

APRIL 27, 2020

CORNERSTONE CREDIT UNION LEAGUE

SBA LENDING POLL RESULTS

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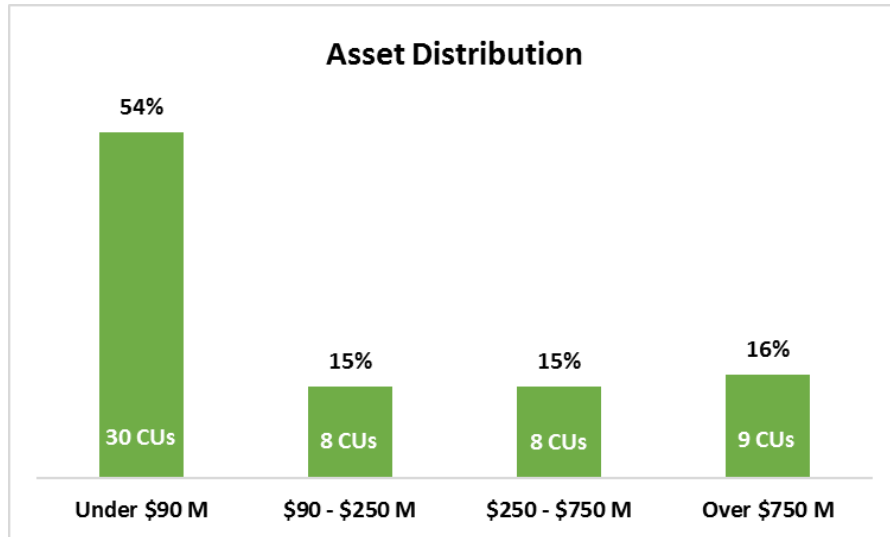
Executive Summary

- Sixty credit union CEOs participated in the SBA Lending Poll. These respondents represent credit unions ranging in asset size from under \$1 million to over \$1 billion, with a median asset size of \$80 million.
- The poll participants see a number of potential risks associated with the SBA Paycheck Protection Program (PPP). Among the most prevalent are the possibility of making costly mistakes due to a lack of experience in business lending, inadequate guidance in the lending process, the potential loss of payback guarantees by the SBA, liquidity issues resulting from low interest rates, and work overload for credit union staff.
- Requests for resources to improve the SBA PPP process dealt mostly with needing simplified instructions and receiving more thorough guidance from the SBA. Among specific resources desired are enhanced eTran capabilities, basic business lending sample policies, and training in business lending.
- Prior to the COVID-19 pandemic, 15% of the respondents were already approved SBA lenders. The likelihood of credit unions already being SBA lenders increases steadily as asset size increases. All of the CEOs who were SBA loan issuers before the pandemic have chosen to offer PPP loans.
- Approximately one-fourth (27%) of the CEOs who were not previously approved to grant SBA loans have applied to become lenders for the Paycheck Protection Program. Among the remaining CEOs who were not previously approved, none indicated that they are definitely planning to become SBA lenders in the future, although 36% are undecided on the issue. Reasons for not planning to become a PPP lender include lack of experience in business lending, insufficient staff to handle the increased workload, and having few, if any, business members in the credit union.
- Among the challenges in the PPP lender application process are the difficulty in obtaining necessary forms and documentation, issues with the eTran and SBA Connect portals, and delays in funding and in receiving verification of approval to participate as a lender.
- The average number of SBA PPP loan applications at respondents' credit unions is 106, while the average number of loan approvals is 32 - yielding a current average approval rate of 31%. The average amount of SBA PPP loans requested to date is \$80,865, the grand total amount of SBA PPP loans requested to date averages \$6,055,577, and the grand total amount of loans granted to date averages \$2,571,457.
- Approximately six out of 10 respondents (58%) require business members to have a pre-existing relationship with their credit union for a certain length of time (an average of 2.5 months) in order to be considered for an SBA PPP loan. The likelihood of having such a requirement tends to decline as credit union asset size increases.

- A wide variety of businesses are applying for SBA PPP loans. These include LLCs, corporations, sole proprietors, partnerships, and nonprofits. Among these are hotels, restaurants, construction contractors, oilfield-related companies, and houses of worship, as well as a diversity of other businesses in the service and retail sectors.

Respondent Information

The SBA Lending Poll was conducted from April 14 through April 20. Invitations to participate were sent to the CEOs of all affiliated credit unions, and a total of 60 responded.



