



PPP Was Just the Beginning

Get Ready for the Next
Wave of SBA Loans

Several factors will come together during the second half of 2020 to create unprecedented demand for government guaranteed lending facilities, mainly 7(a) and 504 loans. The impact of the economic shutdown, which has been especially hard on retail, hospitality, and personal service organizations will create significant demand for both short- and long-term working capital loans in industries where banks and credit unions have historically tended to rely on guarantees from the Small Business Administration (SBA). Consider the distribution of SBA loans by industry between 2010 and 2018 in the chart below.¹

Top 10 SBA Loans by Industry: Funding Volume from 2010 to 2018

RANKING	INDUSTRY	SBA 7a FUNDING RECEIVED	AVERAGE LOAN SIZE
1	Hotels (except Casino Hotels) and Motels	\$10,823,455,079	\$1,400,732
2	Full-service Restaurants	\$5,935,935,507	\$270,148
3	Gas Stations with Convenience Stores	\$5,899,951,231	\$734,172
4	Limited-service Restaurants	\$4,853,110,585	\$251,449
5	Dentist Offices	\$3,948,264,568	\$413,592
6	Child Day Care Services	\$3,151,765,078	\$525,114
7	Veterinary Services	\$3,121,984,318	\$565,371
8	Physicians Offices (except Mental Health Specialists)	\$2,962,850,742	\$305,766
9	Broilers and Other Meat Type	\$2,326,337,236	\$694,687
10	Fitness and Recreational Sports Centers	\$2,101,377,455	\$268,596

Source: fitsmallbusiness.com/who-gets-sba-loans/

Next, consider the fact that at least seven of the 10 industries shown above were significantly impacted during state-mandated shutdowns of the economy in March, April, and May. While loans made through the Paycheck Protection Program (PPP) have provided some relief, most businesses have not received those benefits. The first portion of PPP totaled about 1.7 million loans. It is expected that the second might reach another 2.6 million businesses. Still, there are about 6 million employer firms and another 24 million non-employer firms in the United States, all competing for PPP loans and other capital sources.

Why We'll See New Financing Requests

Another reason we should expect new financing requests from these businesses is the fact that due to social distancing measures, while many are reopening, few will be operating at full capacity throughout the summer. In the case of hotels, leisure travel is likely to see significantly lower demand until the pandemic crisis is fully resolved. Other businesses such as restaurants,

Any way you look at it, you will see a significant increase in working capital requests and longer-term SBA guaranteed facilities.



personal care services, and fitness centers will be operating with fewer clients. Even outside of these hardest hit industries, we are likely to see a general trend toward weaker balance sheets.

Another interesting factor that will likely influence a trend toward the rise in SBA activity is the sheer number of new SBA lenders. Prior to PPP, there were roughly 1,900 approved SBA lenders in the country. The agency has now reported that approximately 5,500 lenders participated in PPP lending. The question is, what will become of the more than 3,500 new SBA lenders? Will they use their credentials to expand beyond PPP and help these businesses with the next wave of lending; the longer-term working capital facilities that will help bring these businesses back through the economic fallout of the pandemic?



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A Look at Restaurants & PPP

Let's look deeper into one specific industry, full-service restaurants. During 2019, food service and beverage establishments contributed about \$896 billion toward U.S. GDP. When you look at just restaurants, you find about 660,000 establishments with over \$550 billion in annual revenues. By late April, it was estimated, based on credit card data, that 42% of U.S. restaurants had closed during the shutdown, while most of the others had shifted to delivery and carry-out only sales.²

Restaurants are one of those industry sectors that traditional lenders historically shy away from. Without a strong guarantor, they tend to represent higher credit risk due to their reliance on consumer trends and effective local management. Collateral is usually an issue as well, given that many facilities lease both their location and their equipment. When they do make loans in this sector, lenders tend to rely on the 7(a) programs. Now we find ourselves in the mind-numbing scenario where 277,000 of them have closed their doors for at least six weeks, and all of them are facing dramatic shifts in consumer buying trends that could last a year or more. And that's just one industry sector. Consider other personal services like health and beauty stores, salons, fitness centers, yoga studios, etc. Think about all the other retail establishments that tend to lease their locations. By doing so, we



