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Peapack-Gladstone Bank Report

Lessons Learned: What the SBA's PPP Loan Process Revealed to Us About Small Businesses and Our Bank



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A Message from Peapack-Gladstone Bank President & CEO – Douglas L. Kennedy



No one could have predicted that we would need to manage our operations through a pandemic during a sudden economic downturn in Q1 2020. But when it was necessary to pivot to operating virtually while simultaneously processing more than several years' worth of loan applications in short order, our employees were up to the task. In the end, it was our corporate culture that made the difference. I am pleased to say that our 400 employees were empowered by adversity. Not only did they allow their homes to become their daily place of work, they made themselves indispensable to serve our clients' needs with the SBA's Paycheck Protection Program.

We have a special group of talented and dedicated people who are willing and able to rise to the occasion when we need them most. They selflessly were accessible 24 hours a day/ 7 days a week at the height of the pandemic. They worked through religious holidays, homeschooling and personal milestones, all for the greater good of our clients who needed their help to access capital to stay afloat.

As we engaged more clients seeking financial assistance, the burden of displaced dedicated workers weighed heavily on small business owners as they tried to remain solvent and keep staffers employed. The stories our clients shared with us were heartfelt, because for many of them a PPP loan just didn't mean they would be able to keep their lights on, it also meant they would be helping keep food on the table at their employees' homes. Our team's commitment to processing PPP loan applications for our clients resulted in saving tens of thousands of jobs and we are extremely proud of this.

Our collective achievement was only possible because of the type of bank we operate and the people we employ. We worked tirelessly on behalf of our clients as one team focused on a single goal. I am proud of what we accomplished on behalf of existing and new customers. I hope what our team learned along the way sheds a light on new pathways for small businesses everywhere.

Doug Kennedy
President & CEO



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Executive Summary

There is no doubt that small businesses drive economic growth and job creation in the United States. However, when the U.S. economy shut down to stave off the spread of Covid-19 in mid-March 2020, small businesses faced a serious crisis. States mandating for non-essential businesses to close meant access to limited capital for an unspecified period of time for small business owners to pay operating expenses such as payroll, leases and other financial obligations. It also meant that many low-wage earners would lose their employment.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress with overwhelming, bipartisan support and signed into law on March 27, 2020. The package made available \$2 trillion in economic relief including up to \$349 billion toward job retention and certain other expenses for small business in the form of the Paycheck Protection Program (PPP) loan implemented by the U.S. Small Business Administration (SBA) supported by the U.S. Department of the Treasury. It provided funding for eight weeks of payroll expenditures, including paying interest on mortgages, rent, and utilities. In addition, if 75 percent or more of the loan was used to cover payroll expenses, the loan would be forgivable, a compelling benefit that attracted businesses of all sizes. Loan forgiveness guidance was revised in June 2020 to cover 24 weeks of payroll costs as long as 60% of the total loan is used for payroll.

As a community bank and SBA lender of five years, we could not have expected the robust demand for access to these funds from our clients and prospects. Like many banks, we focused our initial efforts to process applications from existing clients. But when the initial funding was depleted and another \$310 billion of funding was authorized by federal government, we accepted applications from as many businesses as humanly possible. The dire need to help the most vulnerable small businesses activated our entire team across all functions of our bank to assist in processing over 2,500 applications. For our bank that is nearly five years' worth of SBA business loan requests in approximately 30 days.

Along the way our team learned a lot about the operational and administrative disadvantages of small businesses that not only hinders them on a day-to-day basis, but also their ability to thrive and grow long term. This report, developed from stories culled from various leaders within our organization, summarizes the observations and experiences of our multi-function banking professionals as they worked closely to help small businesses survive during the Covid-19 pandemic by assisting them in navigating the complex and often wavering guidance of the PPP loan process.



