need a technology solution
- c. End-to-end solution: We plan to outsource the management to a third party (platform + people)
- d. Don't know
- e. Not applicable

# Foundation for Loan Forgiveness Execution

The bank will want to establish an end-to-end forgiveness execution process that manages the customer relationship, enables auditability, identifies and manages risks, and prepares for the ongoing servicing and guaranty management.

## Considerations to operationalize

Customer Engagement	<ul style="list-style-type: none"><li>• Develop outreach campaigns that <b>educate and empower the borrower</b> with process and requirement transparency</li><li>• Ensure <b>borrower interaction readiness</b> by educating and training employees on the loan forgiveness process/ requirements</li><li>• Evaluate borrower contact to ensure messaging was <b>consistent and accurate</b> throughout the loan forgiveness process</li></ul>
Process/ Governance	<ul style="list-style-type: none"><li>• Document the detailed forgiveness <b>process and related business requirements (for technology)</b> anchored to SBA guidance</li><li>• Identify <b>roles and responsibilities</b> and potential FTE requirements needed to operationalize the process</li><li>• Design <b>detailed procedures</b> to intake, evaluate, calculate, and control loan forgiveness submissions (methodology/ approach)</li></ul>
Analytics & Quality Management	<ul style="list-style-type: none"><li>• Utilize bank and external borrower data to <b>minimize manual processing</b> and enable analytic approaches</li><li>• Establish operational analytics to <b>actively manage the portfolio and perform quality oversight</b> to identify/ resolve exceptions</li><li>• Detect <b>potential risks and fraud</b> through known data patterns, anomaly detection, and other advanced analytic techniques</li></ul>
Loan Servicing & Guaranty	<ul style="list-style-type: none"><li>• Understand the impact of <b>integrating loans with remaining balances</b> into the existing loan servicing process/ platform</li><li>• Predict the <b>performance of the PPP loan portfolio</b> and prepare for loss mitigation and claims processing</li><li>• Augment <b>existing management and SBA reporting</b> to support the PPP portfolio and related requirements</li></ul>
Tools & Technology	<ul style="list-style-type: none"><li>• Finalize eligible forgiveness amount <b>calculation methodology and build tools/calculators</b> as required</li><li>• Ensure <b>infrastructure and platform readiness to</b> accept, route and record forgiveness inputs and customer interaction</li><li>• Calibrate the call <b>center telephony (and IVR), and customer service scripts</b> for inbound and outbound borrower connects</li></ul>

