



On Small Business

To Get a Small-Business Loan, Try a Smaller Bank

By Joe Nocera | Bloomberg

On Sunday, four of the five largest U.S. banks — Wells Fargo & Co., Bank of America Corp., US Bancorp and JPMorgan Chase & Co. — were accused in several lawsuits of favoring large companies over small ones in handling the federal government’s \$350 billion small-business rescue program. The suits are easy to cheer for, given that tens of thousands of small businesses were shut out of the program while a number of publicly traded companies received millions, starting with Ruth’s Hospitality Group Inc., which gamed the system for a \$20 million loan, twice the maximum allowed.

But as much as you might want to root for the plaintiffs, the cases are unlikely to go anywhere. The reason is that neither the banks nor public companies like Ruth’s and Shake Shack (which has said it will return its loan) did anything wrong. It is undeniable that there were problems with the Paycheck Protection Program. But now, with the Senate having passed legislation authorizing \$320 billion of additional PPP loans — and the House likely to approve the bill in the next day or so — the important thing is to understand what went awry. With any luck, maybe it’ll go better this time around. My advice: Think small.

I know a number of small-business owners who bank with JPMorgan who were shut out of the loan program. One of them sent me a text saying that his accountant told him that he had 300 clients who had applied for a PPP loan; every one of them applied and never heard back. “Chase protected their largest accounts & nobody I know got a dime working with Chase,” he wrote angrily. JPMorgan says that its smallest business clients received more than twice as many loans as the rest of its client base combined.

A Wells Fargo customer told me that his firm tried to apply for a loan on April 2, but the Wells website said it wasn’t accepting applications. Four days later, he tried again; this time, the website said it was no longer accepting applications. Puzzled, the man called his Wells relationship manager, who told him that for a few hours over the weekend, the bank had allowed companies to submit “expressions of interest.” Now, however, the queue was full. The man was furious.

“It’s crazy,” said another friend — who is struggling to keep from having to lay off employees — “you bank with big banks for the access it is supposed to give you, and when you need them the most, it works against you.”

The lawsuits against the big banks are a manifestation of that frustration. They are based on SBA data showing that in the early days of the program, most of the loan approvals went for large amounts while in the last three days most of the applications were for smaller amounts. Like my friend who banks at JPMorgan, the plaintiffs concluded that this could only mean that the big banks had front-loaded the process to make sure that the bigger companies received their money first. The banks’ supposed motive was that larger loans brought bigger fees.

In fact, the true reason the bigger companies got in first was because they have lawyers, accountants, chief financial officers and planning departments. They were maneuvering to get these loans — which will be forgiven if the companies use 75% of the money to keep employees on the payroll for eight weeks — even before the PPP became law. They were gathering the information they surmised the government would need; they were able to submit their applications practically the moment the government opened the door.

So problem No. 1: Doling out the loans on a first-come-first-serve basis is always going to favor the corporation over the corner pizza joint. Problem No. 2: Because the pizza joint doesn’t have the financial sophistication of the corporation, there needs to be a mechanism to help them apply without being left behind. One possible solution would be to divide the loans into tranches for different size companies. Another would be to lower the size of the biggest loans, making them less attractive to bigger companies.

Problem No. 3: When I asked small-business owners why they didn’t apply at a different bank, they said they couldn’t; they had to go with a bank where they had a pre-existing relationship. But that’s not quite right.

There is a provision in the law that says that banks are responsible to cover loans that are a result of a fraudulent application. That’s the reason that big — and even midsize — banks are reluctant to accept applications from any business that is not already a customer. My friend who is the Wells Fargo client wrote that he feels “trapped with only Wells Fargo able to rapidly underwrite a loan to my firm.”

The answer is to worry less about fraud and more about making it easier for small businesses to apply at banks where they have no relationship. The key is to get money into the hands of businesses that desperately need it, even if that means some of the money is lost to fraud.

A fourth problem was the sheer chaos that resulted from the first round of PPP loans. President Donald Trump signed the CARES Act — which included the PPP loan provision — on March 27, a Friday. The loan program opened for business four business days later. Banks were inundated with applications; Bank of America received 10,000 applications an hour that first day. By the time the money ran out 14 days later, the bank had submitted 375,000 applications to the SBA.

The SBA, meanwhile, was dealing in volumes it had never seen before. Previously, \$20 billion or so in small-business loans was the most it had ever processed in a year. Now it was trying to process \$350 billion in a matter of weeks. Its outmoded computer systems froze from time to time. Sometimes applications fell through the cracks. Now that the banks and the SBA have been through this process once, one hopes it will go more smoothly this time.

Still, the core problem remains: Even with an additional \$320 billion, it's not nearly enough to help all the small businesses that need federal aid. Many companies are still going to be on the outside looking in.

After hearing so many complaints from small-business owners unable to get PPP loans, I posted a tweet over the weekend, asking where the PPP money was going.

I received hundreds of responses, from which emerged one main theme: the small-business owners who were happiest with the process had used community banks rather than the national giants. Curious to learn more, I called Edward Barry, the chief executive officer of Capital Bank N.A., which operates six branches in the greater Washington, D.C., area.

Barry told me that in the 14 days the program was open, his bank had gotten 598 applications approved, with a median loan amount of \$118,000. (“A few were as small as \$2,500,” he said.) Most were pre-existing customers, he added, but the bank also took on some businesses with which it had never had a previous relationship. “It was a good opportunity to show the power of this institution,” he said.

The reason the bank has been successful is that it put all its energy into the program. “It was a moral imperative to get this done,” Barry said. “We pulled people from other departments and put them on this. We put all our resources into this, and went at it seven days a week. We said, ‘Let’s build the process based on what we think it’s going to be and adjust once the government sets out the criteria.’”

Capital Bank guided customers who needed help gathering the information the SBA required. Then it raced to get the paperwork validated and off to the government. When the dust had settled, it was poised to hand out \$172 million in loans. Now the bank is gearing up for the next round.

The new round of loans will surely go fast — probably within 48 to 72 hours. There is a provision in the bill the Senate just passed that sets aside \$60 billion specifically for the customers of small lenders. It seems plain to me that that in these incredibly difficult circumstances all the banks — big and small alike — are doing the best they can. But if you're a small-business owner and feel frustrated by your giant bank, let me give you a suggestion: Try your small local bank.

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