Statistics on Asset Size	
Mean	\$517,106,590
Median	\$80,000,000
Minimum	\$888,340
Maximum	> \$1,000,000,000

Detailed Findings

What risks, if any, do you see related to the SBA Paycheck Protection Program (PPP)?

1. Do we have adequate resources to handle the large number of requests? 2. Risk of determining "forgiveability" of the loans when the time comes down the road.

1) Risk of carrying a non-forgiven loan amount on our portfolio at a rate of 1%; 2) Risk of default by business owners not using the loan proceeds as instructed and simply going out of business; 3) Risk of a negative ROA as we are unsure how long it will take to get paid fees from the SBA and how long it will take SBA to buy these loans from us once we have validated the forgiveness; 4) Opportunity risk is great. These loans have taken my business team working around the clock to process, which has delayed us from working on loans to generate future revenue.

After receiving the funds, members disqualifying themselves from the government payoff and struggling to pay the loan.

Bottleneck of applications at SBA; credit unions jumping in without proper skillset and staff.

Business impacted by more than COVID-19; slow economy has a bigger impact on them.

Charge backs to the originating F/I for incomplete data entry on the PPP application process.

Compliance with lending form requirements, also the ability to get funded from SBA when the loan is written or when the loan is sold back to SBA on default.

Credit union's asset size, risks in meeting SBA loan document requirements. Reimbursement timelines from SBA.

Default. Everyone is expecting them to be forgiven so they are not planning on paying them back. We may see defaults if they are not forgiven. ALSO, AND MOST IMPORTANTLY, we are not already approved and trying to get approved now. We are the PFI of several local businesses and they cannot get loans from other approved lenders because they did not have a prior banking relationship. The way it is now, we are having to get into the business lending or else allow our members to be discriminated against because they don't do business with a larger institution. I am concerned that this will become leverage for the already large FIs as a reason not to bank with smaller FIs like CUs. We may see an increase in migration from local banking to larger FIs and this may become fuel for smaller CU mergers. It is one thing to overcome not having the best technology but how do you overcome not being able to qualify for financial aid from the government? We are going to be held accountable for helping their businesses fail. How do you tell someone they are safe with you after that?

I think too many people are just assuming that the loan will be forgiven no matter what and there is a risk of charge offs associated with the loan.

If we do not dot every "i" or cross every "t," we could not be 100% covered on the loan.

If you go into it not knowing what you are doing and do not read and understand the rules, you could misrepresent or even fail to lend properly.

Interest rate risk.

Interest too low to support net interest margin.

Lack of clarity and guidance from SBA in all areas of the program. We're concerned that this may lead to the loss of guaranty on some loans that are originated.

Lack of clarity in regulations. CPAs are even having a hard time interpreting and tying down details.

Loan losses, reduced income.

Loss of the guarantee from the SBA and servicing the loans according to the SBA's instructions.

Many unknowns not yet resolved or guaranteed. As an example, what happens after the small business takes the loan proceeds, then goes out of business, does not qualify for forgiveness, and does not repay the loan? Will the SBA make the credit union whole in this scenario?

Me getting the paperwork wrong.

None.

None.

None.

Not an approved SBA Lender. We do not have business members.

Not having the liquidity, and no experience with SBA lending.

Not participating so the inability to assist our membership other than a referral.

Not real sure how it all works.

Paperwork overload, difficulty or delay in getting loans forgiven.

Payback and SBA payment guarantee.

Payback by SBA.

Processing risks since we have never done SBA loans before.

Regulator scrutiny of a hurried implementation of a business lending program where previously the credit union had none.

Reputation risk. We have yet to close a loan.

Reputation, if we mishandle the application or funding process.

Risks due to the short timeframe to get the lending program up and running.

Run out of funding, staffing, liquidity.

The biggest risk is if SBA disqualifies a loan app and it is not deemed eligible to be forgiven. Certainly, there is liquidity risk in supporting these loans at a low interest rate when it can be deployed in an investment or loan product at a higher return.

The biggest risk is not getting the guaranty paid in full by the SBA.

The documentation required at the time the loan will be forgiven.

The PPP rules are still a bit vague, and paperwork (documentation) burden on borrowers is significant for eventually converting loans to grants. I fear that if not properly processed by the CU, their SBA guarantee is at risk, and the possibility for reputation risk from many displeased business members is significant when they find out they either spent funds on unqualified expenditures or spent qualifying funds beyond the "grant" window.

