Change in Small Business Loans Outstanding During the COVID-19 Pandemic, December 31, 2019 to June 30, 2020

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Abstract

The financial stimulus provided by the CARES Act through the Paycheck Protection Program (PPP) had profound impacts on the market for business lending by depository institutions and others. While the value of outstanding loans greater than $1 million (large business loans) increased by 10%, the value of outstanding loans for loans less than $1 million (small business loans) increased by 39% in just 6 months from the end of 2019 to the end of June 2020. The largest share of the PPP funds was distributed through larger lenders. Yet, the important question of which depository lenders rose to the occasion based on the higher share of small business PPP funds lent relative to their pre-pandemic share is examined. Lenders that outperformed were those lenders who generate substantially higher allocation of PPP loans than would be expected by previous lending activity. Using this benchmark, the largest depository lenders (greater than $50 billion in total assets) underperformed, distributing 31% less funding than expected. Meanwhile, lenders with less than $50 billion in total assets overperformed by distributing more funding than expected. Depository lenders with between $1 billion and $10 billion in total assets significantly overperformed by distributing 62% more funding than expected and increasing their market share for small business loans by 16%. For most small business borrowers, these loans have been crucial for survival, and will likely be converted into grants and removed from the balance sheets of depository lenders.

Introduction

Financial stimulus was available through loans and loan guarantees to small business borrowers through several financial institutions, including depository lenders, credit unions, fintech lenders, and others, during the COVID-19 pandemic. The value of total business loans outstanding by depository lenders increased by 14.8% ($507.5 billion) from December 31, 2019 to June 30, 2020 (FDIC). The increase in outstanding loans was created by the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan program (EIDL), administered by the Small Business Administration, and other business loans made by these lenders. This study focuses on PPP loans and examines which lenders assisted in the distribution of financing to small businesses during the pandemic.

Through the end of June, nearly 4.8 million PPP loans had been approved for over $519 billion. PPP loans of $1 million or less comprised 98% of the number of loans and 65% of the value of the loans, while PPP loans of over $1 million comprised less than 2% of the number of loans and 35% of the value of the loans (Table 1). Eighty percent of the number of PPP loans were for $100,000 or less and these loans accounted for 20% of the value. Twenty-two percent of the value of PPP loans was for loans of $350,000 to $1 million. However, these loans accounted for only 4% of the total number of loans. The average value of all PPP loans was $108,000 (SBA, PPP Report on June 27, 2020).

Table 1: Distribution of PPP Loans by Loan Size

Loan Size	Value ($ billion)	%	Number (thousands)	%
Less than $100,000	105	20	3,853	80
$100,000 to $350,000	120	23	664	14
$350,000 to $1 million	113	22	199	4
$1 million or more	181	35	83	2
Total	519	100	4,798	100

Source: SBA PPP Report on June 27, 2020

Depository Lenders

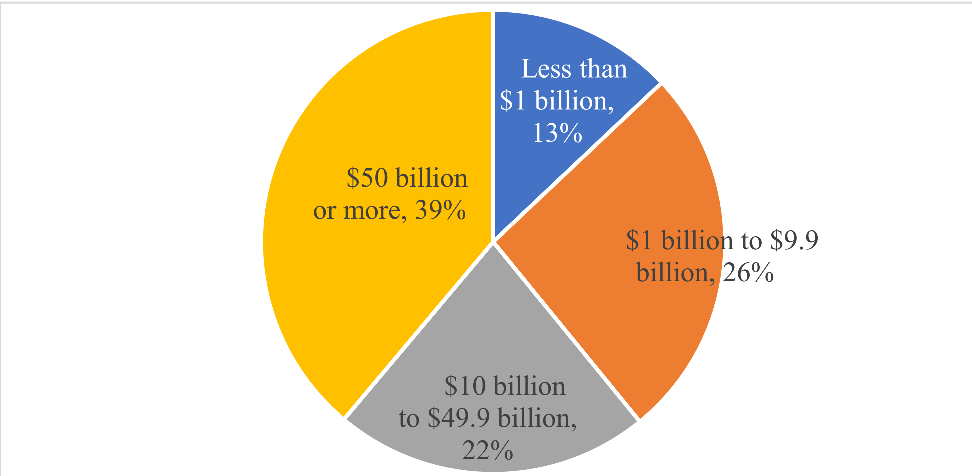
Depository lenders distributed 93% ($482 billion of $518 billion) of the PPP funds, credit unions distributed 1.6% ($8.3 billion of $518 billion), and other lenders distributed the remaining 5.4% ($28 billion of 518 billion) (NCUA and SBA).[1] The other lenders included Community Development Financial Institutions (CDFIs); financial technology (fintech) lenders; Farm Credit System lenders; non-profit institution loan funds; and community development venture capital funds, community development intermediaries, and others. CDFIs and minority depository institutions (MDIs) distributed 3.1 percent of all PPP loans (SBA, Office of Capital Access). The $482 billion of PPP loans was 95% ($482 billion/$507.5 billion) of the increase in loans outstanding by depository lenders during the first two quarters of 2020. Given the significance of the PPP and lending by depository institutions as well as data limitations for other types of lenders, this study focuses on PPP funding distributed by traditional banks, or depository institutions.