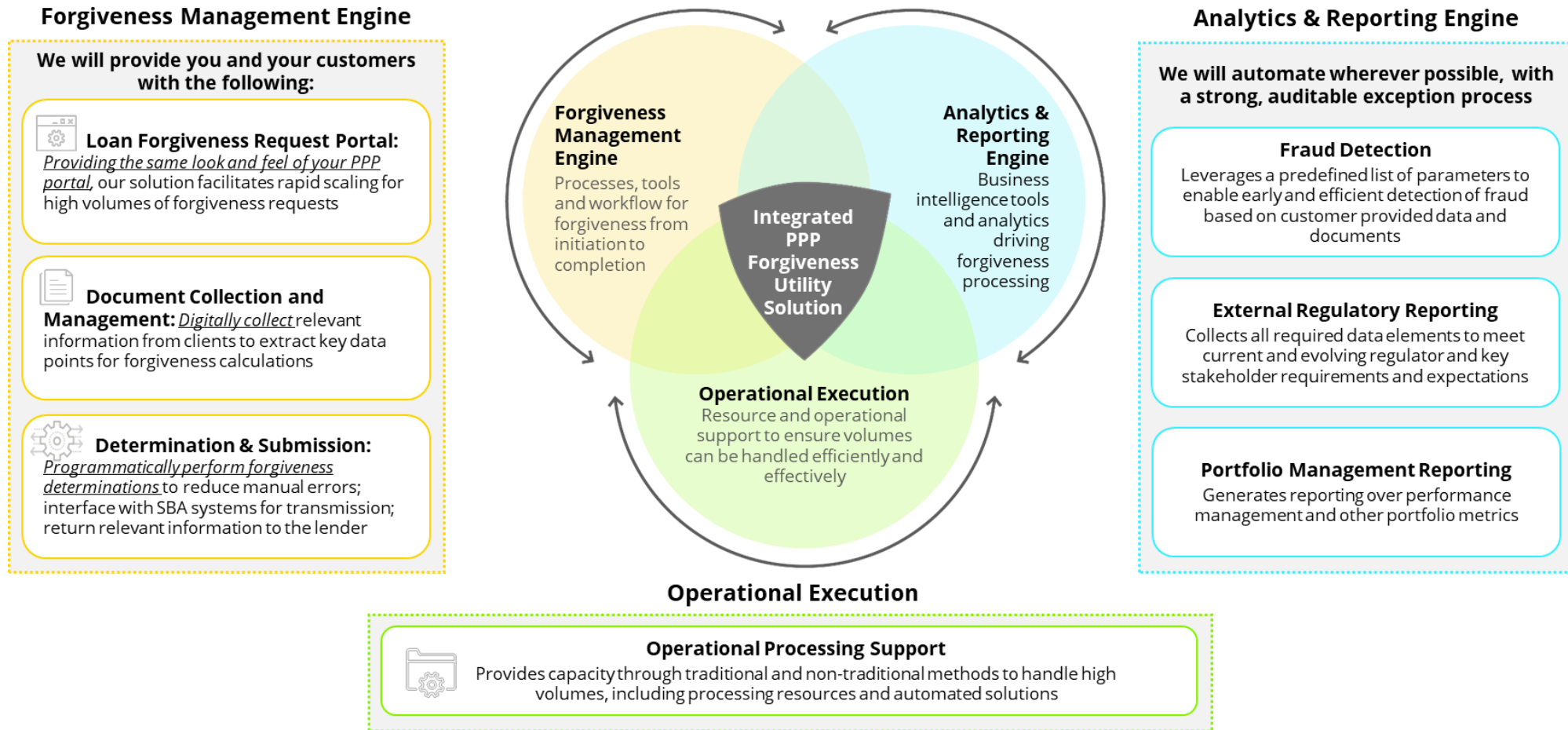


# Utility Solution

# Deloitte's End-to-End Loan Forgiveness Utility

Our end-to-end solution offers the flexible combination of a multi-platform forgiveness management engine, analytics and reporting capabilities and operational execution – a simplified and standardized solution, consistent with peer lenders, and in-line with stakeholder and regulatory expectations

## Deloitte's Loan Forgiveness Utility Solution

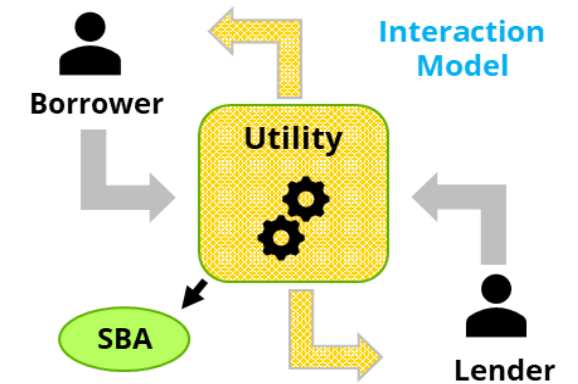
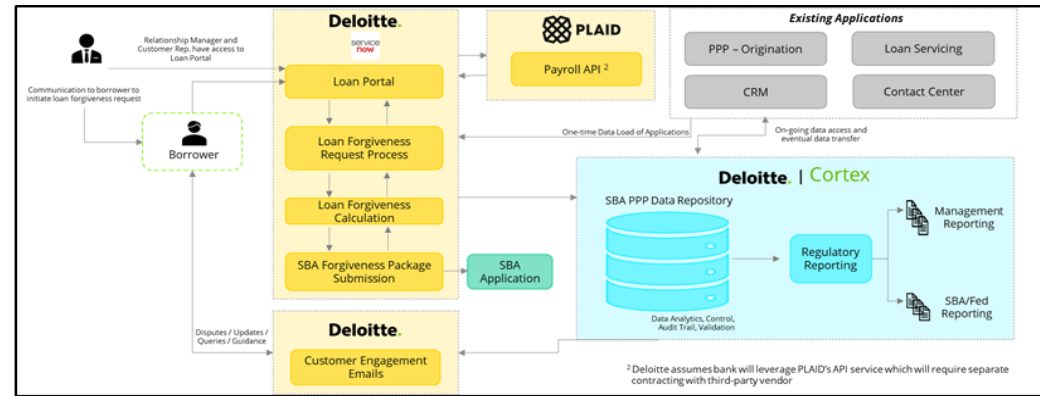


# Deloitte's Utility Solution

Both the lender and borrower will be interacting with the utility solution for their respective actions, with the solution performing the designed calculations and submissions to the SBA – all in a simplified and standardized manner for this one-time process.

## High Level Solution Architecture

Our Utility collects data from multiple sources and leverages applications like ncino, Salesforce, ServiceNow, Coretex, Plaid (payroll) and other existing applications (CRM, PPP, loan servicing, etc.) to perform the designed forgiveness activities



## Responsibilities

### Lender

- Provide standard file format for loan records from servicing platform via secure file transfer
- File LSPA agreement with SBA
- Send communication to clients with link to initiate/complete forgiveness filing
- Handle any client calls and refer them to our servicing site
- Follow-up/adjudicate fraud concerns or other escalated items
- Accept standard contract and Service Level Agreements

### Borrower

- Submit forgiveness claim and supporting documentation (or opt out) through an easy to use secure portal
- Address any follow up requests for information / documentation
- Access secure portal for secure tracking of submission

### Utility

- Notify borrowers who have not initiated forgiveness process
- Calculate forgiveness amount
- Update loan amount adjusted for forgiveness on the SBA site
- Calculate and provide accrued interest on original loan and the new principal amount for balance of loan
- Offer borrowers a secure portal for status tracking of submissions
- Remit forgiveness file for each loan provided to bank for archive

# Value Proposition

Our Utility was developed with our customers in mind; we recognize that the size, scale, and effort associated with managing the forgiveness process is significant, and wanted to offer a solution that achieves the same objectives of in-house or bespoke models but at greater value.

## Value beyond costs

- We will apply the same, **consistent approach** across your peer institutions
- Our team of regulatory specialists will **stay on top of changing requirements**; our Utility will be seamlessly updated with the latest requirements
- Our analytics engine will enable early and efficient **detection of fraud**
- We will collect required data elements to meet current and evolving regulator and key stakeholder requirements and expectations
- Your **resources can focus on other areas** that are most important to your business

## Contact us



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**To learn more about our Utility, please reach out to the contacts to schedule a live demo**



Q&A





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