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SBA PPP loan applicants search for Plan B as banks prioritize existing customers

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Most of the nation's largest banks unveiled their online applications for the Paycheck Protection Program (PPP) on Monday, after the Small Business Administration formally launched the loan program on Friday. Desperate small and midsize businesses responded with a deluge of applications for what is fast cash to maintain payrolls during the coronavirus pandemic. But many spent the past several days scrambling to find a lender, as most banks — particularly larger ones — are only accepting applications from existing customers.

"There is nothing in the statute that says they have to help their own customers first," said veteran banking lawyer Leonard Bernstein of Holland & Knight. "And some are even favoring one type of client over the other. I know someone who runs a physician practice who was livid at Bank of America over the weekend because they were giving preference to loan customers over deposit customers."

Bank of America eventually changed course on that strategy Friday after a wave of negative feedback, but Bernstein still believes some customers looking to apply for the Paycheck Protection Program might not be able to get loans from their existing banks and will be forced to shop for new lenders — and they will have to shop quickly. That, he said, could open relationships moving forward for smaller banks who take on the massive number of referrals coming from lawyers, accountants and others seeking a PPP lender for their business clients.



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Center City's EIR Healthcare, which produces modular patient rooms, is waiting to hear from its lender about applying for the Paycheck Protection Program.

“They could create some goodwill and possibly some future business,” Bernstein said.

One business that explored the possibility of seeking a new lender is Center City’s EIR Healthcare. Formed in 2006, its main product is MedModular, prefabricated hospital rooms that incorporate modular technology. The company has more than \$5 million in revenue and seven employees.

EIR founder and CEO Grant Geiger said after learning about the Paycheck Protection Program, he contacted his bank, Wells Fargo & Co. (NYSE: WFC), and was told EIR would qualify. He submitted some information but, despite Wells going live with its online application portal Monday, he had not yet been able to apply. Geiger said he looked into other options but chose to take his chances with Wells Fargo.

“I thought about applying to local lenders, but banks are only taking existing customers for the most part,” Geiger said. “And I get it from an underwriting perspective. They are more comfortable working with customers they already know.”

Wells Fargo said Sunday evening that it has exhausted its \$10 billion capacity for lending under the program as the bank operates under a regulatory asset cap. In other words, amid the pandemic-induced downturn, one of the nation’s largest lenders will largely be kept on the sidelines. Geiger is aware of the situation.

Geiger considers EIR lucky in comparison to other small businesses because his team can work remotely and has several active projects to provide some revenue. The company is working with overwhelmed healthcare providers to possibly provide more bed capacity through MedModular to help treat the rising number of COVID-19 patients.

William W. Matthews III, chairman of the corporate department at Klehr Harrison Harvey Branzburg, said Geiger was one of dozens of clients the firm has been assisting with the loan application process.

“Generally, we have found bigger banks are only dealing with existing clients, particularly their lending clients,” Matthews said. “So we have looked at other banks and shuttled clients to them — largely smaller lenders. We are just advising our clients to get in line as fast as possible because the money is going fast.”

Matthews said a longtime partner in the firm’s bankruptcy department always told him that he advises businesses to have a Plan B in place when it comes to their bank relationship.

“And this situation is a perfect example of why,” Matthews said.

Michael Keim, president of Souderton-based Univest Financial Corp. (NASDAQ: UVSP), said that as of Monday afternoon, the bank had received more than 1,000 applications — all from existing customers in retail and commercial banking, insurance and equipment leasing. To put that in perspective, Univest completed just 22 of the SBA's flagship 7(a) loans during fiscal year 2019.

Keim said the SBA's computer system had some technical issues Monday that made it hard to finish processing applications, but he still hoped to receive approval for 80 loans by the end of the day. And when the smoke clears, he expects the \$5 billion-asset bank to have completed north of 10,000 PPP loans.

But Univest clients come first. Bigger banks such as TD Bank, PNC Bank and Bank of America, as well as Wilmington-based WSFS Bank, have all said that due to the overwhelming demand, they will focus on their own customers.

"I haven't see many banks that aren't going that route," Keim said. "I know that makes things harder for certain businesses and when we are done with our own customers and still have the bandwidth, we would be happy to take on other customers."

Chris Connell, a banking lawyer with Stradley Ronon Stevens & Young, said larger banks have had more problems dealing with the demand from their own customers because that demand is so massive. While Univest said it could complete 10,000 applications for its customers, Bank of America said Monday that it completes that many every hour.

That has caused a strain on the IT systems of the larger banks, who rushed to get landing pages ready for the applications.

Connell said he's been pretty successful finding landing spots for his business clients.

"It depends on how high up you go and who you know at the bank," Connell said. "It's going to be tough getting a loan officer you don't know on the phone because they are working 20-hour days. Like anything, it's relationship-driven."

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