By the end of June, nearly 40% of PPP loans were distributed by depository lenders with assets of $50 billion or more (Chart 1). The remaining PPP loans were distributed by lenders with $10

[1] PPP ended on August 8th, 2020. However, PPP funds as of the end of June is analyzed to align with the latest FDIC Call Report data.

billion to $50 billion in assets (22%) and lenders with less than $10 billion in assets (39%). Most banks with less than $10 billion in assets are often categorized as community banks, which are smaller lenders operating in a limited geographic area.

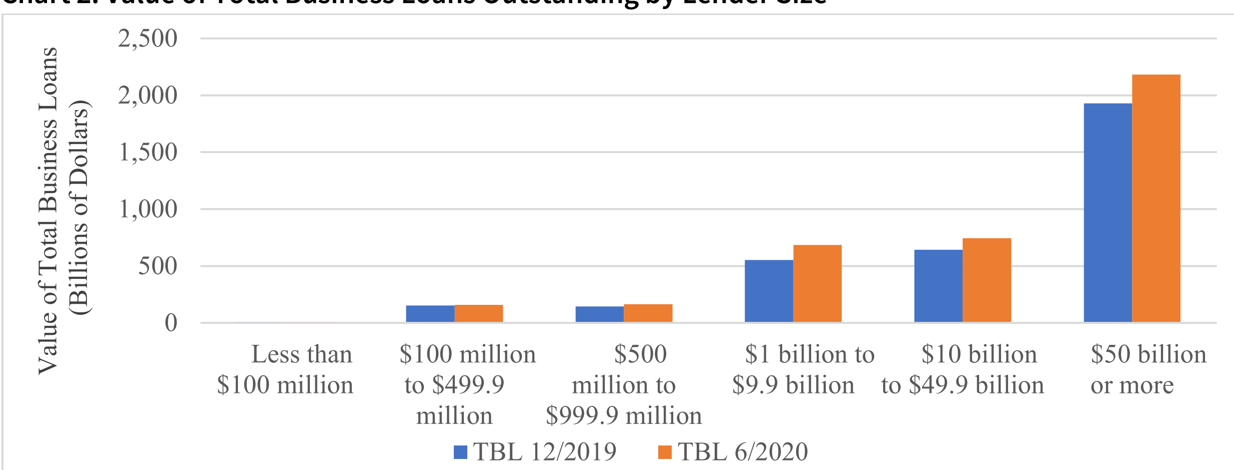
Chart 1: Share of PPP Loans by Lender Depository Size



Source: FDIC Call Report for June 30, 2020

All size classifications of lenders with assets exceeding $100 million had substantial increases in the value of total business loans outstanding during the pandemic (Chart 2). The largest percentage change in loans outstanding occurred in banks with assets between $1 billion and $10 billion, which increased by over 24% (or $132 billion). The largest absolute change in loans outstanding occurred in the banks with $50 billion or more in assets, which increased by $253 billion, or 13%.

Chart 2: Value of Total Business Loans Outstanding by Lender Size



Source: FDIC Call Reports for December 31, 2019 and June 30, 2020

Which Lenders Stepped Up in PPP Lending?

