

\$60B carveout for small lenders doesn't solve PPP's problems, fintech exec says

The set-aside should have taken into account the size of loan, not the bank, Funding Circle's Ryan Metcalf told Banking Dive.

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House lawmakers gathered to vote Thursday on a Senate-passed \$484 billion coronavirus relief bill that would replenish the Paycheck Protection Program (PPP) with \$320 billion and push a second round of loans toward America's small businesses.

But that new infusion of cash won't solve the problems that plagued the previous round, Ryan Metcalf, head of U.S. regulatory affairs at Funding Circle, told Banking Dive.

Despite preprocessing "thousands" of applications a week and a half before the first \$350 billion in loans became available April 3, Funding Circle wasn't approved to participate in the PPP until April 15 a day before the funds were exhausted Metcalf said

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The bill up for a vote Thursday includes a \$60 billion carveout for banks and credit unions with less than \$50 billion in assets, meant to give the smallest businesses fair access to the funds. Metcalf said the carveout shouldn't be based on the size of the lender but by that of the loan.

“What they should and could have done was ensure that this \$60 billion is set aside for loans under \$50,000, or for small businesses with less than 20 employees, but they didn't do that,” he said. “For some reason, they inexplicably said that this \$60 billion is set aside for the same banks that turned away folks that only serve their existing customers and prioritize the largest businesses.”

Small businesses filed class-action lawsuits against JPMorgan Chase, Wells Fargo, Bank of America and U.S. Bank, alleging the banks prioritized existing customers and larger loans, which yield higher origination fees, rather than processing applications on a first-come, first-served basis.

Funding Circle has thousands of applications queued — 61% of which are for loans under \$50,000, and 95% for loans under \$350,000, Metcalf said.

By those metrics, nonbank lenders like Funding Circle should have been included in the \$60 billion allocated for smaller institutions, he said.

But the \$60 billion set-aside excludes fintech and

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Meanwhile, banking and credit union trade groups expressed support for the \$60 billion carveout.

“These funds are sorely needed by small-business customers in urban, suburban and rural communities,” said Independent Community Bankers of America President and CEO Rebeca Romero Rainey, adding the funds reflect the trade group’s repeated calls to ensure community bank access to the program.

The Credit Union National Association also backed the allocation, saying it “would ensure small lenders could provide Main Street businesses with access to these funds.”

Because many lenders continued to process applications in anticipation of a new infusion of funds, Round 2 could move quickly.

“This is going to go within, at most, 72 hours,” Consumer Bankers Association President Richard Hunt told Politico. “But the odds are more like 48 hours.”

A second obstacle

Another hurdle nonbank lenders could face is a lack of access to the Federal Reserve’s new credit facility, created to supply credit to banks that make PPP loans through the Small Business Association’s platform.

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“I received a message from the Fed [Wednesday] morning saying there is an announcement coming on that and the team is working on it, but they did not say when,” Metcalf said. “The question for the Fed is, how quickly can we get access, and is that process actually workable in time for when the program opens, and before the funds are exhausted again?”

John Pitts, policy head for Plaid, said if the Fed fails to get nonbank lenders approved for the credit facility ahead of the second round of PPP funding, fintechs may once again fall behind traditional lenders.

“[Fintechs] may run out of capital and not have access to this system,” Pitts told [Banking Dive](#) on Monday. “You really need to have things like that taken care of before the new funds are available so that fintechs can make loans on a level playing field with banks, since they’re both fully approved lenders in the program.”

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