

# NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION  
1775 Duke Street, Alexandria, VA 22314

**DATE:** April 2020

**LETTER NO:** 20-CU-06

**TO:** Federally Insured Credit Unions

**SUBJ:** Small Business Administration Loan Programs to Help Small Businesses and Members During the COVID-19 Pandemic

Dear Boards of Directors and Chief Executive Officers:

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law. The CARES Act provides \$349 billion in assistance to small businesses, many of which are facing economic difficulty due to social distancing, shelter-in-place orders, and other measures designed to stem the pandemic. This letter provides an overview of the PPP and information about the SBA's Economic Injury Disaster Loan (EIDL) program. Please refer to the [interim final rule](#) for more details.

The U.S. Small Business Administration (SBA) issued an [interim final rule](#) that outlines the key provisions of the [Paycheck Protection Program \(PPP\)](#) on April 2, 2020. While the interim rule is effective upon publication in the *Federal Register*, the SBA will consider public comments submitted during the 30-day comment period, and may revise the rule based on feedback. Small businesses may [apply for PPP loans](#) beginning April 3, 2020. Independent contractors and self-employed individuals may apply beginning April 10, 2020.

**The NCUA will not criticize credit unions' good faith efforts to prudently use the SBA programs with members affected by COVID- 19.**

## **Paycheck Protection Program**

The SBA's 7(a) loan program will administer the PPP, with a primary mission of providing economic relief to small businesses that have been adversely impacted by COVID-19. The PPP loan program is different from the SBA's [7\(a\) loan program](#) in several ways, including:

- Unlike a 7(a) loan, PPP loans are 100 percent guaranteed, meaning there is no credit risk to a credit union if it complies with the applicable lender obligations set forth in the interim final rule. Since PPP loans are 100 percent guaranteed by the federal government, these loans are not included in the member business loan cap;<sup>1</sup>
- The full principal amount of a PPP loan may qualify for loan forgiveness;
- PPP loan's may have a size up to \$10 million (twice the amount of a 7(a) loan);

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<sup>1</sup> 12 CFR § 723.8

- The PPP will be available to eligible borrowers on a first-come, first-served basis; and
- Lenders must comply with the applicable lender obligations set forth in the interim final rule, but will be held harmless for any borrower’s failure to comply with program criteria.

Borrowers may apply through June 30, 2020, or until all available PPP funds are exhausted.

### **Eligibility Criteria**

- **Lenders.** All current SBA 7(a) lenders are automatically approved to make PPP loans. A federally insured credit union that is not an approved 7(a) lender can receive SBA approval by submitting a [CARES Act Section 1102 Lender Agreement](#).<sup>2</sup> The SBA will automatically approve lenders that are not designated in [troubled condition](#) by the NCUA or subject to a formal enforcement action by the NCUA to address unsafe or unsound lending practices.<sup>3</sup>  
As non-depository financing providers, credit union service organizations may qualify as a PPP lender subject to the requirements listed in the interim final rule.
- **Borrowers.** Refer to the [interim final rule](#) for information on small businesses and tax-exempt nonprofit organizations that are eligible. A borrower must have been in operation on February 15, 2020, to qualify. “Financial businesses primarily engaged in the business of lending...” cannot borrow under the PPP due to SBA regulations.<sup>4</sup>

### **Loan Terms**

Loans will be guaranteed under the PPP under the same terms, conditions, and processes as other 7(a) loans, with certain changes, including but not limited to:

- **Loan amount:** The maximum loan amount is the lesser of \$10 million or an amount calculated using the criteria in the interim final rule.
- **Maturity:** Two years.
- **Repayment:** Commences six months from the date of disbursement.
- **Lender guarantee:** 100 percent.
- **Collateral:** None required.
- **Personal guarantees:** None required.
- **Interest Rate:** 100 basis points or one percent.
- **Processing:** All loans will be processed by all lenders under delegated authority and lenders will be permitted to rely on borrower certifications to determine eligibility of the borrower and the use of loan proceeds.

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<sup>2</sup> Submit this form to [DelegatedAuthority@sba.gov](mailto:DelegatedAuthority@sba.gov).

<sup>3</sup> 12 CFR § 700.2. While NCUA’s definition of Troubled Condition allows for designation by the state supervisory authority, the SBA eligibility requirements only exclude credit unions designated as Troubled Condition by the NCUA.

<sup>4</sup> 13 CFR § 120.110(b).

## **Loan Forgiveness**

In the PPP, the amount of loan forgiveness can be up to the full principal amount of a loan, and may include accrued interest.<sup>5</sup> Borrowers will not be responsible for any loan payment if they use all the loan proceeds for forgivable purposes (described in the interim final rule) and maintain employee and compensation levels. The SBA will issue additional guidance on loan forgiveness, as indicated in the interim final rule.

## **Lender Compensation**

The SBA will compensate lenders that participate in the PPP through processing fees, which will be based on the loan balance outstanding at the time of final disbursement:

- **Loans \$350,000 and under:** 5.00%
- **Loans greater than \$350,000 to \$2 million:** 3.00%
- **Loans greater than \$2 million:** 1.00%

Further guidance may be provided, if needed, through SBA notices and a program guide that will be posted on the [SBA website](#). Credit unions can contact the SBA Lender Relations Specialist in their [local SBA office](#) for more information about the PPP.

## **COVID-19 Economic Injury Disaster Loans**

Small businesses affected by COVID-19 may also be eligible for additional assistance through the SBA's [Economic Injury Disaster Loan](#) program, which was created to provide vital economic support to small businesses to help them overcome the temporary loss of revenue they experience because of the pandemic. These loans can be up to \$10,000 and do not have to be repaid.

The NCUA strongly encourages credit unions and their members to review the interim final rule and any subsequent changes.

Sincerely,

/s/

Rodney E. Hood  
Chairman

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<sup>5</sup>The interim final rule indicates that not more than 25 percent of the forgiven amount may be for non-payroll costs.