

Crain's Detroit Business

January 26, 2021 05:29 PM UPDATED 18 HOURS AGO

Demand for PPP loans is lower than for the first round. That's good news and bad news.

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- Legislative mandates means many businesses not qualifying for second round
- Banks and businesses more understanding of program than last year
- Headaches mount as round two clashes with forgiveness period for round one



Zou Zou's in Chelsea, MI: Restaurants, hampered by months of shutdowns, are on the hunt for federal relief.

Most Southeast Michigan commercial banks are now a week or more into the rebooted Paycheck Protection Program. While demand for the potentially forgivable loans remains strong, lenders say demand is nothing like it was last spring.

Shutdowns now are much narrower, largely limited to restaurants unable to provide indoor seating — which [returns in a limited capacity](#) on Feb. 1 — and certain types of entertainment venues.

The latest round of PPP, which had an allocation of \$284 billion and [opened widely](#) last week, has a number of limitations that lenders say is resulting in a somewhat diminished program compared to last spring, that should be seen as both positive and negative, according to bankers.



Greg Wernette, the executive vice president and chief lending officer at Farmington Hills-based Level One Bank, said that limits on the size of companies eligible for loans all but ensures that businesses, especially chain restaurants, will not eat up a significant chunk of the funds, as occurred early on last year.

"I think (PPP) will maybe come out at 70 percent of what we saw last year," said

Wernette. "The flip side of that, the clients that are drawing down this time need it desperately to get to the other side."

In the first round of the PPP, Level One did a total of about \$403 million in loans to just over 2,000 businesses, said Wernette. Thus far in the latest round, Level One — with assets as of last September of just over \$2.4 billion — has done approximately half of what it did in the first round.

Also leading to muted demand: an added requirement that businesses seeking the loans show a 25 percent decline in revenue, either year-over-year or quarter-over-quarter from 2019 to 2020.

"And so what we're finding, interestingly, is a number of our first-round borrowers do not qualify the second time round, which I think is a good thing," said Rob Farr, the chairman and CEO of Mi Bank. "Because that indicates that their businesses are not down to the degree that would allow them to qualify."

The Bloomfield Township-based community bank formed in 2019 and as of last September had almost \$111 million in assets, according to a federal filing.

While PPP, which provides for the forgivable loans as long as business owners spend the majority of funds on payroll, is the primary federal relief mechanism for small

businesses, lenders say it's not necessarily the type of support some entrepreneurs most need at the moment.



"This is not going to be the answer for a lot of businesses now that we've been through two pretty significant shutdowns. 60 percent of payroll costs is not really where their pain point is," said Andrea Mosher, senior vice president of lending solutions for Brighton-based Lake Trust Credit Union. "If people want to work, there are jobs. People are choosing to not work right now, and businesses didn't have sales. That's where they're hurting."

Business owners are also reporting a relatively easier time obtaining loans compared to last spring.

Ann Arbor resident Ruth Ann Church owns and operates Artisan Coffee Imports. The company imports coffee from woman-owned farms in Africa and sells to roasters that want high-end, specialty coffee.

Church, who started her company in 2009, received a \$6,900 PPP loan last spring. The process was a hassle, she said, as her usual banking institution in Ann Arbor had no knowledge of the program. Church later found a credit union out of Romulus, with some assistance from the Small Business Association of Michigan, that would serve her, even without a membership.

The second time around, Church's home credit union, the University of Michigan Credit Union, was prepared to assist members in applying for PPP loans.

"Now I'm on my way to my second loan," Church said.

The process is running more smoothly the second time around, according to Michigan Bankers Association Advocacy Manager Alex Morris. Morris said he believes the demand for the funds has decreased a bit, adding that small business owners across the state may be doing better financially than they were last spring.

"We don't have an indication of how much money is left in the fund at this point," Morris said. "But we hope to know (soon). There's less of a need there, but there are plenty of needs to be met."

Morris on Monday said he's run into a few businesses that have seen a second round of help held up. There are some businesses that still have not received funding applied for last spring. The Small Business Association, Morris said, will not issue aid for a second round of PPP funding to an applicant until it receives money it applied for last spring.

The SBA, which administers the program along with the U.S. Department of Treasury, released new PPP data on Tuesday evening, reflecting the numbers available since the program was restarted earlier this month and going through Sunday, Jan. 24.

Through Sunday, 13,171 Michigan companies had been approved for just over \$1.5 billion in PPP loans. Nationwide a total of 4,526 lenders had approved 400,580 loans totaling just over \$35 billion, according to the SBA. The overall average loan size stands at \$87,000.

Despite what lenders characterize as a lesser velocity and somewhat lower demand for loans compared to last year, bankers say the newest tranche of dollars comes as they continue to work on getting loans forgiven for clients from the first PPP, something that is "definitely" creating headaches, said Mosher with Lake Trust Credit Union.

"(The SBA has) continued to make changes to the forgiveness process and are doing that in the process of releasing another round of funding," Mosher told Crain's. "It has created confusion for business borrowers. There are a lot of business borrowers who don't understand all of the caveats of the forgiveness portion."

-Crain's reporter Jason Davis contributed to this report