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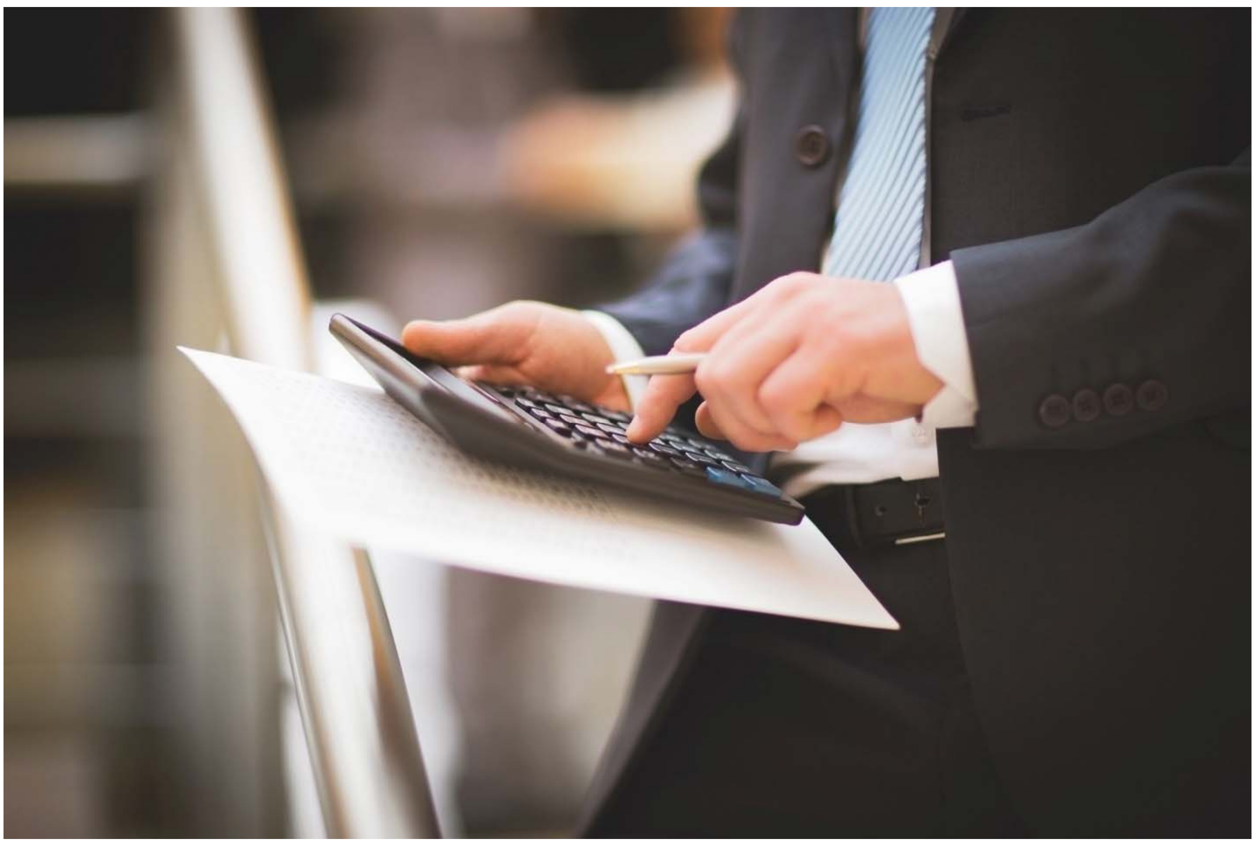
Opening the spigot

Banks and fintech companies gear up to handle an avalanche of loan applications under the $2 trillion stimulus law

By: Jessica Perry and Linda Lindner - April 6, 2020



DEPOSIT PHOTOS

The $350 million Payroll Protection Act is a major topic in the conversation regarding benefits for small businesses hurting while social distancing rules are in place. And with good reason.

The program, part of the $2.2 trillion federal stimulus package that made its way through Congress and into law on March 27, will allow small businesses, freelancers and gig economy employees to borrow up to two-and-a-half times their average monthly payroll, with loan forgiveness if they keep their workers on the books during the COVID-19 pandemic.

The loans max out at up to $10 million for applicants with less than 500 employees looking to make payroll and cover other expenses from Feb. 15 through June 30.

Borrowers can use the non-recourse funding to cover employee salaries for workers making up to $100,000; costs related to the continuation of health care benefits during periods of paid sick, medical or family leave; for interest payments on mortgages; for rent; for utilities; and for interest on any other debt incurred before the period of coverage began.

The application is up and currently available through the SBA's website. According to the form, it should take at least 2 hours to complete.

But, with the SBA still waiting for operating procedures and guidance from Washington – and banks still awaiting underwriting guidelines – it's not clear when those loans will be disbursed. However, given the 15-day implementation timeframe set by the bill, and its signing by President Donald Trump, the clock is ticking.

