SBA PPP Tracker: Community Banks Shine (v1)

Summary
In our first edition of our SBA Paycheck Protection Program (PPP) Tracker, we provide company level detail on PPP participation based on disclosures provided thus far (excel file here). With 4,975 lenders approving loans in the program, we expect most banks are involved with making PPP loans, and we plan to update our tracker throughout earnings as companies (both banks and nonbanks) provide more color on their involvement. Additionally, we provide an update on PPP lending based on statistics released by the SBA as of midday Thursday, 4/16 (here).

- **PPP Tracker by Company** - We are launching our PPP tracker excel file (here) that details SBA PPP volumes and participation. In our first iteration, we are including lenders who have released information on their involvement in PPP. That said, with 4,975 lenders approving loans in the program through midday on 4/16, we believe most banks are involved, as are nonbank lenders that were already active SBA, as well as several recent fintech additions to PPP. We intend to continue updating this product through earnings season as companies disclose more information about their involvement.

- **High Level Lender Breakdown** - According to a tweet on Friday by SBA Administrator Carranza, about 60% of loans were processed by banks <$10B in assets. The smallest banks were also very active, with banks under $1B in assets representing almost 20% of loans processed. To put these numbers in perspective, banks <$10B in assets and <$1B in assets represented about 16% and 6% of banking industry assets, respectively, as of 2019. To us, this data suggests that community banks are outperforming when it comes to PPP lending. Data provided by the SBA shows that no lender represents >5% of approval amount (p6, here). JPM confirmed that it was the largest lender at $14.1B (4% of approval amount) per a Bloomberg article.

- **Loan Size Characteristics** - Some of the high-balance PPP loans have captivated the attention of the media (e.g., Ruth's Chris [RUTH] and J. Alexander [JAX] both got 2 loans each totaling $20mm and $15.1mm, respectively, while Potbelly [PBPB], ShakeShack [SHAK], Taco Cabana [FRGI], Quantum Corp. [QMCO], and Hallador Energy [HNRG] all got the max $10mm according to SEC filings). That said, most PPP loans are much smaller. As of midday Thursday (4/16), PPP loan approvals totaled $342B over 1.66mm loans, implying an average loan size of $206K. Nearly 90% of loan approvals were under $350K (32% of $ amounts approved) while less than 2% of loans were >$2mm (28% of $ amounts approved).

- **Top Industries** - The largest industries by approvals (all >10% of approval amounts) include: construction (13.1%); professional, scientific, and technical services (12.7%); manufacturing (12.0%); and health care and social assistance (11.7%). There has been a lot of consternation as to why construction ranks at the top, rather than accommodation/food services or retail trade (#5 and #6 at 8.9% and 8.6%, respectively), which are some of the heaviest hit in the COVID-19 panic. However, the top industries do not necessarily surprise us, and believe any of the following could explain this distribution: (i) PPP loan allocations are not necessarily based on need; (ii) it's possible that construction borrowers had deeper banking relationships, and these requests may have been prioritized over other borrowers; and (iii) the PPP structure - whereby 75% of the loan forgiveness amount must be allocated towards payroll - is not particularly helpful to restaurants, where revenue has dropped precipitously and payroll is a smaller percentage of overhead costs.

- **Loan Fees** - As a reminder, the SBA pays loan fees to lenders in the program (5% for loans <$350K, 3% for loans $350K-$2mm, 1% for loans $2mm+). We have received a lot of questions on how these fees flow through the income statement. Based on early disclosures, it is our understanding that these fees will come through interest income over the life of the loan for banks, with the assumption that the majority of these loans will be forgiven and thus most fees will be realized in the first quarter or two. However, we continue to monitor commentary about the accounting treatment of these fees.

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