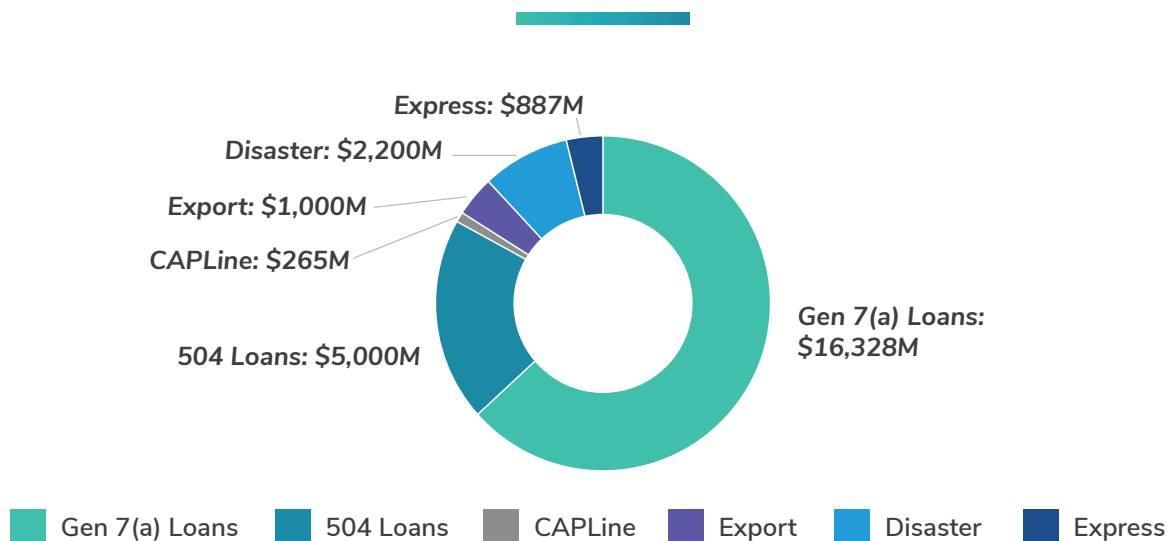
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begin to see the magnitude of the financial need that is likely to reveal itself in loan requests over the next six to 18 months. Any way you look at it, you will see a significant increase in working capital requests and longer-term SBA guaranteed facilities.

Meeting Rising Demand

The expanding demand for government guarantees is not likely to stop with the 7(a) program. Given the stress in the general economy and, more specifically, in the hospitality arena, we are likely to see significant turnover of commercial real estate, machinery, and equipment. This could result in an increasing number of SBA 504 loan requests.

Total Funded Amount of SBA Loans by Program in FY 2019



Sources: [sba.gov](https://www.sba.gov); fit-small-business.com

In any given year, SBA guarantee programs have a significant impact on our economy. During 2019, lenders initiated about 29,000 7(a) loans totaling \$16 billion and around 6,000 504 loans totaling \$5 billion.³ To meet this rising demand, it is critical that Congress appropriate new funds to replenish the post PPP 7(a) program. These funds could be used to accommodate the rising demand during the remainder of fiscal 2020 and 2021. This appropriation together with the significant number of new lenders could make a material difference in the economic resurgence of the service sector in our country.

Visit us online to view solution overviews, review FAQs, and learn more about how this new solution will enable you to support your small business customers and members.

SOURCES:

1. Tetreault, Tricia. *Fit Small Business: Who Gets SBA Loans? SBA Loans by Industry*. June 5, 2019.
2. Womply. *Report: How many local businesses have had to close due to COVID-19?*
3. Tetreault, Tricia. *Fit Small Business: SBA Loans: Types, Rates & Requirements*. April 9, 2020.