

# Big Banks Favor Certain Customers in \$350 Billion Small-Business Loan Program

Some small-business owners worry that the pot of money will run out before they are able to dip into it



Customers wear masks as they wait to enter a Bank of America branch in Los Angeles on April 1.

PHOTO: PATRICK T. FALLON/BLOOMBERG NEWS

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Griff Neal set his alarm for 3 a.m. on Friday so he could be among the first to apply for a loan under a new federal program designed to help small businesses weather [the coronavirus pandemic](#).

[Bank of America](#) Corp. BAC +6.46% turned him away that same morning. The reason: The auto-parts supplier he runs, Encap Technologies Inc., hadn't borrowed from the bank before.

"I was literally floored," said Mr. Neal, the company's president. Encap, he said, has had checking and savings accounts with Bank of America for two decades, and the bank manages its employee retirement accounts.

Small-business owners have flooded banks with applications for the Paycheck Protection Program, a \$350 billion chunk of Congress's \$2 trillion coronavirus stimulus package [meant to help small companies](#) and keep workers off the unemployment rolls. Many were quickly rebuffed because they don't have the right kind of ties to the banks offering the loans.

Bank of America changed its stance Saturday after customers inundated it with complaints, dropping the requirement that applicants have a prior lending relationship with the bank. But the episode rattled small-business owners, who are worried that the pot of money will run out before they are able to dip into it. The funds are being distributed on a first-come, first-served basis and could run out within weeks unless Congress steps in. [Wells Fargo](#) & Co. said on Sunday interest from customers indicated it has already "reached its capacity."

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Mr. Neal tried again Saturday morning after a Bank of America loan officer informed him that the bank would accept his application. Though Encap is now eligible, many others aren't; Bank of America isn't taking applications from customers that have borrowed money from other banks.

Mr. Neal received a confirmation from Bank of America that it had received his application and would follow up with a request for documentation. He said he worries that Bank of America will be too overwhelmed to quickly process his application.

“Will we get this funded in a reasonable time before the money runs out?” he said. Palatine, Ill.-based Encap, which employs less than 100 people, expects revenue to drop by a third, to \$20 million, this year.

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A Bank of America spokesperson said the bank's initial decision to focus on existing borrowers was meant to speed up the application process. "If everybody shows up at Bank A or Bank B or Bank C, that means it's going to slow down the process," Chief Executive Brian Moynihan told CNBC on Friday.

The Paycheck Protection Program began accepting applications on Friday. It provides government-guaranteed loans to cover eight weeks of payroll and other expenses, which

are forgivable if businesses keep their workforces largely intact and use the loans for eligible expenses such as rent and utilities.

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For now, the loans are only available through banks that already participate in other Small Business Administration lending programs—a group that includes most of the biggest U.S. banks. The Treasury Department has said it plans to allow other lenders to participate but hasn't detailed a timeline.

Big banks have the scale and manpower to get money out of the door to a large number of small businesses. Bank of America said about 171,000 of its customers applied for payroll loans worth more than \$32 billion. [JPMorgan Chase & Co.](#), which started accepting applications Friday afternoon from companies that had a checking account at the bank, has more than four million small-business clients. Wells Fargo said it would only consider making payroll loans for nonprofits and existing customers with fewer than 50 employees and that it would only extend \$10 billion under the program, citing a regulatory cap on its balance sheet.

Some business owners said they were initially led to believe that banks would process their applications—only to find at the end of last week that this wasn't the case.

Jim Hourdequin, chief executive of Lyme TimberCo. in Hanover, N.H., spoke with a couple of banks about the loan program before settling on Bank of America for the seven of his portfolio companies that have banking relationships with the big bank.

On Friday, he was told his businesses didn't qualify. The about-face was "grossly unfair to businesses, such as ours, that do not use debt through the bank," said Mr. Hourdequin.



Jim Hourdequin, fourth from left, on Jan. 8 with colleagues from one of his companies, Mountaineer Mechanized, which was included in an application for a small-business loan.  
PHOTO: THE LYME TIMBER COMPANY

On Saturday, the bank’s message to Mr. Hourdequin changed again. Lyme’s small logging and forest management companies, which together employ 63 people in rural communities, were now eligible to apply for a payroll loan under the bank’s new guidelines.

The big banks’ decision to focus on existing customers could hurt smaller and minority-owned businesses that are less likely to have accounts with them, as well as businesses in rural areas where they have fewer branches. Firms owned by African-Americans were 20% less likely to obtain financing at large banks than white-owned businesses with similar profitability, credit risk and other factors, according to researchers at the Federal Reserve Banks of Atlanta and Cleveland.

“If banks only serve their customers, then the very businesses that may need access to the PPP program most will be left out in the cold, no question,” said Michael Korengold,

chief executive of Enhanced Capital Group LLC, a nonbank lender focused on financing small businesses in underserved areas.

Mr. Korengold said his firm would like to make loans through the new program, but still isn't sure how companies like his apply to participate.

The Treasury Department's rules for the program give banks a powerful incentive to focus on businesses they already know. Lenders have to collect enough information from first-time applicants to ensure they aren't criminals or money launderers to avoid being fined by regulators. For existing customers, though, banks don't have to do any additional homework to ensure their borrowers are in compliance with the law.

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Conor Forde, the owner of a San Francisco painting contractor, was able to use Bank of America's online portal on Friday to apply for a loan to keep paying his 16 employees because he has a credit card and checking account with the bank.

"It was incredibly easy," said Mr. Forde, who figures the whole application process took him about 10 minutes. On Sunday, he got an email from Bank of America telling him to gather documents needed to process the loan, including last year's tax return and payroll information.

Mr. Forde said his wife, Kelly, was turned away the first time she tried to apply because her child care business doesn't have a credit card, line of credit or business loan with Bank of America.

Mrs. Forde tried again on Sunday. Bank of America accepted her application.

