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Cover Story

Cover Story: PPP scramble puts relationship banking in spotlight

Jun 12, 2020, 6:09am EDT

If the Covid-19 pandemic has taught restaurant owner McGarney Bowman Jr. anything it's this: Know the people you do business with.

Bowman, who owns People's Choice Restaurant in Lauderhill, didn't know how he was going to pay the bills when the Jamaican-American eatery was ordered to cease indoor dining in March due to local health guidelines. He set up a takeout service that brought in some revenue, but knew he'd need a Paycheck Protection Program loan to pay the 31-year old restaurant's six employees.

But when he submitted an application to the restaurant's longtime bank – one of the nation's largest – Bowman said he received no response. After nearly a month, Bowman said, he was determined to find another solution.

With the help of the city of Lauderhill, he connected with Florida-based CenterState Bank, which processed his loan in 48 hours.

"It made me realize local banks are more catered for local people; they'll hear you out," Bowman said. "We banked with [the other bank] for 30 years, but they couldn't help us when we needed it."

His experience was mirrored by business owners across the region.

Many small and medium-size businesses here and across the U.S. reported loan applications were not processed by the nation's biggest banks during the first round of the PPP process. In contrast, locally owned banks were lauded for saving the day with responsive service and quick loan turnarounds.

Several South Florida banks report that a sizable portion of their PPP loans went to new clients – an opportunity to lure new customers from larger rivals.

But PPP funds only go so far, and social distancing and skittish customers could result in reduced revenue for local businesses for months ahead. Meanwhile, banks of all sizes are already holding back on funding new loans as a result of the pandemic-induced economic uncertainty, according to the Federal Reserve.

Which raises the question: Will local banks still be the best bet for small-business owners seeking a loan?

Going local

Small banks have always stressed that their strength lies in relationships, the importance of which was front and center as businesses flooded financial institutions with PPP applications.



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Community banks cover illustration

That was key to securing a loan for Bowman's business, Lauderhill Commissioner Denise Grant said. People's Choice Restaurant was one of nearly 200 businesses the commissioner connected with Florida-based banks to help facilitate PPP loans.

It started after several business owners reached out to say they couldn't get a response from their banks, Grant said. The businesses, mostly black-owned enterprises with fewer than 10 employees, primarily banked with large financial institutions and submitted their PPP applications through online portals.

Some of the applicants had their loans rejected due to missing documentation or paperwork errors, but couldn't get a banker on the phone to walk them through the process, Grant said.

"The smaller banks called them up to tell them what they needed," she said. "That direct [human] contact was exactly what these businesses needed."

The Florida Bankers Association connected Lauderhill with Florida-based banks to process the loans, she added.

Erick Strati, a Wells Fargo commercial banking executive in South Florida, said some large banks struggled with processing delays during the first round of PPP applications due to technology glitches. Most large banks used online portals for application submissions, while many smaller ones did not. At Wells Fargo, the portal was flooded with thousands of applications an hour, creating a backlog.

"It all came down to timing and volume," Strati said. "But if you look at the overall data, you'll see most of the funds went to small businesses."

Wells Fargo reported that 80% of its PPP applicants are businesses with less than \$2 million in revenue. The average loan was \$110,000.

In Florida, the average loan during the program's first \$349 billion round was \$200,716, according to the U.S. Small Business Administration. That's fallen to \$48,521 during the program's second \$320 billion round, indicating smaller businesses are obtaining more loans.

SOUTH FLORIDA BANK MARKET SHARE BY DEPOSITS

Florida-based banks held a smaller share of local bank deposits in 2019 than they did a decade earlier