UNTRAINED STAFF.

Very little only, doing for current members.

Volume and delays in the forgiveness aspect.

We are confused about the process and worried that we may miss something.

We are not doing them.

We don't offer business accounts (don't know enough of the rules), and lack of information could cost us...we are not offering.

We don't offer SBA Lending so we don't know all the risks. We don't plan on offering because we don't have a skilled business lending department.

We have registered with SBA but have not received confirmation, login in over a week.

From your perspective, what resources would improve the SBA Paycheck Protection Program?

1) An easier method to submit the lender application, as both eTran & SBA Connect are cumbersome and there have been system issues which resulted in delays; 2) Publish the complete details for lenders on how we will get paid, the process, the timing expectations; 3) Publish the instructions on how to determine forgiveness and what to submit to the SBA and where to submit that information; 4) A defined ruling on how to handle Sole Proprietors where they are the only employee. Net income on taxes is not sufficient as there are several write-offs taken on taxes. This is a big disservice to our individual business owners.

A straightforward step-by-step procedure with links to the necessary documentation.

Additional ETran capacity.

As the days go by on the PPP program, more and more information is coming available. They are very responsive to requests and provide very good slides with instructions. They reacted swiftly and are very clear on processes.

At this point, the learning curve to start being an SBA lender "cold" is too great.

Better guidance and support from local SBA representatives. The constant changes and them being overwhelmed have led to a very slow and sloppy rollout. Having assurance from regulators that CUs won't be "dinged" over doing these loans would also be welcome.

Clear guidance and guarantees to lenders.

Clear guidance upfront. We are continually getting updates and guidance about administering the program.

Complete guidance on what is required of the borrower and lender. A checklist for these loans prior to approval or closing.

Do they have a process? I understand but it has been making it up as you go, so far. Very frustrating for us and especially for our members. Hoping to close some loans tomorrow!

Faster turnaround for signing up.

Frankly, this should have never gone through banks or credit unions. In the next round, businesses should apply directly to Fed or SBA, or businesses should get direct payments based on prior year receipts - same as individuals did from IRS.

Get more FAQs out to originating F/I on the specifics of the PPP process. The PPP was rolled out with little notice, and not all the background info was available when applications were set to be taken on 4/3/2020.

Have more detail training and information on the system and product.

Improvement in the areas noted in No. 3 (*In question 3, this respondent cited lack of clarity in regulations and the fact that even CPAs are having a hard time interpreting and tying down details*).

Infrastructure needs to be expanded. Process needs to be streamlined. Not every credit union needs to offer this. Partner with a credit union who has expertise and infrastructure to handle SBA loans.

Just to get process moving faster.

More guarantees around the 100% forgiveness to the credit union.

More information regarding SBA funding to lenders.

More information to help the borrower determine if they qualify. For example, a hair stylist who files a Schedule C, still has booth rent to pay, and is not receiving income since their shop is closed. How do they qualify?

MORE MONEY.

Need one place to have the rules, procedures, and forms and not jumping all over the place with links to find things.

None.

None that I can think of.

Not sure.

Participation - we have money to lend but not the expertise or staff to enter the program.

SBA actually being ready, plus it seemed as if big box banks got preferential access and availability.

Simplify the application process.

Step by step and detailed instructions to the borrower. We are not providing the loans because we don't have very many business accounts.

The ability for applications to be processed by lenders. It seems to be a slow process even though it is only a two-page application.

The application process could be simplified.

They (Federal Government) needed to give the SBA more time before rolling this out to improve their process.