While the largest share of the PPP funds was distributed through larger lenders, the question of which lenders overperformed required additional analysis. Lenders that overperformed are those lenders who generate substantially higher allocation of PPP loans than would be expected by previous lending activity (Table 2). In this instance, the expected share is based on the allocation of total business loans prior to the pandemic on December 31, 2019. For instance, lenders with assets of $1 to $10 billion held 16.1% of total business loans and would be expected to allocate 16.1% of PPP loans. However, these lenders allocated $126 billion of PPP loans, or 26.2%, which was 62.4% more than expected. On average, lenders with less than $50 billion of assets allocated substantially more PPP loans than expected, while lenders with $50 billion or more of assets allocated 30.8% less PPP loans than expected.

Table 2: PPP Share of Total Business Loans and PPP Loans Outstanding, June 2020

	Total Business Loans		PPP Loans		Difference
Lender Size	Amount ($ billion)	%	Amount ($ billion)	%	%
< $100 million	10	0.29	2	0.32	10.1
$100 .to $499.9 m.	154	4.49	30	6.17	37.4
$500 m.to $999.9 m.	145	4.23	31	6.48	53.1
$1 b. to $9.9 b.	553	16.10	126	26.15	62.4
$10 b. to $49.9 b.	643	18.72	106	22.02	17.6
$50 b. or more	1,929	56.17	187	38.87	-30.8
Total Business Loans	3,434.4	100.00	482		

Source: FDIC, June 2020 Call Report

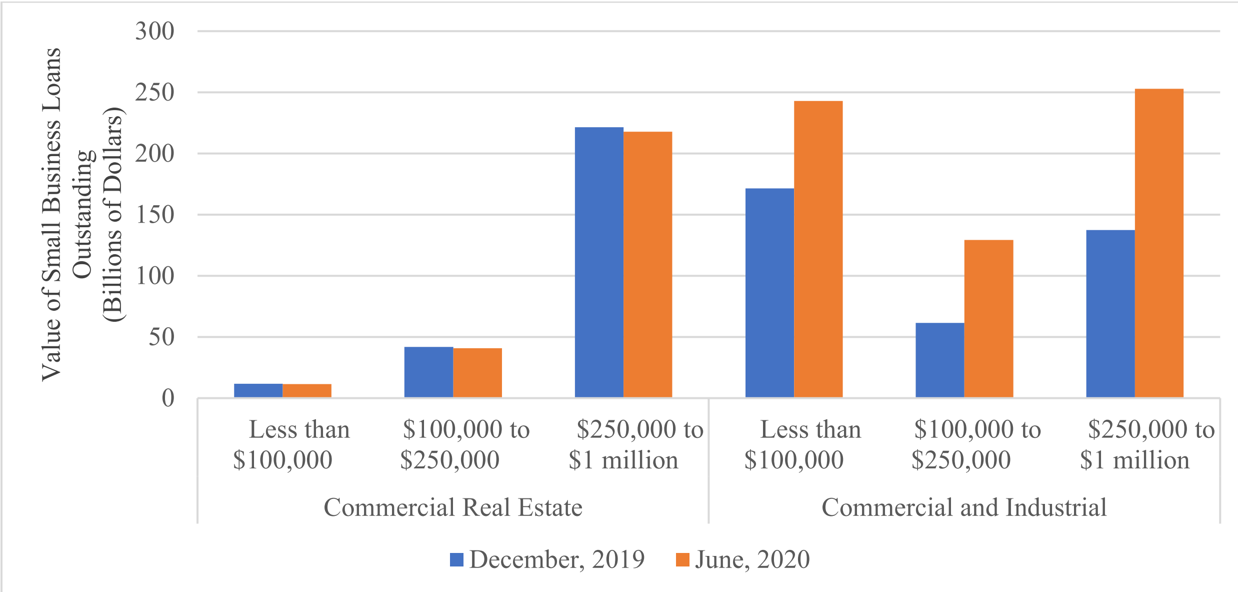
Value of Small Business Loans Outstanding by Loan Size

