PPP PROCESSING DELAYS CONTINUE

From the Journal of Accountancy by Jeff Drew

Measures implemented by the U.S. Small Business Administration (SBA) to screen for potential fraud in Paycheck Protection Program (PPP) applications continue to cause stress and delays in the system, American Institute of Certified Public Accountants (AICPA) executives said during an online Town Hall.

The discussion about processing delays took place before the White House issued a statement Monday morning, Feb. 22, saying that it would make a series of moves to improve PPP access to the smallest businesses. The Biden administration said it would allow only businesses with fewer than 20 employees to apply for PPP loans during a two-week period starting Wednesday, Feb. 24. The statement also said the administration would change the PPP loan calculation formula to help sole proprietors, independent contractors, and self-employed individuals receive more financial support.

Stung by reports of widespread fraud during the first iteration of the PPP last year, the SBA instituted dozens of validation checks for the $284 billion PPP round that opened last month. The screenings have resulted in some PPP applications being delayed for weeks, said Erik Asgeirsson, president and CEO of CPA.com, the AICPA's technology subsidiary.

"Things aren't working as well as they need to work, and also there possibly needs to be some modification of expectations," said Asgeirsson, one of the leaders in the AICPA's efforts to provide PPP support to CPAs and small businesses seeking much-needed funding with the economy still faltering amid the COVID-19 pandemic.

The delays have plagued the PPP since the program reopened Jan. 11. The AICPA sent a letter Feb. 3 urging the SBA to address the problems, which were causing the SBA's E-Tran and PPP Loan Processing system to either reject or require more documentation for about 30% of PPP applications. The SBA announced changes Feb. 10 to speed up the flow of funds to PPP applicants while "maintaining the integrity" of the program.

Asked about the performance of its PPP processes, SBA responded with a statement referring to the Feb. 10 notice of changes: "The SBA is focused on increasing equitable access to underserved small businesses, ensuring the integrity of the program, and promoting rapid and efficient distribution of funds. The Agency has issued a detailed notice that enables lenders to directly certify the eligibility of businesses so that small businesses have as much time as possible to access vital Paycheck Protection Program funds, while maintaining the integrity of the program."

The problems have persisted, however. And while Asgeirsson said he sees signs of improvement, a few factors are preventing faster fixes.

The heavy volume of applications and validation checks

The computer systems the SBA uses to process PPP applications produce dozens of different error codes related to failed validation checks and other issues. Those codes are causing a significant percentage of applications to be held up, according to Asgeirsson. The goal of protecting taxpayer money is well intentioned, but the sheer volume of applications is overwhelming, he said.

"What you have occurring here is [the SBA] saying, 'We don't want fraudulent applications,' and then you put in place a process that's generating validation checks that have just inundated the lenders — and also the SBA — in trying to process hundreds of thousands of applications," he said, adding that despite initial predictions of error codes being cleared in a week, some applications are languishing for a month or more.

The SBA attempted to speed up the process by giving lenders the authority to clear certain codes and not have to submit supporting documentation in selected cases until the borrower applies for loan forgiveness. This has not spared the lenders from still having to do a lot of work on the front end to push flagged applications through the system, said Lisa Simpson, CPA, CGMA, vice president–Firm Services for the AICPA.

"The SBA has delegated authority to the lenders to clear some of these codes, but the lenders are still trying to navigate how to clear some of these codes and what documentation is going to be adequate because they'll be submitting that information at forgiveness," Simpson said. "They want to make sure they are clearing the codes the way the SBA intends and that they are getting the documentation they need, so this is a very time-intensive, manual process on the part of the lenders."

A phased process

The PPP process consists of three phases, with validation and other checks potentially stalling an application at each phase.

The first phase is submitting the application and having it accepted by the SBA. Most lenders use computer systems to submit PPP applications through the SBA's application programming interface (API). The SBA runs API validation checks on those applications, and not all are passed through.

"There's validation errors occurring, so you can't get into the system," Asgeirsson said.

The second phase is where the SBA's underwriting process really begins, he said, adding that about 20% of applications that reach this stage are being flagged with one or more of 40 different error codes that indicate the application is on hold until more documentation is provided.

"They have a number of flags right at the start where they [determine] if they are going to start to review that application," he said. "In many cases, it doesn't make it past that stage, so it has a failed validation code that is given to the lender and the lender has to go work out a resolution of those error codes."

If the application makes it past the second phase, the SBA starts the actual review of the applications, Asgeirsson said. It takes 48 hours for the SBA to determine if it will give the application an E-Tran number, which indicates that the loan is likely to be funded.

"There has been a lot of confusion on how to resolve these error codes, and in some of these error codes, you can't even resolve them," Asgeirsson said. "That's why some applications, unfortunately, are taking weeks."

