



Banking Conditions Survey

Special Questions

May 2020

For this survey, respondents were asked supplemental questions on the impacts of the coronavirus (COVID-19). Data were collected April 28–May 6, and 67 financial institutions responded to the survey.

Results Tables

Over the past six weeks, have you observed an increase in draws on existing commercial credit lines that you would attribute to the coronavirus (COVID-19)?

	April '20 (percent)	May '20 (percent)
Yes	24.6	37.1
No	75.4	62.9

NOTE: 62 responses.

Over the past six weeks, have you made any of the following SBA loans to businesses adversely impacted by the coronavirus (COVID-19)? Please select all that apply.

	May '20 (percent)
Paycheck Protection Program (PPP) loans	80.6
We are not making SBA loans	19.4
Traditional SBA loans	4.5
SBA Express bridge loans	1.5

NOTE: 67 responses.

Have you used (or do you plan to use) the Fed's PPP Liquidity Facility?

	May '20 (percent)
Yes	20.4
No	42.6
Don't know/haven't decided yet	37.0

NOTES: 54 responses. This question was only posed to those indicating they made PPP loans.

Have you had any challenges in processing and/or distributing PPP loans (other than those related to the PPP funding shortfall)?

	May '20 (percent)
Yes	81.5
No	18.5

NOTES: 54 responses. This question was only posed to those indicating they made PPP loans.

What challenges have you had in processing and/or distributing PPP loans? Please select all that apply.

	May '20 (percent)
Technology—configuring website to accept applications, SBA E-Tran application portal issues, etc.	86.4
Working with SBA—unclear instructions, delayed approval process, etc.	84.1
Customer communication—answering customer questions, receiving necessary documentation, etc.	54.5
Capacity—receiving more applications than can be processed by existing staff, staff working extended hours, etc.	47.7
Regulation—concerns or confusion regarding balance sheets, risk-based capital, the Fed's Liquidity Facility, BSA compliance, etc.	38.6
Other	18.2

NOTES: 44 responses. This question was only posed to those indicating they had challenges in processing and/or distributing PPP loans. The most common 'other' challenge specified was not knowing how/when lenders will receive PPP loan processing fees.

Approximately what share of your customers are currently receiving loan payment deferrals due to the coronavirus (COVID-19)?

**May '20
(percent)**

13.3

NOTES: 65 responses. Shown is the trimmed mean with the lowest and highest five percent of responses omitted.

Approximately what share of your customers have shut down their businesses due to the coronavirus (COVID-19), either temporarily or permanently?

**May '20
(percent)**

Temporarily shut down

19.3

Permanently shut down

1.3

NOTES: 52 responses. Shown are the trimmed means with the lowest and highest five percent of responses omitted.

Respondents were asked to comment on the main challenges they foresee in meeting customers' financing needs during the coronavirus outbreak.

These comments are from respondents' completed surveys and have been edited for publication.

Uncertainty

- Unknown future economic activity levels.
- Uncertainty.
- I don't think anyone knows yet. Much depends on how consumers resume their typical spending habits. I believe the results of the shutdown will eventually affect every business, but it might be next year before they feel it. Builders, contractors, subcontractors, distribution companies, equipment dealers, realtors, title companies, landlords, physicians, food service, hospitality and on and on will be forced to adjust their overhead to deal with declining revenues. The hope is that this will not become "deflationary," which will cause more economic shrinkage due to consumer fear. And then there is the question of how does our government deal with the added burden of debt created by the stimulus? What will this do to future income tax rates? In short, it is too soon to define what the need and volume of support will be for our customers.
- The 40 percent deferral ratio is for commercial customers only. We are receiving very few new loan requests, so we are in a wait-and-see mode presently. The main challenge is uncertainty.
- What the business demand will be, when the "new norm" returns. What is it going to look like, and how do you plan for something that you've not experienced before? We can only compare it to the oil industry in the early 80's as a tool to utilize during this business cycle.
- Predicting the future and applying triage to loan customers.

