



SANDYSTON TOWNSHIP

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April 20, 2020

A letter from the Mayor of Sandyston Township in the 24th District in New Jersey

Dear Elected Officials:

I also am a small businessman owning 2 Independent Insurance Agencies with a combined total of 9 employees. While we all agree the crisis created by the COVID-19 Virus is unprecedented, the shutdown required to deal with this Pandemic has wreaked havoc to our economy and decimated countless businesses. Our Federal Government's response in the CARES Act was a knee-jerk reaction, and with good intentions.

As Sandyston Mayor, I am dealing with many small businesses that have been shut down completely or almost completely – like restaurants, kennels, gas stations, and many single practitioners – with 1 to 2 employees – true small businesses. Having talked to a bank chairman, accountant and many business owners, I am writing this letter to directly ask for your help, as helping small businesses that drive the American Economy was a key intent of CARES Act. Now is the time to make a difference!

As an insurance agent specializing in insuring entrepreneurs with typically 1 to 25 employees in 3 states, NJ, PA. and NY – I am dealing with hundreds of businesses. I see the pain and I see those not really affected by this shutdown – maybe just inconvenienced. The roll out of the PPP Loan Program is a situation that has created a classic Moral Hazard. One of the principles of insurance is based on recognizing a Moral Hazard in any insurance transaction. The way the PPP Loan Program was put together lined up all the stars and planets for a classic Moral Hazard. Definition of Moral Hazard: any time a party in an agreement does not have to suffer the potential consequences of risk.

Here are the points that create such with the PPP program:

1. No Need be demonstrated to apply– why would we essentially give a grant to businesses that have no down impact from this shutdown?
2. No Impact of the COVID 19 and Shutdown needed to be documented.
3. No Recourse or potential consequences to Bankers or Recipients – inside deals and favoritism.
4. No requirement of owners of companies and related parties and family to NOT INCREASE THEIR PAY up to \$100,000 – we must prevent abuse.

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5. First Come First Served Roll out through Banks – this gave Bankers the choice of who got their application submitted – not just a que based on when the application was submitted – Anyone without a relationship with a bank lending officer was shooting in the dark with no real hope of getting their application addressed by a loan officer. This really was discriminatory of real small businesses that were built from the ground up without doing a large amount of borrowing. Most banks would not accept an application unless there was a lending relationship – my bank in NJ, Lakeland, had that requirement and a \$10,000 minimum – my bank in NY Jeff Bank sent people directly to the SBA – they did not do it. Many stories of people being sent to Kabbage without understanding why – this delay surely shut out all those applications.

7. Then the delay for single practitioners and LLC single owners for a week is downright discrimination or may be by design to shut them out. All our Dentists, Hair and Barber shops and salons, down to cleaning services and all single small businesses – shut out. These businesses and families are in real need.

Many stories of business owners that applied on Monday 4/6/20 – first day their bank opened applications – and after 8 days no response except 'your application was received.' Then the mass email saying 'you did not make it'.

Real despair for those in REAL NEED.

I know this was done in a rush and hindsight is always 20/20. In my discussions over the last few days I have heard from many company owners that got a PPP Loan and did it because they could - not because they could demonstrate a need – owners in the construction industry which is deemed essential and revenues are increasing, grocery stores with increased business, beer and liquor stores that are really booming all got it – I could list many more. All I hear is, because they could, and they had a great relationship with their banker who made sure they got in.

Then I am hearing the other side of business owners that REALLY NEED THE PPP LOAN and all they got was the cold email from their bank saying unfortunately they did not get in before the program was exhausted. Was it exhausted by those in validated NEED (non-essential businesses truly shut down and/or significant revenue losses) or by those connected to their Banker?

The biggest issue and where the government can and should make immediate changes: it seems the PPP program was only funded by the capital a participating bank committed to the program – SO there was not equal access depending on which bank you applied to and again a process controlled by Bankers choosing who got their

application submitted at what time with the knowledge of when their funding was going to be exhausted.

I am not talking about the CARES ACT federal funding – each bank only committed a limited amount of funding from their capital – and this being done within the guidelines of the PPP program with NO UNDERWRITING by the bank because who cares – they did not and could not lend this on the basis of need based on the PPP guidelines. This fully enabled applicants that were submitted **even though their business was NOT affected by this COVID 19 - Shutdown.**

Our Federal Senators and Congress reps need to get the local bankers involved to get this program and any additional money they commit changed – **so it gets to those in need.** It would not be hard to do a little underwriting so an applicant, that had \$900,000 in deposits in a bank and no downturn in business, would not get a loan for \$200,000 (true story) until all the in-need applicants were served. And this could be administered somewhat as the direct check issued to individuals is – the \$1200 per person.

I think you know the \$1,200 per person is based on last year's income and capped at \$75,000 a person. BUT and this is the good point of this giveaway, if a person's 2020 income exceeds the \$75,000 a person when they file their 2020 taxes, they will owe that portion or all of it back to Federal Government if the 2020 income exceeds the cap. This could be applied to the PPP Loan also in the 2020 business tax return. If a business qualifies with the basic underwriting and is granted the loan – they would only get the portion forgiven after the tax year IF their return showed an actual downturn in business or profits along with the current 75% use for payroll requirement – the bankers and accountants could easily craft the test to apply. And no raises for family members or related parties till that calculation was final.

It's unfortunate but I understand why banks held applications for days and then sent them to Kabbage for funding – the bank had committed the capital they had earmarked and **even though the Federal money was not exhausted, theirs was.** Then that applicant gets referred to Kabbage and **is placed in the end of the que** with Kabbage.

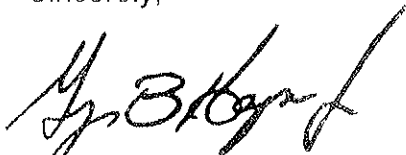
Not transparent at all, not fair to the little guy, and the families that drive our American economy, and absolutely a Moral Hazard issue for the Bankers as they decided who got it.

There are many things that need to be addressed in the future CARES ACT phases to come - hospitals, states, counties - left out of the formula, and many other issues – but this was a real false hope for a lot of small businesses that are REALLY FAILING RIGHT BEFORE OUR EYES. **How are we helping these businesses and families?**

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Thank you for listening. I am available to help in any way possible to help those that really need it. Please contact our elected officials and do whatever possible to help our small businesses that are in need.

Sincerely,

A handwritten signature in black ink, appearing to read "George Harper". The signature is fluid and cursive, with the first name "George" and last name "Harper" clearly distinguishable.

George Harper
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Mayor Sandyston Township
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