Total business loans outstanding increased by 14.8% from December 31, 2019 to June 30, 2020. The value of loans over $1 million (hereafter called large business loans) increased by 9.2%, while loans of less than $1 million (hereafter called small business loans) increased by nearly 39%. In the previous five years, the value of small business loans had increased less than 2% annually. This section of the study assesses only small business loans.[2]

While the value of commercial real estate loans outstanding remained unchanged, the value of commercial and industrial (C&I) loans increased by 69%, or $255.2 million (Chart 3). Over 45% of the increase in C&I loans was for loans between $250,000 and $1 million. However, the largest percentage increase in C&I loans was for loans between $100,000 and $250,000, which increased by 111%.

[2] Small business loans are often defined by FDIC, financial regulators, and researchers as commercial loans of less than $1 million. However, PPP loans can exceed $1 million at 2.5 times average monthly payroll costs, up to a maximum of $10 million.

Chart 3: Value of Small Business Loans Outstanding ($billion) by Loan Size[1]



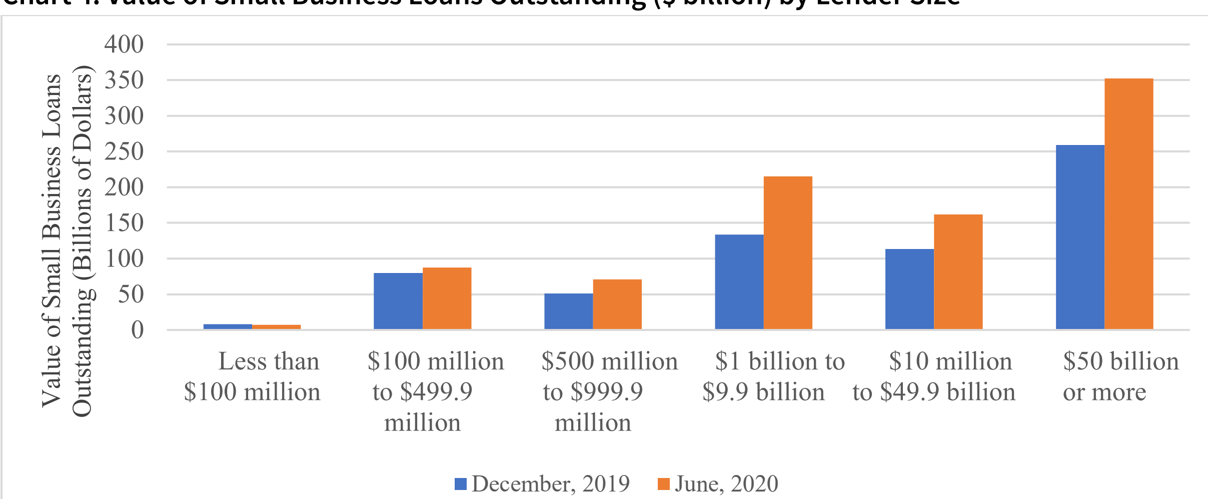
[1]Small business loans have outstanding balances of less than $1 million. Large business loans are excluded from this analysis.

Source: FDIC Call Reports for December 31, 2019 and June 30, 2020

Value of Small Business Loans Outstanding by Lender Size

All size classifications of lenders with assets exceeding $100 million had substantial increases in the value of small business loans outstanding during the pandemic (Chart 4). The largest percentage change in loans outstanding occurred in banks with assets between $1 billion and $10 billion, which increased by over 61% (or $81.6 billion). The largest absolute change in loans outstanding occurred in the banks with $50 billion or more in assets, which increased by $93.3 billion, or 36%.