Business Disruption

- The economic environment and the unknown time frame that businesses will resume normal activities.
- Our customers' main challenge has been the shutdown. They need to open up and get back to work.
- If the pandemic extends the work stoppage past the eight weeks allowed for under the PPP [Paycheck Protection Program] loans, there will be serious small business failures. Due to the uncertain nature of COVID-19, it is hard to predict the outcome. We will continue to support our customers, but there will more than likely be winners and losers. The bank will experience loan losses and losses in fee income. We already have.
- The ability for those that are temporarily shut down to get their business back up to their normal levels. This might impact borrowing ability in the future.
- The main challenge will be to accurately predict the general public's willingness to venture back out into the business world rather than remain sheltered in place. Without people willing to return to the more traditional ways of doing business, the services banks offer and the method by which those services are delivered could need to be dramatically redesigned.

Liquidity/Cash Flow

- Determining if the current liquidity crisis will ultimately be a business-ending solvency event.
- Lack of liquidity. Few small business people build a war chest to help survive tough times.
- Lack of cash flow due to reduced business activity. Unfortunately, this will have a more serious impact on smaller businesses with lower levels of retained earnings.
- The need to generate cash flow, which is severely impacted by COVID-19 closures. Lack of consumer confidence.

Loan Repayment

- Working with delayed payment terms. Regulators should continue to grant some leniency with respect to troubled debt restructuring and classification rules for customers seeking payment deferral.
- Ability to project future ability to repay.
- My biggest challenge will be to determine customers' ability to repay current or future loans. Specifically, what is their income and how stable will it be?
- Determining customers' ability to pay after the economy normalizes.

Underwriting Loans/Lines of Credit

- Underwriting new loan requests. Historical cash flow and property valuations may not be reliable.
- Underwriting issues.
- Underwriting additional loans on limited and partial operations.
- We are being asked to increase lines of credit for borrowers. These borrowers provide sound 2019 financials; however, first quarter 2020 indicates a significant decrease in revenue. This poses a challenge when making a sound loan decision. We are considering what is in the best interest for the entire relationship and adding more weight in our decision process to the borrower's character and term of relationship. We are also reviewing what adjustments the borrower has made in relation to reducing overhead and possible modifications to their business model.

Paycheck Protection Program

- The bank is operating at half-staff in shifts, and this coupled with demand for the PPP program, stimulus check relief and continued operations to meet deadlines and customers' needs puts stress on employees and customers alike. Bank employees are attempting to work in a new normal, but the quick adjustment to staff levels and technology changes to serve customer needs means meeting their demands in a timely manner similar to pre-COVID-19 is difficult.
- We have been receiving more applications than we can process. Due to the time urgency in the PPP loans, we have been unable to process new real estate loan requests.
- Our bank could not obtain access to submit PPP loan applications for the first round. After a week of "run around," the bank's president spoke to the SBA [Small Business Administration] personnel. After being transferred for the fourth time, the president informed SBA personnel that he was calling his U.S. House representative. After hearing this, the SBA was able to fix their problem, and the bank got access.
- Channeling funds through the SBA seems to be a complicated process, and because we were not previous SBA lenders, we opted to not offer these funds, although we had customers calling and inquiring. It appears the funding process is limited, thereby not allowing all impacted businesses to apply for funds.

Other

- Balancing trying to help customers survive and the impact on the bank's capital and earnings.
- Will members want to spend and/or borrow?
- Getting customers to come out of the quarantine.
- That customers are able to return to work or a new job that will offer similar or better benefits/pay.
- Safeguarding the health of our employees while still meeting the needs of customers. Determining when is the appropriate time to bring employees back into contact with other employees or customers.

Questions regarding the Banking Conditions Survey can be addressed to Emily Kerr at emily.kerr@dal.frb.org.