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Unimaginable Demand

When New Jersey Governor Phil Murphy mandated in late-March 2020 that businesses deemed non-essential close physical locations to help slow the spread of Covid-19, in a matter of two days our IT team implemented the infrastructure for our 400 employees to work remotely, well-positioning us to seamlessly serve our clients. In order to process a vast amount of PPP loans in a fraction of the time than ordinarily customary, our team came together in amazing ways. To serve as many clients as possible, they sacrificed and worked around the clock to provide the best service possible to our clients.

From the outset, we believed that most of our clients would apply for a PPP loan. Before initial funding was depleted, we processed 1,000 PPP loan applications in round one. Approximately 90 percent of our existing customers were among those applications. Our average loan request was higher in PPP round one than those in PPP round two, due to mostly larger small businesses applying in round one. This is consistent with SBA data that New Jersey's average loan size in PPP round one was \$284,251, the second highest in the nation behind California in comparison to \$88,244 round two.¹ In just a six-week period, we processed more than 2,500 PPP loan applications totaling \$600 million, equivalent to the amount of loans our bank would process over five years.

“There was no person on our team that was more important than the other and the way we all came together was truly spectacular,” said Executive Vice President Head of Commercial Banking, Gregory M. Smith.” For me it was the greatest accomplishment with a team that I have witnessed in my 32-year career.”





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Ready and Capable of Going Above and Beyond

With the infrastructure in place to serve our clients remotely, we were able to review and process PPP loan applications promptly. The SBA made their application available within one of week of the CARES Act being signed into law for PPP round one of funding. However, the speed in which the application was released to the public also meant constant crashing of the SBA website, which proved to be ill-equipped to manage the extraordinary volume of applicants from around the nation. It also meant that proper guidance had not yet been established leaving many unknown factors that were left up to our interpretation and judgment.

Lack of SBA guidance in round one caused less sophisticated clients to submit incomplete loan applications, that could not be processed. Upon review, we acknowledged the need to provide an enhanced ‘hands on approach’ for small businesses. Many of our 100-person team working on PPP loan applications, from all of areas of our bank, spent 2-3 hours working with some clients to help them decipher financial data and to assist them in submitting the documentation with their applications.

Smaller enterprises, such as local retailers and restaurants and the like, presented rudimentary documentation, “Some of our clients literally were providing us with payroll numbers handwritten on a piece of paper,” said Peapack-Gladstone Bank Market President, Commercial Banking, Stuart Vorcheimer. “As long as our clients were willing to certify it was accurate, we assisted them in inputting the information as required.” Due to the extraordinary volume of incomplete applications, many round one applicants were prioritized for round two of funding.

Following the launch of the Paycheck Protection Program, the SBA processed more than 14 years’ worth of loans in less than 14 days.

-Source: SBA.gov, April 17, 2020 Press Release

Our decision to go above and beyond was not only necessary, it is what we wanted to do to help as many small business clients manage financial strains in the wake of the pandemic.





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Enabling New Technology for Improved Processing

Although PGB has been an SBA lender for five years, prior to the pandemic our SBA loan volume was minimal in comparison to other lending products. The substantial demand for PPP loans and the great need for the funding to save jobs in the communities we serve created the need to find more efficient ways to expedite applications. “From our perspective, we knew it was too much for us to handle the volume of application needs manually. The fact that we were helping our clients and community motivated us to work around the clock to stand up some backend technology pretty quickly allowing us to create a workflow to manage 875 requests from existing and prospective clients in one week’s time,” said Kevin Runyon, Executive Vice President, Chief Information Officer and Chief Digital Officer for Peapack-Gladstone Bank.

After PPP round one, our team launched a web-based loan application platform that allowed us to process 1,500 applications in just a few days in PPP round two. This platform simplified the process for clients and provided prospective clients with access to our bank through a portal that made providing documentation and critical financial data easier. In the end, we were able to provide enhanced service that our clients confirmed they were unable to receive from national banks at the time.





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Why More Sophisticated Enterprises Were Among the First to Apply

Shortly after the first round of PPP loans were funded, the media reported that major national brands had received PPP loans. Although some of those corporations ultimately returned their loans under the pressure of bad publicity for diverting money away from small businesses, we were not surprised that such companies were among the first round of funding recipients.