Understanding error code phases

There are multiple phases of SBA validation, compliance checks and decision logic. Three types of error codes can be reported during these different phases. Understanding when an error code is occurring is the first key to understanding what action can be taken to resolve.
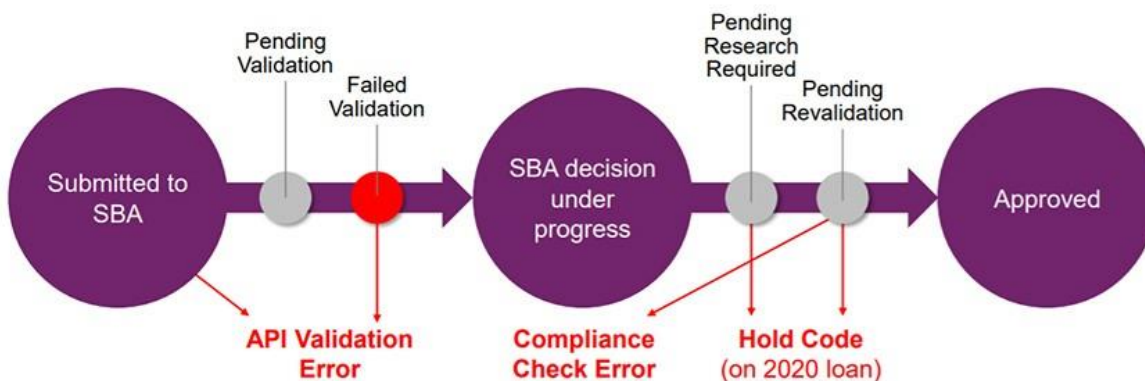
Changes at the top

In this round of funding, the SBA approved almost 1.7 million loans totaling $125 billion through Feb. 15 despite the obstacles posed by the presidential transition that occurred when Donald Trump was succeeded by Joe Biden on Jan. 20. The transfer of government between presidential administrations is a massive undertaking under normal circumstances, much less for a relatively small agency that's trying to process millions of PPP loan applications.

Mark Peterson, the AICPA's executive vice president–Advocacy, foresees the Biden administration's nominee for SBA administrator, Isabel Guzman, advancing out of the Senate Small Business & Entrepreneurship Committee this week and winning confirmation from the full Senate next week. At that point, she will be able to start getting her team into place.

"That will bring some help," Peterson said.

While Peterson acknowledges that it would be better to have Guzman already in place than having to wait, she will be addressing questions about the PPP delays on day one on the job. Congress approved the program with the idea of getting money to struggling businesses quickly, and Peterson expects Congress to press Guzman on her plans for improving the process.

"My prediction is there's going to be increased political pressure on the program to figure out how to get this done," Peterson said.

SBA striving to improve

Asgeirsson, Peterson, and Simpson said the AICPA is meeting with SBA and Treasury officials, who are receiving the feedback and working to to make improvements. Case in point: After the Town Hall on Thursday, Feb. 18, the SBA sent lenders an email detailing a fresh set of updates to PPP:

- As part of the SBA's commitment to improve equitable access to the PPP, the agency moved the optional demographic questions to page one of the application in an effort to improve the response rate. The questions had been on the back page.
- The SBA said it would release support for IRS-issued ITINs by Monday, Feb. 22. This support will be at the principal level for PPP loan applications. ITINs cannot be leveraged for the primary borrower identification. This support will be made available through the SBA systems' user interface and API.
- The SBA added functionality within the E-Tran system to support lenders self-correcting social security numbers and employee identification numbers used during the processing of PPP loans last year.
- The SBA said it continues to optimize validations concerning duplicate loans and Dun & Bradstreet number (DUNS) validations in the coming days. The agency asked lenders to continue routing inquiries to the SBA platform inbox validation check problems.

The agency also noted that it will start enforcing the new 3508 PPP forgiveness forms starting March 5 and that all backlog PPP applications using the old forms should be processed by this date.

The weight of expectations

As the SBA works to smooth out the PPP process, Asgeirsson, who talks with accounting firm leaders almost every day, acknowledges there is a lot of frustration among practitioners and clients. One issue, he suggested, is that many people expected the current PPP program to operate in similar fashion to the first round of PPP, which distributed its initial allotment of $349 billion in less than two weeks after opening in April 2020.

CPAs should inform clients that delays are possible and that questions are not always quickly or easily answered, AICPA executives have said. In addition, though some applications are being held up, borrowers should be aware that a large percentage are getting through and that with more than half the $284 billion in PPP funding still available, many expect there to be enough money in the system to fund loan requests through the March 31 deadline for applications.

"We've all had to get our arms around how to support this for the business clients," Asgeirsson said. "At times being the business adviser is to be dealing with these unknowns."