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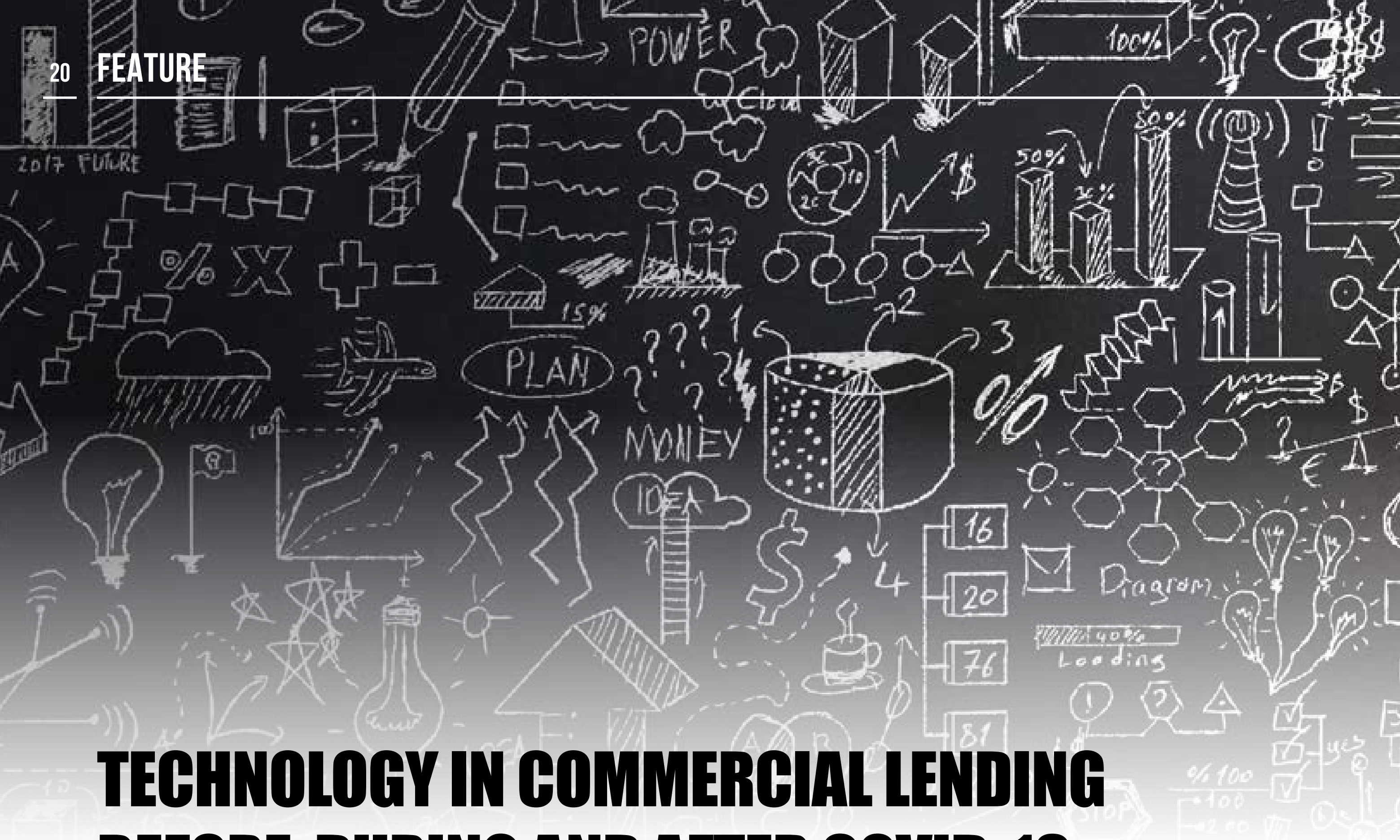

TECHNOLOGY IN COMMERCIAL LENDING BEFORE, DURING AND AFTER COVID-19

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Before COVID-19 was added to the daily vernacular, the commercial lending market had seen a drop in growth rate. A changing competitive landscape was forcing banks to adapt to new digitally facilitated processes or risk falling behind. While the big institutions invested in Fintechs or expanded their own digital products, community and regional banks struggled to keep up.

Over the last decade, this shift toward digital tools has caused significant changes to traditional commercial lending, leading to new digital players and changing consumer behaviors. Community and regional banks faced new client expectations, increasing regulations, greater demand for transparency, increased competition and decreasing margins. Banks' internal operations faced different pressures with over 50 percent of lending resources' time spent on manual tasks aggregating data from disparate sources, often residing in outdated spreadsheets, word documents or emails. Legacy banking systems and paper-based processes were badly inhibiting the ability of banks to gain insights into the credit-worthiness of a client and prolonging the loan approval process. As a result, client retention and growth were being constantly challenged as clients became more willing than ever to switch banks for a better client experience.

