



June 29, 2020

The Honorable James E. Clyburn
Chairman
Select Subcommittee on the Coronavirus Crisis
United States House of Representatives
Washington, DC 20515

Dear Chairman Clyburn:

I am pleased to respond on behalf of The PNC Financial Services Group, Inc. (PNC) to your letter, dated June 15, 2020, regarding the Paycheck Protection Program (PPP). PNC is a Main Street banking organization focused on traditional banking activities, including retail banking, consumer and residential mortgage lending, corporate and institutional banking, and asset management. Our business model, as well as our activities since the onset of the novel COVID-19 pandemic, have been focused on serving the needs of our customers and the communities in which our customers work and live.

We recognize that the COVID-19 pandemic has had a devastating impact on small businesses throughout the nation. Small businesses are the lifeblood of the U.S. economy. According to the 2019 ADP National Employment Report, businesses with fewer than 500 employees employed 63.13 million people, accounting for approximately 49 percent of total private-sector employment.

To help mitigate the impact of the pandemic on small businesses and their employees, Congress created the PPP through the Coronavirus, Aid, Relief and Economic Security Act (CARES Act). Under the PPP, small businesses that meet the eligibility requirements established by Congress, and implemented by the Small Business Administration (SBA), can obtain SBA-guaranteed loans in amounts of up to \$10 million. Following the modifications enacted in the Paycheck Protection Program Flexibility Act (Flexibility Act), eligible small businesses must use at least 60 percent of PPP loan proceeds for payroll costs, and remaining amounts may be used only for specified other purposes (such as paying rent). In addition, and uniquely, a PPP loan may be partially or wholly forgiven to the extent the small business uses the loan proceeds to meet its payroll and certain other costs during either the 8- or 24-week period following loan disbursement.

The demand for PPP loans, both at PNC and across the nation, has been extraordinary and unprecedented. As a result, the initial \$349 billion appropriated for PPP loans was exhausted by April 16th, less than two weeks after the SBA first began accepting PPP applications. We applaud Congress for appropriating an additional \$310 billion to support PPP loans as part of the Paycheck Protection Program and Health Care Enhancement Act. With this additional funding, the SBA began accepting additional PPP applications for registration on Monday, April 27th. The statutory deadline for obtaining a PPP loan is June 30, 2020.

PPP Lending at PNC

At PNC, we take our obligations with respect to every PPP application very seriously, and we seek to process every application as quickly as possible. Thousands of PNC personnel volunteered to take on new assignments to review, document, close and fund PPP loans. We worked diligently to train these teams and adjust our processes as the SBA issued new rules and Frequently Asked Questions (FAQs) governing the program.¹ And, when initial PPP funding was exhausted, our teams continued to work tirelessly to prepare as many pending applications as possible for submission to the SBA if or when additional funding was made available. We utilized and refined technology solutions to automate processes wherever feasible, thereby facilitating the review, registration and funding of loans. This has been a massive and sustained effort by our organization. In all, more than 4,000 PNC employees have been involved in processing PPP applications and loans, with many working through the night to deliver for our small business customers. We did this because we know how important these small businesses are to the communities we serve; these are not just our customers, but our neighbors.

I am pleased to report that, due to the dedicated efforts of our employees, we have successfully registered more than 76,000 PPP applications from small business customers with the SBA, thereby securing PPP funding for the businesses' employees and operations.² These applications came from small businesses in 49 states and the District of Columbia.

The vast majority (85 percent) of the PPP applications we have processed and registered with the SBA are from our Business Banking clients, which is our business segment that services business clients (including non-profits, sole proprietors and independent contractors) with less than \$5 million in annual revenues.³ Only approximately 15 percent of the PPP loans that we have registered with the SBA are from eligible businesses within our Corporate & Institutional Bank, which services businesses with \$5 million or more in annual revenues, or other business segments (such as our auto dealer finance unit).

This distribution is reflected in the loan amounts for the PPP loans PNC has registered with the SBA. Approximately 80 percent of the total PPP applications that we have successfully registered with the SBA are for amounts of \$150,000 or less, and approximately 44 percent of these loans were for amounts of \$25,000 or less. An additional 10 percent of the loans we have registered are for amounts of \$350,000 or less (but more than \$150,000). Although the statutory maximum PPP loan size per business is \$10 million, less than 0.3 percent of our registered PPP loans are for amounts above \$5 million. The average loan amount for our SBA registered loans is approximately \$185,000.

¹ To date, SBA has issued 22 Interim Final Rules governing the PPP and released or updated its PPP FAQs more than 10 times.

² All data is as of June 26, 2020, unless otherwise indicated. Registration data is net of any cancellations or withdrawals.