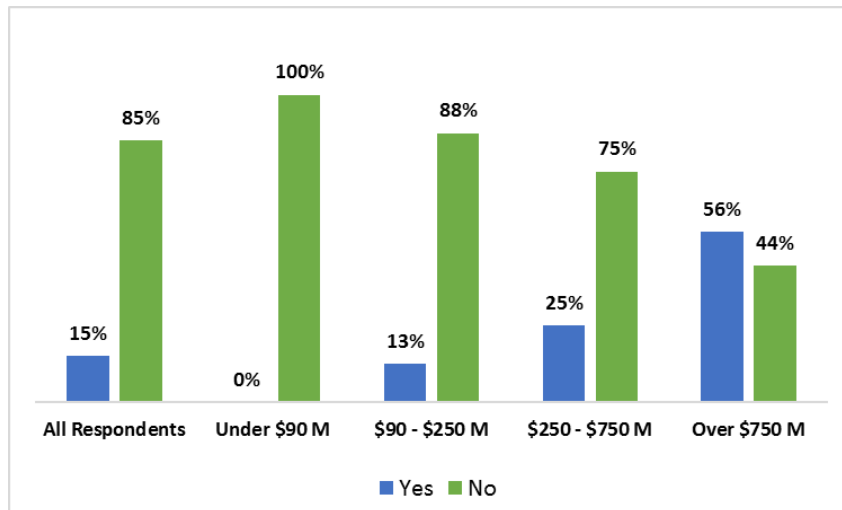
Training in business lending to get loan officers up to speed quickly and basic business lending sample policies.

We are not yet approved, but we have applied for approval. The verbiage is not clear and very ambiguous. Our board feels that this temporary arrangement will backfire on us, and we would have no recourse with SBA.

WE CAN'T EVEN GET THEM TO SEND US A VERIFICATION EMAIL SO WE CAN'T EVEN SIGN IN!

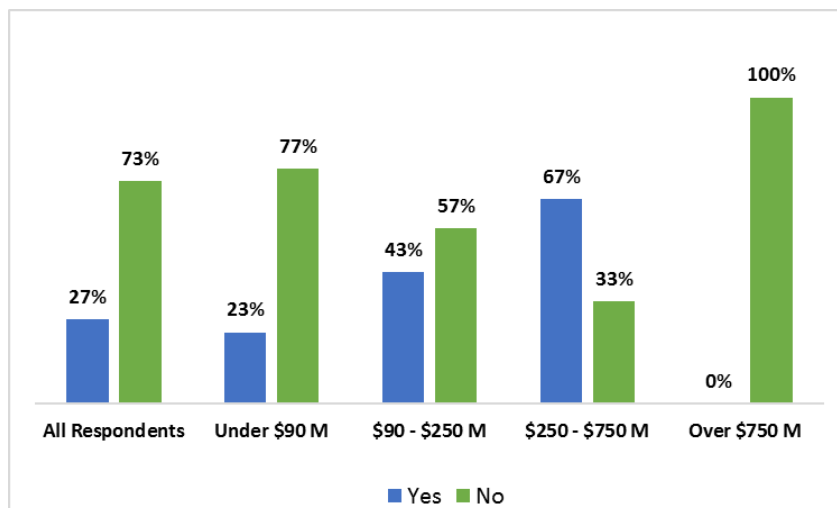
We need to have an easier way for those of us who are not regular business lenders with SBA to get loans approved so we can help our members. We need more people at the local level helping because there is too much volume for the largest to handle alone. But we need more guidance on how to process the loans from a tactical level.

Prior to COVID-19, were you already an approved SBA Lender?



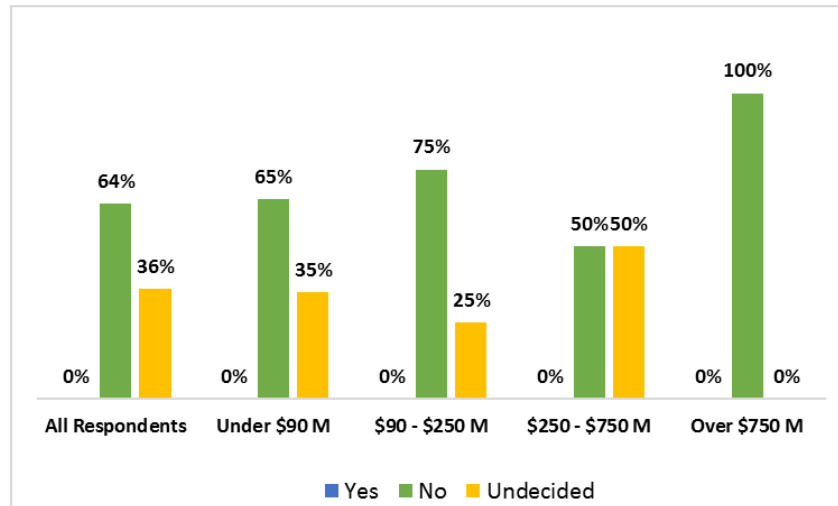
Of those who were already approved SBA lenders, all have decided to offer PPP loans. Those who answered “No” above were asked the following question:

Have you applied to become a lender for the Paycheck Protection Program?