Among our first round of PPP applications were a number of large professional services firms, such as law firms and accounting firms, along with small businesses. Not only were they equipped to provide the financial information required on the SBA PPP loan application, they also had the right people in place such as controllers, CFOs, lawyers and payroll companies which simplified their application process. Our small business customers had to divert attention from running their businesses to complete their PPP applications with our help. Our support roles for large clients and small businesses were different.

As we began to work with small entrepreneurial companies such as neighborhood restaurants, small local retailers and others well below \$2 million in annual revenue, we quickly recognized that assembling the information necessary to apply for a PPP loan was a much more difficult task for our small business clients than for larger companies. Furthermore, small business owners with national bank relationships were at an even a greater disadvantage. Nearly 800 small business owners were willing to start new banking relationship with us for access to one-on-one assistance after days of frustration waiting to hear back from national banks. For us, this influx of new business was more than we had received over the last three years.

We wanted to be one of the first to say you all deserve a Gold Medal!!!! For all of the hard work and determination in getting our PPP funding approved and deposited - we can't thank you enough." -MP

Our new clients not only expressed gratitude for gaining access to our client services team, they were also pleased to know that we were willing to work closely with them to assist them in sorting through their application documentation. This is where working with a community bank became an advantage for small businesses owners in the markets we serve.





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Small Businesses Applied for PPP Loans with Some Trepidation

Many of the business leaders seeking financial assistance understood the importance of gaining access to capital during the pandemic, but also were leery of taking on new debt. Between existing debt and uncertainty regarding the economy, our clients were keenly focused on the forgiveness aspect of PPP. They wanted to make sure they understood the rules for using the funds and leaned on our team for details as there was some confusion as to what they could use the funds for in order to qualify for loan forgiveness.

Our team was committed to providing proper guidance which in the beginning was up to our interpretation. As PPP evolved into a second round of funding, the SBA was able to provide more guidance that allowed us to offer more insights. We found the majority of our borrowers were committed to complying with loan forgiveness rules because they could not imagine taking on any more debt in their businesses.





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Top 5 Necessary Small Business Administrative Improvements

Working so closely with small businesses of all sizes and industries through two rounds of funding, we began to notice trends related to areas for improvement in administrative support and key financial data in small businesses. Here are the top five areas that we found small business borrowers were lacking:

1. **External Advisers (CPAs, Lawyers, etc.)**
2. **Professional Payroll System or Service**
3. **Internal Bookkeeping/Accounting**
4. **Business Plan**
5. **Business Continuity/Crisis Plan**

Vorcheimer added, “I can tell you I have serviced approximately 1,500 clients throughout my career and if 10 percent of them had a real business plan – that was a lot. Lack of a plan for something like this, which nobody had, an absence of good general internal accounting, forecasting systems and a lack of leaning on professionals outside of the organization is where companies generally come up short. A crisis just magnifies these deficiencies.”

Our team also found that business owners who have been successful in doing things themselves over time were more reluctant to seek help from outside advisers, for better or worse. Even some of our more sophisticated clients missed the mark on submitting the proper information required for the application, so smaller businesses with limited back office management found themselves at a severe disadvantage.

The absence of key advisers and access to financial data combined with the insufficiencies of the SBA PPP application process and limited SBA guidance created a set of unique circumstances for all involved. It should be noted in the few instances where small business owners had access to a CPA or attorney, they complained that the hourly fees charged by those professionals made those services cost prohibitive.



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A Call to Action for Small Businesses to Think Differently

Every small business owner has his or her own way of operating and managing their enterprise. Many of them develop their own procedures that work for them as needed. Although their established practices may keep them going, we have found that it also limits their ability to advance. In our interaction with small business owners over the years and through the PPP process, we've determined that their reluctance to tap outside advisers is key to holding them back from making necessary changes to advance to the next level. Due to the close relationships we establish and maintain with our clients, we feel that we are uniquely positioned to help small businesses in our communities make the shifts necessary to achieve their full potential.



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