2009

5.8%

CITIBANK

5%

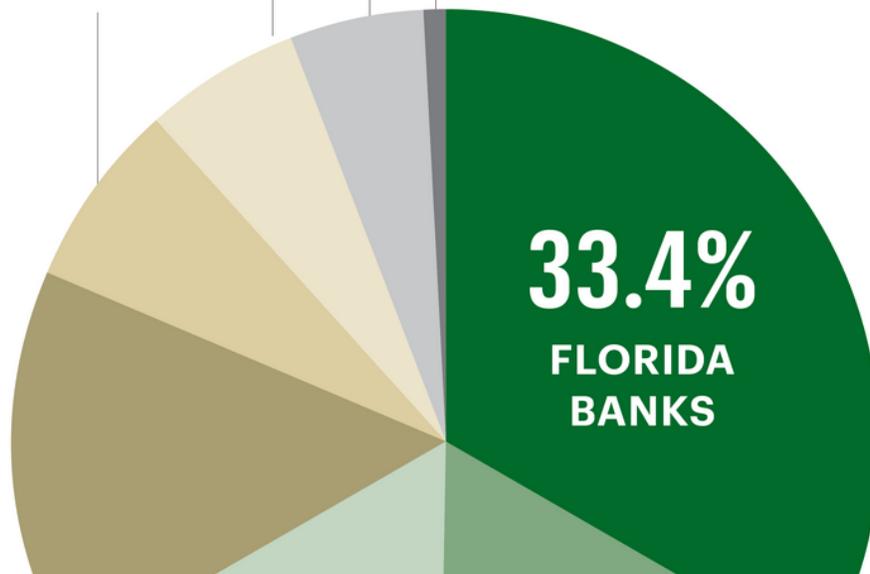
JPMORGAN CHASE

6.9%

SUNTRUST
BANK

0.8%

TD BANK



Opportunity knocks

It's clear that community and regional banks gained goodwill with new customers seeking PPP loans, but it's uncertain whether those clients will stick with those banks moving forward.

Amy Engelberg Mahaney, chief lending officer at American National Bank, is betting the strong customer service that new clients received during the PPP process will encourage them to transfer their business banking accounts to the Oakland Park-based bank.

The bank helped at least 270 new clients obtain loans after they were unable to make headway at their primary financial institutions, she said.

American National required every applicant to physically visit a branch to sign their paperwork, she said. At that time, many of those clients met with bank executives, even its CEO, a way of demonstrating that every client has the ear of the bank's top brass.

"That's the goal: to show them such a great experience that they're willing to give us the opportunity to be their [permanent] bank," Mahaney said.

Luis de la Aguilera, CEO of U.S. Century Bank in Doral, said the bank has assisted about 800 new clients with PPP loans since April.

Many found the bank through referrals, he said, and some of those clients have transferred over their accounts. For some, it was their first experience with a community bank.

"Trust me: When a business suddenly feels weight off their shoulders and can fund their payroll, they're going to tell other people," he said.

Paul Merski, executive VP for congressional relations and chief economist for the Independent Community Bankers of America, a trade group for small U.S. banks, said the economic crisis set off by the pandemic has raised awareness of the essential role community banks play in supporting local businesses. That awareness will hopefully cement new relationships between businesses and community banks, he said.

"It's like a symbiotic relationship, where small banks and small businesses depend on each other to survive," he said. "Community banks recognize the needs in their market, and they understand that the viability of local businesses affects the viability of the banks, and vice versa."

Looking ahead

Local bankers acknowledge that many businesses will need more than a PPP loan to survive the months ahead.

But finding additional loans or lines of credit could be a challenge. Banks are tightening their lending standards in response to the economic decline sparked by Covid-19, according to an April survey of senior loan officers by the Federal Reserve.

Financial institutions are especially wary of making new commercial real estate loans since it's unclear when the retail and office sectors will bounce back to pre-pandemic levels, the survey indicated.

Yet, some banks are still lending.

American National Bank and U.S. Century Bank will both consider making new loans to businesses if those businesses can demonstrate they had a solid financial history before the pandemic and collateral to back a loan, bank officials said.

American National's Mahaney doesn't expect to open new lines of credit for new customers, unless they already had a line of credit at their previous bank. When it comes to loans, she said the bank will most likely consider applications from professional services businesses like medical, law and accounting offices, "which tend to do well even in a bad economy," she said. Owner-occupied real estate and industrial real estate also makes sense, she added.

But loans for hospitality businesses, like restaurants and hotels – among the hardest hit by coronavirus closures – will be few and far between, Mahaney said.

Connections are key

Alex Sanchez, president and CEO of the Florida Bankers Association, said business owners should stay in touch with their bankers to build relationships they can rely on during a crisis. He recommended scheduling periodic meetings to check in, sharing any major company updates or asking a banker to review a business plan.

"Relationship banking matters, big bank or small," he said.

People's Choice Restaurant owner Bowman has taken that to heart.

He said he plans to transfer his bank accounts to CenterState Bank after it helped him obtain his PPP loan. His banker there always takes his calls, and, for Bowman, that's just as important as having his loan approved.

"I'm a relationship guy," he said. "I want to know the guy delivering my meat, the guy delivering my produce, and I want to know my banker."

BY THE NUMBERS

Paycheck Protection Program loan sizes have decreased during round two of the emergency assistance effort, indicating smaller businesses are being approved for funds. But bankers say they are receiving fewer applications in round two, even though more than \$100 billion has yet to be allocated. The deadline to apply is June 30.

\$17.9 billion

Value of Florida PPP loans approved in round one, from April 3 to April 16

88,997

Loans approved

\$200,716

Average loan size

\$12.7 billion

Value of Florida PPP loans approved in round two, from April 27 to June 6

261,737

Loans approved

\$48,521

Average loan size

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