Those who have not applied to become a lender for the PPP were asked this question:

Do you plan to become an SBA PPP lender in the future?



CEOs who do not plan to be a PPP lender in the future were asked why they would not be. Here are their responses:

Asset-wise, we are not a large enough credit union to start doing business loans.

Do not do business loans.

Insufficient information on a program that was rolled out too quickly, and unknown consequences for the originating F/I on how the program was to work.

Just not interested in doing them. We don't have a lot of commercial accounts but we do have a lot of commercial real estate loans. We have had very little interest from our members.

Lack of expertise.

Lack of knowledgeable personnel and resources.

No commercial lenders.

Not large enough staff to properly follow required rules.

Our credit union is small, and we aren't looking get into that type of lending.

Sole employee credit union, asset size, few (2) member requests.

Staff reduction.

Staffing, funding, liquidity.

The credit union lacks the business member base to make this program viable.

The reputation risk from disgruntled business members in the future appears too great, especially for a CU like ours that is not already familiar with the SBA. Independent of COVID, however, we were exploring becoming SBA-certified in 2020. We just want to do that expansion of our lending powers the right way.

We are a small CU with limited staff. Not interested. We are offering our members alternative low-cost loans.

We do not have a commercial lending program and do not plan to implement one in the near future.

We do not have any commercial lending expertise or the required technology platforms.

We do not have the expertise or infrastructure to handle SBA loans. We will refer members to other credit unions who are offering the program.

We do not have the expertise to offer business lending to our membership.

We don't offer SBA lending and are not staffed for SBA lending.

We have never considered our credit union to be heavy into business accounts and lending. We don't have any business loans on our books.

We have no experience in SBA lending or servicing SBA loans. The potential loss in fines and loan guarantees makes this a highly risky venture.

We only have consumer members, no commercial or business members.

The remaining survey questions were asked of (1) Those who were already SBA approved lenders prior to COVID-19, and have decided to offer PPP loans; and (2) Those who were not already SBA approved lenders but have applied to become PPP lenders.

Please share any challenges you may have experienced in applying to become a lender for the Paycheck Protection Program.

After completing my application, I did not receive the email w/the PIN to confirm our account. However, after contacting the SBA, they reached out to me a day later and resolved the issue over the phone. It took about 2.5 hours, but we're now approved.

Asking questions to SBA on how something works.

Bottleneck of getting loans uploaded to the SBA. Slow funding times.

Finding information about the details of the program, such as forms and documentation needed; being able to automate the system.

Finding out what needed to be done for approval and now just waiting.

Finding SBA-approved compliant lending documents that protect the credit union.

Have not gone thru the process.

Keeping up with the volume. Thirty-six processed and approved since Thursday of last week.

Local SBA staff had no idea how to assist us as they were not provided clear guidance from the DC Office. It was a terrible process to be approved. The E-Tran and CAFS systems had huge loads on them where applications could not be uploaded. Finally, guidance in what the loan note should look like was not available even ten days after rollout, delaying funding to members' businesses that were desperate to receive them.

No communication whatsoever from the SBA.

No response from SBA since getting their email to register a user.

None - it was very quick.

None, we're already an SBA Preferred Lender.

Only challenge we had was getting processors approved in the eTran and SBA Connect portals. We are still waiting on some credentials.

Receiving approval was easy.

Took a long time.

We received an email telling us we were approved, and it gave instructions to set up a CLS account. After it was set up, we now have to wait for an email verifying our email address. We have been waiting for that verification for one week. Numerous emails have been sent to them with no response!

We were already a lender with SBA but we had not logged into the ETRAN system, and it had locked us out. It took 12 days to get reset.

We were already an approved lender.