³ Due to the Bank Secrecy Act and anti-money laundering (BSA/AML) compliance obligations that apply to PNC, as a regulated banking organization, as well as the volume of PPP applications that we expected to (and did) receive from existing PNC customers, we have accepted PPP applications only from eligible businesses that have a Business checking, deposit or lending relationship with PNC and, thus, have already been through our AML/BSA onboarding processes.

We dedicated extensive resources to supporting the PPP. We leveraged our significant investments in technology to build, in short order, a new customer-facing portal to accept PPP applications and collect SBA-required information. We launched this online portal on April 4th, only one day after the SBA began accepting PPP applications. We designed the portal to be the sole entry point for all customer PPP applications, including those from our Business Banking and Corporate & Institutional Banking segments, although certain customer applications were documented manually due to early technical difficulties with the portal that were quickly resolved. In any event, once received, applications from all customer segments were transferred and entered into a single underwriting system for processing and thereafter reviewed for completeness in accordance with applicable SBA rules. Simply put, we did not have a “two track” system that was designed to prioritize applications from larger eligible businesses over those of smaller eligible businesses.

In addition, because we know that small businesses operating in low- and moderate-income (LMI) communities face special challenges and non-profits often support vulnerable communities,⁴ we took special care to ensure that small businesses in LMI geographies and non-profits who applied for PPP loans were not left behind. We did so even before the SBA encouraged PPP lenders to redouble their efforts to assist eligible PPP borrowers in underserved and disadvantaged communities.⁵ Because the income level of the applicant’s community is not identified on the borrower PPP Application Form, we worked with the Fair Banking unit in PNC’s Enterprise Compliance organization to geo-code all the PPP applications we received to identify those that were from LMI geographies.⁶ I am pleased to note that as a result of these efforts PNC registered more than 15,800 applications, aggregating more than \$3.3 billion, from small businesses located in LMI census tracts, and more than 4,750 applications, totaling more than \$1.2 billion, from non-profit organizations.⁷

As the Department of the Treasury (Treasury) and the SBA have acknowledged, Community Development Financial Institutions (CDFIs) also can serve an important role in providing access to credit in rural and underserved communities. For this reason, Treasury and the SBA have set aside \$10 billion in the remaining PPP funding specifically for loans by CDFIs.⁸ Since March 2020, PNC also has committed more than \$45 million to eight CDFIs to

⁴ Non-profits and small businesses in LMI communities also often lack the internal and external resources that could aid in the preparation and review of their PPP application prior to submission to a lender.

⁵ See Message from SBA Administrator Jovita Carranza to PPP Lenders, June 15, 2020.

⁶ Non-profit organizations can identify themselves on the PPP Application Form.

⁷ The PPP Borrower Application Form and the SBA’s online system for registering PPP applications (E*Tran) also created some initial difficulties for non-profits, as the form and system required identification of the principal “owners” of the applicant. On April 10th, the SBA distributed guidance indicating how non-profit applicants and their lenders should complete these fields.

⁸ See SBA Press Release, *SBA and Treasury Department Announce \$10 Billion for CDFIs to Participate in the Paycheck Protection Program* (May 28, 2020). Subsequently, the SBA also launched an online tool (SBA Match) to assist non-profits and small businesses in underserved areas seeking PPP loans to locate and connect with CDFIs or other small lenders. See SBA Press Release, *SBA Rolls Out Dedicated Tool for Small Businesses to Connect with CDFIs, Small Asset Lenders Participating in PPP* (June 19, 2020). These actions, together with the SBA Administrator’s statement of June 15, 2020 (see *infra*, footnote 6), are representative of the actions taken by the

support their own origination of PPP loans in potentially underserved geographies and sectors. In this way, PNC has directly supported the ability of these organizations to make PPP funding available to borrowers and communities that may lack access to traditional forms of financing. The CDFIs financially supported by PNC include the Community Reinvestment Fund, TruFund and the Latino Economic Development Corporation and serve communities in Alabama, Illinois, Indiana, Pennsylvania, and Texas, as well as the cities of Baltimore, Maryland and Kansas City, Missouri.

While ultimately we are pleased that we were able to register applications from so many of our small business customers with the SBA, we recognize that the PPP application process certainly has not been seamless. This is not surprising given the extraordinary scope of the program and the speed with which both the U.S. Government and lenders had to develop and implement new policies, procedures and systems to achieve its purpose—providing critical funds to small businesses to assist them in maintaining their payroll and operations in these unprecedented times. A variety of factors may have influenced the speed with which we were able to process individual applications and get them registered with the SBA. For example, applicable SBA rules and guidance required lenders, like PNC, to review PPP applications for completeness. While we affirmatively contacted applicants with missing required information or documentation, these applications necessarily took longer to process. In addition, the ongoing issuance of Interim Final Rules and informal FAQs by SBA throughout the PPP's history has required both lenders and borrowers to modify their processes or applications, respectively, to implement these changing requirements, which impacted the speed with which certain applications were processed, registered and funded.