Chart 4: Value of Small Business Loans Outstanding ($ billion) by Lender Size

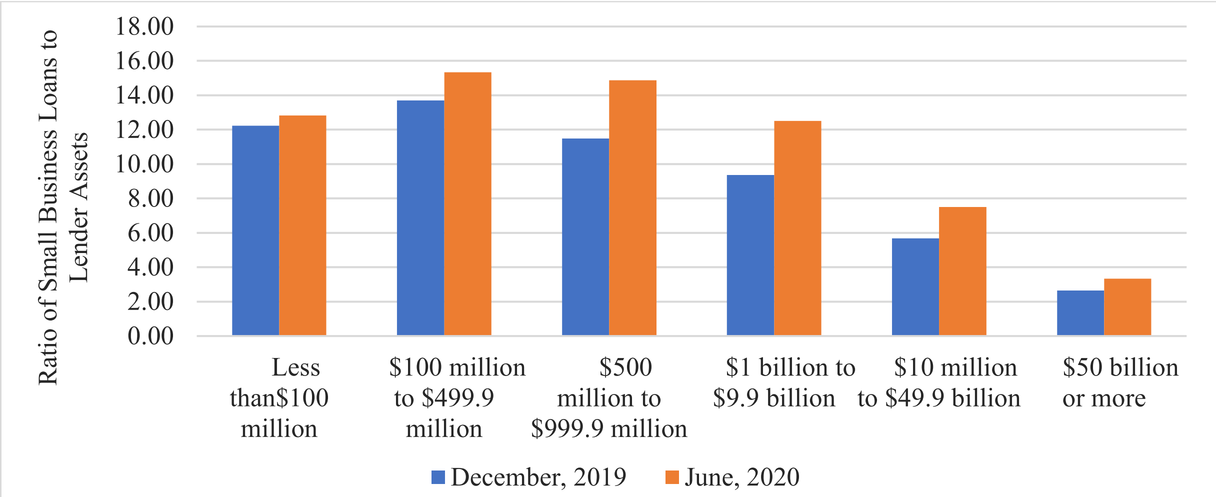


Source: FDIC Call Reports for December 31, 2019 and June 30, 2020

Ratio of Small Business Loans to Value of Assets

All size classifications of banks with assets over $500 million increased the share of assets allocated to small business loans by over 25% (Chart 5). Lenders with assets between $1 billion and $50 billion increased their share of assets allocated to small loans by over 30%.

Chart 5: Ratio of Small Business Loans Outstanding to Value of Assets by Lender Size

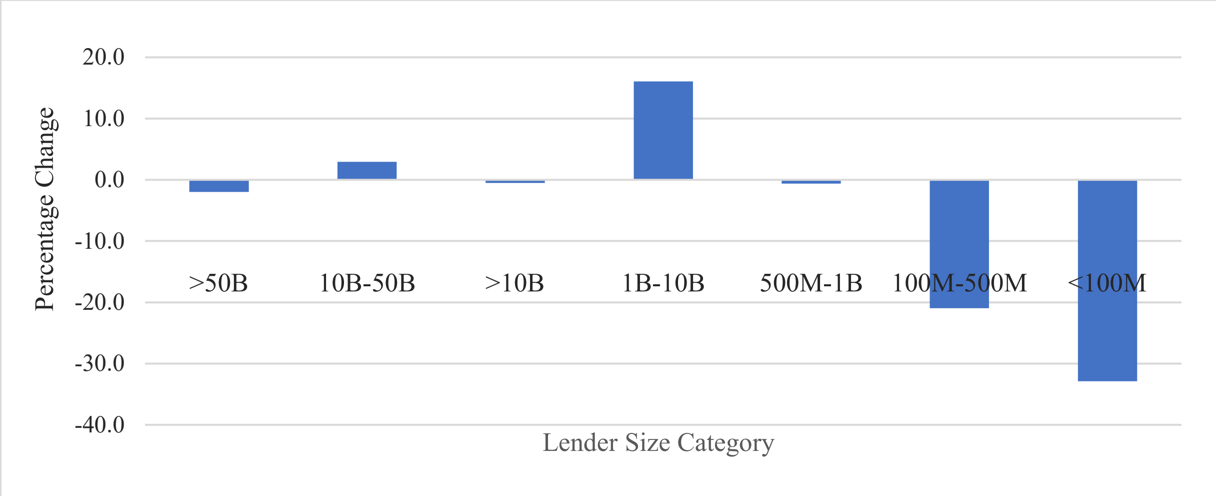


Source: FDIC Call Reports for December 31, 2019 and June 30, 2020

Market Shares of Small Business Loans

Chart 6 examines the change in market shares of total small business loans during the pandemic. Depository lenders with $1 billion to $10 billion in assets increased their market share by 16 percent from 20.7% in December 2019 to 24.1% in June 2020. Depository lenders with $10 billion to $50 billion in assets increased their market share by nearly 3%. All other lenders size categories realized decreases in their share of the market for small business loans.

