SBA Increases Rate, Clarifies Terms on Paycheck Protection Program Loans

April 2, 2020 Reading Time: 3 mins read

The Small Business Administration today issued an interim final rule that provides additional implementation guidelines and requirements for its Paycheck Protection Program to aid small businesses hit hard by the COVID-19 crisis. In the new guidance, SBA makes significant changes from its original plan, including raising the fixed interest rate on loans made under the program from 0.5% to 1% in response to feedback that the terms could prevent community banks from participating in the program.

are already assisting their small business customers across the country, and they stand ready to work in partnership with the federal government to get these new funds to small businesses in need as quickly as possible."

The new rule provides greater clarity on several issues that ABA has raised. For example, it specifies underwriting expectations, which are limited to the application form and the certifications in it, the borrower's payroll documentation and applicable Bank Secrecy Act requirements. Lenders may rely on borrower documentation for loan forgiveness, providing greater protection for lenders should borrowers misrepresent information in their application.

"The lender does not need to conduct any verification if the borrower submits documentation supporting its request for loan forgiveness and attests that it has accurately verified the payments for eligible costs," the rule said. "The Administrator will hold harmless any lender that relies on such borrower documents and attestation from a borrower."

After seven weeks, lenders may request that SBA purchase the expected forgiveness amount of PPP loans; these requests may be submitted in advance, and SBA will purchase the expected forgiveness amount of the loan within 15 days after it receives a complete report.

Banks already certified as 7(a) lenders may begin approving loan applications with SBA delegated authority tomorrow. The rule said that all banks not currently in troubled condition will be "automatically qualified" to make loans with delegated authority once they submit SBA Form 3506, along with the official borrower application form and the form lenders must submit to receive the 7(a) guaranty.

The guidance in the rule complements other PPP details released Tuesday, including the processing fees SBA will pay to lenders, SBA's 100% guaranty of PPP loans and the eligibility of the loans to be sold into the secondary market. Authorized by the CARES Act and administered under the SBA 7(a) loan program as part of the federal response to the coronavirus pandemic, the PPP makes up to $349 billion in forgivable loans available to small businesses that use the funds to cover payroll costs and certain other operating expenses.

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