The timing of SBA rules and guidance also significantly influenced, at least initially, the types of PPP applications we could accept and process. For example, the SBA did not start accepting PPP applications from self-employed individuals and independent contractors until April 10th, a week after it launched the PPP for other types of eligible businesses. While PNC began accepting applications from self-employed individuals and independent contractors on the same day that they became eligible to apply under SBA rules (April 10th), we had already received tens of thousands of applications by that time, which meant that relatively few applications from self-employed individuals and independent contractors could be processed and registered with the SBA before the initial round of PPP funding was exhausted on April 16th. Because self-employed individuals and independent contractors often are the smallest (in terms of revenues and assets) of PPP-eligible small businesses, this meant that many of these very small businesses received their registrations during the second round of PPP funding.

And, as has been publicly reported, the SBA E*Tran system for submitting loans for registration has experienced operational issues or been inaccessible at times, either generally or for particular types of lenders.⁹ This has both limited PNC's ability to submit applications to the SBA for registration and affected the timing of when individual applications were registered.

SBA, in consultation with Treasury, to help ensure that underserved and rural communities had fair access to PPP loans.

⁹ Some lenders, including PNC, also had difficulty obtaining E*Tran user authorizations for personnel to be able to submit PPP applications for registration.

For example, when the SBA re-opened the PPP funding window on April 27th, PNC began promptly submitting additional applications via the E*Tran system, but the system almost immediately went down. In addition, the SBA strictly limited the number of applications that any single lender could submit via E*Tran each hour during the initial days of the second round of registrations, an action that disproportionately affected institutions (like PNC) with a substantial number of small business applications awaiting registration.

As a result, on April 27th, PNC submitted a file containing tens of thousands of complete applications using a new bulk file upload process approved by the SBA.¹⁰ We took special care to include applications in this bulk file that were submitted to PNC early in the PPP process and were complete, but had not received SBA registration before the initial appropriations were exhausted. Although this file was submitted to the SBA on April 27th, we only received confirmation from the SBA that these loans were registered on May 1st. This delay created great anxiety for many of PNC's small business customers who were still awaiting SBA registration for their applications. This, in turn, caused a number of applicants to seek and obtain SBA registration for their applications through other lenders that had lower overall volumes and, thus, were not as affected by the SBA's actions limiting the number of E*Tran registrations by individual lenders.

PPP Compliance and Controls

From the outset of the PPP, PNC designed its processes so that PPP applications were handled in accordance with all applicable legal and regulatory requirements, including SBA rules, applicable fair lending laws (*e.g.*, the Equal Credit Opportunity Act), and the prohibitions on unfair, deceptive or abusive acts or practices (UDAAPs).¹¹ This involved a combined effort by our lines of business, independent risk management function, technology and innovation, internal audit and legal, and built upon PNC's robust enterprise risk management framework.¹²

Consistent with this framework, cross-functional teams composed of personnel from the lines of business, enterprise compliance and legal were engaged promptly following passage of the CARES Act to assess PPP eligibility requirements and to assist in the development of compliant processes, systems and procedures. These groups have remained engaged throughout the PPP process to assist the bank in promptly assessing and implementing the numerous Interim Final Rules and FAQs that the SBA, in consultation with Treasury, has issued to implement the PPP and provide borrowers and lenders program guidance. We have developed extensive training materials for the employees engaged in reviewing applications, registering complete applications from eligible applicants with the SBA, and closing and funding registered loans, and have updated these materials as appropriate to reflect new Interim Final Rules and FAQs as they

¹⁰ See SBA Guidance Memo, *XML Submission Process for Paycheck Protection Program (PPP)* (Apr. 26, 2020).

¹¹ See Section 5(a) of the Federal Trade Commission Act (15 U.S.C. § 45(a)) and Section 1031 of the Consumer Financial Protection Act of 2010 (12 U.S.C. § 5531).

¹² Our comprehensive risk management framework is based on the multi-layered "three lines of defense" model set forth in applicable regulatory guidelines. See Office of the Comptroller of the Currency, *Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches*, 12 C.F.R. Part 30, Appendix D.

were issued by SBA. And, we instituted regular operations checkpoints to help identify, and promptly address, operational or processing issues, and developed reporting to assist management in monitoring application processing and oversee program management.