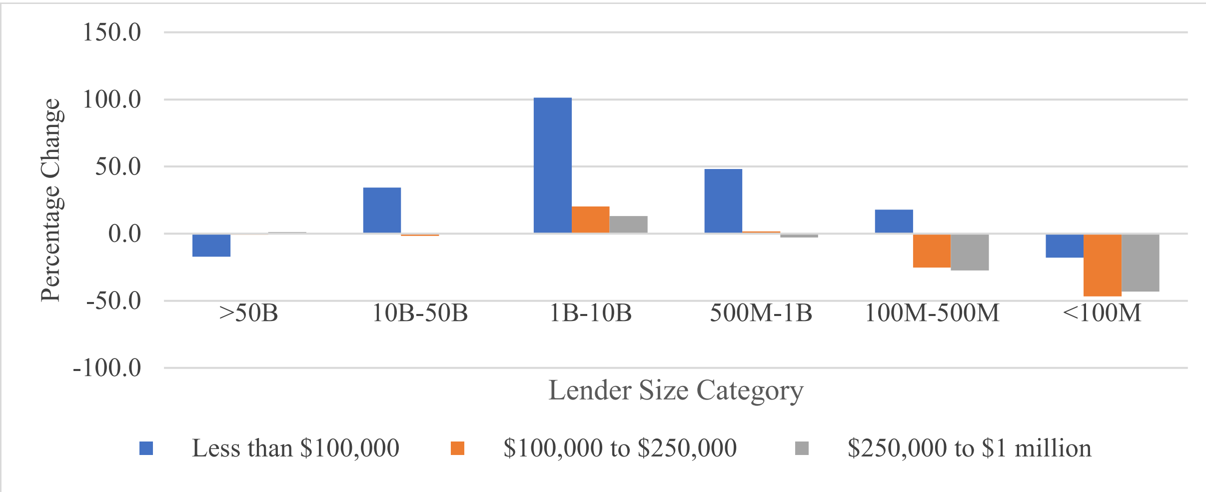
Chart 6: Percentage Change in Small Business Loan Share, December 31, 2019 to June 30, 2020



Source: FDIC Call Reports for December 31, 2019 and June 30, 2020

The most profound changes in market share occurred in C&I loans (Chart 7). Lenders with assets between $1 billion and $10 billion doubled their market share of C&I loans less than $100,000, while lenders with assets between $500 million and $1 billion increased their market share of C&I loans of less than $100,000 by nearly 50%. Smaller lenders, those with $500 million or fewer assets, realized market share declines of over 25% for C&I loans larger than $100,000.

Chart 7: Percentage Change in Small Business Loan Share for C&I Loans, December 31, 2019 to June 30, 2020



Source: FDIC Call Reports for December 31, 2019 and June 30, 2020

Conclusions

The Paycheck Protection Program and Economic Injury Disaster Loan program brought substantial financial resources to the market, enabling depository lenders and others to loan funds to small business owners. In the span of less than 6 months, the value of small business loans outstanding increased by 39%, with C&I loans increasing by 69%. CRE loans outstanding slightly contracted by roughly 2%, which was not a focus of PPP. Nearly all the increase in the value of small business loans outstanding was the result of the PPP and EIDL funds. This short-term funding was important to small businesses that received assistance for their survival. However, this increase in the value of small business loans will likely be short-lived because these loans will be forgiven and will not remain on the balance sheets of depository lenders. For most small business borrowers, these loans have been or will be converted into grants. Undoubtedly, these financial resources have been important for the survival and success of small businesses.

Even though, smaller lenders allocated more than their share of PPP loans (or increased the total value of business loans outstanding), all participating lenders played an important role in distributing PPP funds, and changed the balance of small business lending. Most importantly, lenders with $1 billion to $10 billion in assets effectively captured more market share from other lenders, especially in C&I lending, and distributed more PPP than expected.

References

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