One institution closely following the stimulus package and its developments is the state's top SBA lender for the past six years, Cherry Hill-based TD Bank. According to the SBA, in 2019 the bank disbursed 604 loans, totaling $79.4 million, with an average loan size of $59,000.

Tom Pretty, the bank's head of SBA lending, said TD expects a "significant demand" for the Paycheck Protection Program and that the institution is working with industry groups and talking with the SBA to see how the law's other lending programs will roll out. Though he does anticipate a quicker turnaround for PPP lending than with typical SBA lending, at this point in the process Pretty said it's hard to say what it will look like.

Pretty

PPP aside, though, "in general," Pretty told NJBIZ, "there's a few big things in there [the stimulus package] for our customers."

Pretty cited a part of the law benefitting borrowers already working with the SBA – Section 1112. The SBA Debt Relief program covers the principal and interest for new loans issued under the agency's so-called 7(a) program before Sept. 27, 2020, and the principal and interest of current loans in the program for six months. According to the legislation, those payments should begin no later than 30 days after the first date such a payment is due.

That program has $17 billion allocated toward it, Pretty said.

He also pointed to SBA disaster loans, which New Jersey businesses became eligible for earlier in March. The program provides loans of up to $2 million – and eligibility to apply for an advance up to $10,000 – with interest capped at 3.75 percent for a 30-year term. According to the SBA's website, funds for disaster loans are made available "within three days of a successful application." On March 23, the agency announced automatic deferments for existing loans in the program.

The legislation also sets aside an additional $562 million to "remain available until expended" for the response to COVID-19.

What to do

John Boyd, principal of Princeton-based The Boyd Co., told NJBIZ that the loan application process will be streamlined but the overall tasks will resemble the steps in place before COVID-19 and the stimulus package.

"Applicants will need to provide a transcript of their most recent tax return and a tax information authorization form, a detailed accounting of all business and personal assets, sources of income and unpaid taxes and debts. Applicants will also have to include names and personal information for all proprietors, partners or stockholders who own at least 20 percent of the business," Boyd said.

John Boyd

He further explained that the system will be challenged by crushing demand because unlike most disaster recovery programs linked to hurricanes or floods that effect relatively limited geographic areas, the COVID-19 disaster is affecting all 50 states. Businesses around the country that are unable to pay their bills due to the pandemic will be applying for aid from the $350 billion loan program earmarked for businesses with less than 500 employees.

That being said, Boyd sees that as significant and with plenty of opportunities for one of New Jersey's growth industries – fintech – to step in and help with deluge of loan applications and at the same time, hire and generate new jobs in the state.

Fintech – financial technology – competes with traditional financial methods in the delivery of financial services. It is an emerging industry that applies new solutions to finance.

"Since the 2008-2009 financial crash, fintech has been filling the void left between what traditional financial services companies are offering and what clients are now expecting, especially in terms of customer experience," said James Green, deVere Group's divisional manager of Europe, said in a statement. "In broad terms, this means immediate, on-the-go, 24/7 access to, use and management of their money. It means personalized, on-demand services. It means lower costs. It can be expected that due to the coronavirus pandemic and the steps being taken to combat it, this move towards fintech will be significantly accelerated. Fintech is fast-becoming the new normal."

But from what Boyd has been hearing, traditional banks have pretty much accepted the fact that the bill will allow fintechs to join in the emergency SBA program. And he sees credit card processors like Discover and Visa International also being called in to help with the volume of applications.

“Our site selection firm here in Princeton is very active in banking sector with clients JP Morgan Chase, Discover Card, PNC, TD Bank and BNP Paribas. I see capacity and speed of the current system being a very serious issue,” Boyd said. “While no fintech lenders are currently authorized to participate in the SBA’s regular 7(a) program, I see [Treasury Secretary Steven] Mnuchin opening the door soon. Asking traditional brick-and-mortar banks and credit unions to underwrite this sort of unprecedented loan volume is a likely a bridge too far.”

And that leaves plenty of opportunity for those in the Garden State as well, “Online, high tech fintechs, like major players Broadridge in Newark, Billtrust in Lawrenceville and Unblu in Iselin are well-positioned to process loans within a tight time frame given their sophisticated online lending platforms and use of artificial intelligence,” Boyd said.

He suggested that fintech – COVID-19 crisis or not – should play a significant role in real estate and economic development in New Jersey, especially for cities like Newark. The industry should be a job generator once the sky clears and the economy begins working again.

The language of the stimulus legislation calls for the SBA to “encourage” lenders to provide deferments for payment and to extend the maturity of covered loans. Many New Jersey-based lenders have been proactive since the COVID-19 pandemic took hold in the state in advising their existing customers to reach out for assistance.

In a statement, TD said this service is available through its TD Cares program upon request.

The SBA said it will update its web site as new program details are announced, and recommended following @SBA on Twitter for the most up-to-date information as it’s released.