As noted above, we developed a single, online portal for the intake of PPP applications and used the same underwriting system and criteria for all PPP applications, thereby facilitating the fair and consistent treatment of all applicants. Development of the portal was reviewed by PNC legal, compliance, operational risk management and technology risk management subject matter experts. We also paid close attention to customer disclosures and communications. Disclosures posted on our PPP portal and general communications to applicants were carefully reviewed by cross-functional teams, which included representatives from enterprise compliance and legal, to help ensure they were consistent with program requirements and standards in effect at the time and were as clear as possible, thereby mitigating potential UDAAP risk.

To further support compliance, we have established quality review teams that perform second reviews of PPP application, closing and funding packages. Our independent risk management function also performed accelerated and targeted reviews of applications to evaluate and verify compliance with SBA requirements, and has developed monitoring and ongoing testing regimes to help monitor and mitigate compliance and other risks. For example, the enterprise compliance unit within independent risk management, working in conjunction with testing professionals, conducts reviews to validate that applications comply with applicable PPP requirements. Enterprise compliance teams also monitor PPP customer complaints to help ensure customers are being treated fairly. Other teams within the independent risk management function involved in overseeing and monitoring our PPP implementation include operational risk management, the BSA/AML & Sanctions unit, technology risk management, credit risk management, and enterprise data management.

PNC's internal audit function also has been closely engaged with our PPP processes. Earlier this year, internal audit established a dedicated team focused on the PPP and other COVID-19 related programs and risks, which has developed and been executing a comprehensive audit plan for PNC's PPP activities. As part of this plan, internal audit reviews the design of PPP-related controls and conducts testing to help ensure controls are working as intended and activities are conducted in accordance with applicable PPP requirements. Areas within the scope of internal audit's current or planned reviews include borrower eligibility, the accuracy and completeness of data transmissions between PPP systems (both internal and external), the design of PNC's planned customer loan forgiveness application portal, loan booking and funding and quality assurance reviews and controls.

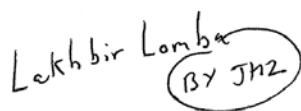
The SBA issued its initial Interim Final Rule governing the PPP on April 2nd, only one day before it started accepting PPP applications. Moreover, as noted previously, SBA, in consultation with Treasury, has issued numerous additional Interim Final Rules and FAQs to clarify aspects of the program and respond to questions from both borrowers and lenders. As a result, our PPP processes and controls have, necessarily, evolved and matured over time, and they will continue to do as the program moves through the loan forgiveness and repayment stage.

Finally, we participated in the PPP primarily because we knew the program was of vital importance in these difficult times to our small business customers and the communities that we serve, not out of financial considerations. In this regard, Congress, in the CARES Act, established a uniform fee schedule that all lenders (both large and small) receive for processing, funding and servicing PPP loans, and all PPP loans bear a low 1 percent interest rate.¹³ As of May 31, 2020, PNC had recognized less than \$26 million in revenue on the approximately \$12.6 billion in PPP loans it had registered through that date. Moreover, due to the loan accounting rules under Generally Accepted Accounting Principles (GAAP), lenders must recognize the processing fees received from the SBA net of loan origination costs over the estimated life of a PPP loan, which after the Flexibility Act may now be up to 5 years.¹⁴ As a result, through May 2020, PNC's estimated after-tax profit from its participation in PPP is less than \$10 million. Any revenues that PNC may receive from participating in the PPP also is subject to several risks, such as the potential for lenders to be required to pay a portion of their SBA fees to borrower-retained agents, the costs of other PPP-associated litigation, any SBA-required claw-backs and other related operational costs, none of which are reflected in our estimate.

I hope you find the above information, which responds to the five questions included in your June 15th letter, helpful as the Subcommittee conducts its important oversight activities. As discussed with the Subcommittee's staff, PNC will separately be responding to the request for documentation included in your letter.

Thank you for the opportunity to discuss PNC's commitment to the PPP and our small business customers. We will remain focused on doing our best to support our customers and communities through these challenging times.

Sincerely,



Lakhbir Lamba
Executive Vice President, Head of Retail Lending
and Asset Resolution

cc: The Honorable Steve Scalise, Ranking Member, Select Subcommittee on the Coronavirus Crisis

¹³ The PPP origination and processing fees that lenders receive is set by statute at 5 percent for loans of up to \$350,000, 3 percent for loans of more than \$350,000 and less than \$2 million, and 1 percent for loans of \$2 million or more.

¹⁴ If the loan is repaid or forgiven, then the deferred revenue is accelerated.