Before COVID-19 hit, commercial lenders were in a storm of their own. Most financial experts knew that for banks to survive they would have to eventually modernize — but timelines often stretched over the course of 5-10 years for these changes to be implemented. When the pandemic hit, banks without digital tools were forced to shrink their timelines from years to weeks or months in order to keep up with the needs of constituents and the market during the coronavirus.

COVID-19 Impact

When COVID-19 became our new reality, we were not only unprepared for the health crisis but we were unprepared for the economic one, which is showing itself to be just as dire in many ways: 20.6 million lost jobs, over 100,000 small businesses permanently closed, school hallways emptied, travel disappeared and entire industries went nearly radio silent.

When the federal government announced the Paycheck Protection Program in March it immediately became the top headline in every newspaper. Literally overnight, on March 26, community banks answered the call to support small businesses resulting in 3,700 community banks becoming Small Business Administration lenders. Since April 3, these institutions collectively originated 100 times as many loans as they did in all of 2019. These community banks were the predominant PPP lenders, serving 57.5 percent of all PPP recipients and 48.1 percent of all U.S. small businesses with 2.8 million loans. This equates to 4.5 million small businesses that became PPP loan recipients and put over $512 billion into the economy to keep small business up and running despite closures and safe-at-home measures. *(Source: ICBA)*

A massive influx of inquiries and applications flowed into all banks: Over 5 million approved loans, over $5 trillion approved, over 5,000 participating lenders. According to the *Wall Street Journal*,

banks under $10 billion in asset size accounted for 52 percent of PPP loans and 44 percent of approved funds even though they represent 14 percent of banking industry assets. In addition, banks were reporting anywhere from 40-80 percent of their PPP applicants to be non-customers presenting a pivotal moment for these banks to create a positive impression on the PPP applicants to keep them as customers. Financial institutions knew that to retain customers meant to help them secure these loans, and hopefully help them achieve full forgiveness, and therefore retain their livelihoods and savings.

In a recent article from the *American Banker*, David O'Connell, senior analyst in the wholesale banking group at Aite Group said, "Many borrowers signed up for PPP loans in a state of agita because they wanted to ensure they could make payroll. They were thinking more about getting the loan closed than how they would get it forgiven. If my bank made it easy for me [i.e. a small business owner] to not only finish the forgiveness process but maximize the amount of loans forgiven, I will feel seriously loyal to that bank." O'Connell concluded that the interaction could in fact be a "relationship enhancer" or "loyalty invoker."

The boom in activity around PPP lending forced many banks to face their fear of digitization. Without the help of modern technologies, banks simply couldn't handle the volume. Community and regional banks were the most impacted as the last holdouts for "traditional" banking. For decades these banks upheld the intimacy of person-to-person relationships with your local teller, but when tellers were suddenly told not to come in or to work from home, just as workloads exploded with PPP inquiries — it was those small community banks that had to get on board, or get left behind. Within weeks, a variety of PPP automation programs were spun up. Banks who had been thinking about fintech partnerships suddenly signed on the dotted line. A final surrender to the fact that deploying digital tools within commercial lending practices were key to customer satisfaction, government compliance and new efficiencies

If the surrender was at all uncomfortable for these smaller banks, the silver lining has been in the renewed sense of loyalty sparked by the transition to digital and their handling of PPP loans. In fact, unlike their bigger brethren, many community and regional banks accepted PPP loans from non-customers. Their traditional person-to-person relationships paid off as they managed to leverage long standing trust and 21st century technology together to ensure successful interactions with customers, new and old, and achieve desired outcomes for their communities.

After COVID-19

COVID-19 may not be here to stay — but it jump-started several trends that will impact the banking industry for years, most notably a stronger sense of customer loyalty, enabled and aided by digital tools, and a deeper more meaningful collaboration between banks and fintechs. Banks will need to accelerate their investments in fintech for top line revenue growth and expense reduction needed to maintain margins and profitability. With support from fintech partners, banks can expand their offerings and provide their clients what is needed to not only survive but thrive in this digital age.

We do believe the tide is changing and it brings me back to a thought provoking discussion led by Amias Gerety, partner at QED Investors at the NJBankers Economic Leadership Forum in January 2019. The topic was "Community Banking in the Digital Age" and addressed some of the top issues a bank needs to know and control when dealing with fintechs. The question was asked, "Do banks view fintechs as partners or competitors?" At the time, the jury was still out as many banks still viewed fintechs as competitors. But today, there is strong evidence to support what Amias concluded, "Fintechs are not your competition; they're your partners and vendors." NJ

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