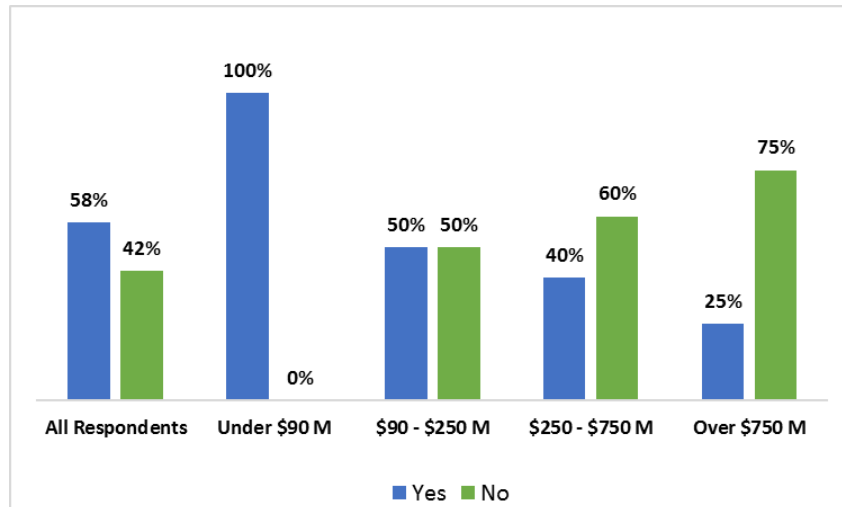
We were already approved. No challenges except figuring out how the program will work, working thru their broken systems, and trying to get a loan closed.

Data on Current SBA PPP Loan Applications and Approvals

Ten respondents provided the following SBA PPP loan data for their credit unions:

Already an Approved SBA Lender?	Asset Size of Credit Union	# of SBA PPP Loans Apps Submitted	# of SBA PPP Loan Apps Approved	Current Percentage of SBA PPP Loan Apps Approved	Average Amount of SBA PPP Loans Requested	Grand Total of SBA PPP Loan Amounts Requested to Date	Grand Total of SBA PPP Loan Amounts Granted to Date
No	\$100,000,000	11	2	18%	\$50,000	\$450,000	\$170,000
Yes	\$110,000,000	36	36	100%	\$62,922	\$2,265,196	\$2,265,196
No	\$285,000,000	1	0		\$85,000	\$85,000	
Yes	\$530,000,000	60	22	37%	\$116,000	\$7,000,000	\$4,400,000
No	\$575,000,000	20	14	70%			\$400,000
Yes	\$600,000,000	19	9	47%		\$1,300,000	
No	\$675,000,000	150	45	30%	\$35,000	\$1,400,000	\$265,000
Yes	\$1,050,000,000	460	75	16%	\$73,000	\$24,000,000	\$5,500,000
Yes	\$1,050,000,000	100	60	60%	\$75,000	\$8,000,000	\$5,000,000
Yes	\$1,400,000,000	200	60	30%	\$150,000	\$10,000,000	
Mean	\$637,500,000	106	32	31%	\$80,865	\$6,055,577	\$2,571,457
Median	\$587,500,000	48	29	37%	\$74,000	\$2,265,196	\$2,265,196

Must your business members have a pre-existing relationship with your credit union for a certain length of time in order to be considered for an SBA PPP loan?



If you answered “Yes” above, how long must business members have had a relationship with your credit union in order to be considered for an SBA PPP loan?

12 months.

As of 1/1/2020.

Be a member.

Current member.

It varies depending on whether or not they also had a prior personal relationship.

Must be a member as of 2/15/2020.

Must have an account with the CU before 2-1-2020.

Prior to 2-15-2020.

We are discussing this internally, if we can process our members requests, we will then allow for new members.

We stopped opening business accounts about two years ago. If they had an existing account with us we allowed them to continue and they are welcome to apply when we get approved.

Please list any other requirements your credit union may have for determining which businesses will be offered SBA PPP loans.

Our members first, other CU members second, community focused nonprofits third, bank customers fourth.

Be able to become a member based on our FOM rules.

Business must qualify for membership.

Existing member.

Follow SBA guidelines on eligibility.

Members first.

Those who can provide proper documentation.

We are doing them for our members. Not all our members had a business account with us.

What types of businesses are applying for SBA PPP loans?

All types.

All types, nonprofits included.

Do not know, have not started taking apps.

Every type of business.

It is varied. From construction to restaurants to self-employed.

LLC, Corp, Sole Proprietors, Partnerships.

Nonprofits, daycare, construction, breweries, hotels, restaurants, fitness studios, pet care.

Realtors, self-employed hairdressers, lawncare, small storefronts.

Small to Medium.

Tourist, oilfield-related, retail, service industry.

Very small to small businesses. Houses of worship, small retail companies, contractors.

We have had inquiries from a small restaurant, an insurance company, a heat and air business.

You name it. It's a crazy list.