

ON POINT

ECONOMIC AND POLICY INSIGHT FROM THE OCC

PPP Lending Provides Boost to Metro Area Small Banks and Businesses

The Paycheck Protection Program (PPP), authorized by the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act, was intended to stem layoffs by supporting small businesses during an unprecedented period of business disruption during the COVID-19 pandemic. The PPP provides low-cost, forgivable loans backed by the Small Business Administration (SBA), incentivizing small businesses to maintain payrolls despite facing sharp revenue declines as consumers pulled back on spending and state and local governments imposed restrictions.¹ Incorporating lessons from the extended duration of long-term unemployment as the economy recovered from the 2008 Great Recession, the PPP seeks to maintain workers' job attachment and to support a quicker economic recovery.

How do the PPP loans get into the hands of small business owners with limited access to capital markets and other financing options? The role of originating PPP loans fell largely on the banking industry. Community banks with closer ties to local small businesses proved adept at distributing PPP loans. As of the third quarter of 2020, small commercial banks with less than \$5 billion in total assets (community banks) originated \$139.5 billion (or just under a third) of the \$467 billion issued by all Federal Deposit Insurance Corporation (FDIC)-insured commercial banks.²

The ability of community banks to distribute PPP loans to small businesses, especially in hard-hit metro³ areas, swiftly increased lending activity and aided in a quick recovery in economic activity. As small businesses themselves, many community banks, through greater participation as lending agents in the PPP, were also helped by the program. The positive effect of PPP lending is demonstrated by looking at how these banks fared in 2020 with respect to their peers in less-affected rural areas, as well as by comparing performance of community banks in the 50 largest metro areas with all other community banks with differing pandemic effects.

¹ SBA, [Paycheck Protection Program website](#).

² SBA, "[Paycheck Protection Program Report: Approvals through 08/08/2020](#)."

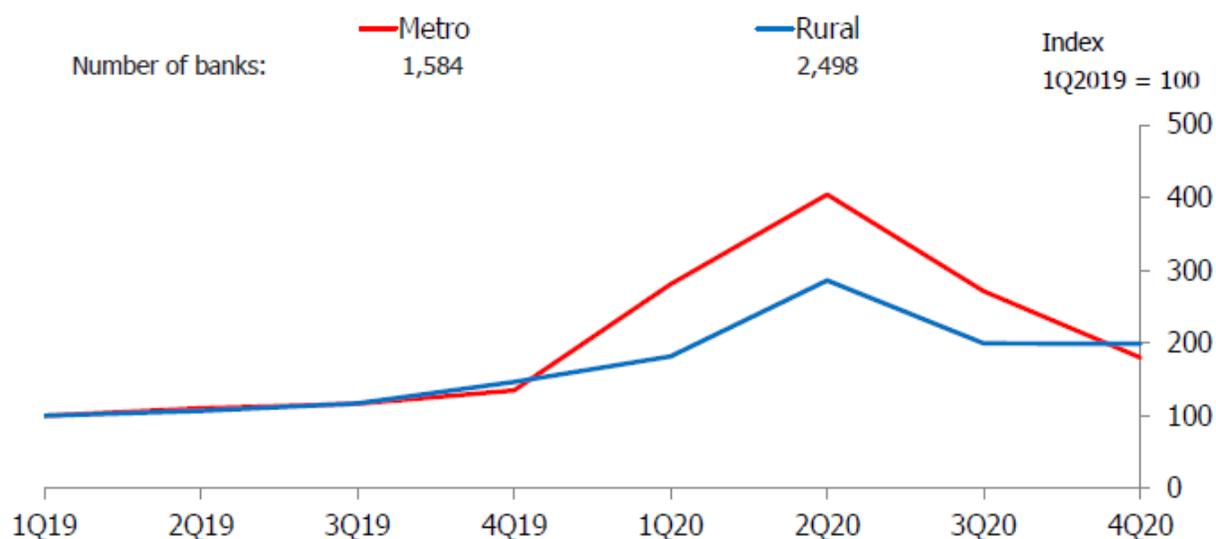
³ Metro refers to metropolitan statistical areas (MSA) as defined by the U.S. Census Bureau: An [MSA](#) has at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties.

Economic Stress and Demand for PPP Lending in Metro Areas

As discussed in an earlier On Point article,⁴ the geography of local economic stress that drove demand for PPP lending aligned closely with employment concentrations in “high-touch” industries most affected by lockdowns—such as leisure and hospitality, transportation, and retail—resulting in varied economic stress across geographies. Consequently, exposure to high-touch industries was greater in larger metro areas with greater dependence on industries more directly impacted by social distancing measures.

As shown in figure 1, faced with greater economic stress and uncertainty, community banks headquartered in metro areas anticipated the possibility for significant credit deterioration and increased their loan-loss provisions by 269 percent in 2020. Although banks headquartered in rural areas also faced the potential for credit stress, their loan-loss provision increase was smaller and lagged by comparison, increasing by 140 percent through the second quarter.

Figure 1: Bank Loan-Loss Provisions* by Metro and Rural Bank Location



Source: OCC Integrated Banking Information System, OCC Economic and Policy Analysis calculations

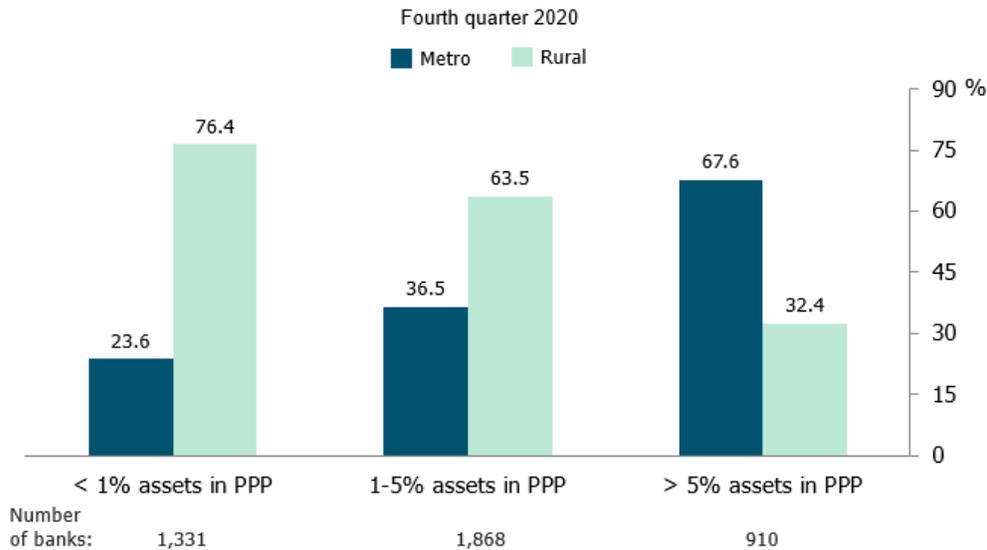
* Note: Loan-loss provisions for community banks with less than \$5 billion in assets are indexed from the fourth quarter of 2015 through the fourth quarter of 2020. The fourth-quarter 2015 provisions are set to the base index value of 100, and subsequent index values represent cumulative percent change from the base value. Indexing provisions facilitates comparing the relative change in provisions at metro banks versus rural banks.

Reflecting the local economic conditions that drove metro area banks to take significantly greater provisions, figure 2 shows a distribution of banks by intensity of PPP lending and by headquarters location—metro versus rural—and demonstrates a similar key theme. Three peer groups are created by taking the percentage of a bank’s PPP loans to total assets as of the fourth quarter of 2020: banks with less than 1 percent of PPP loans to assets; banks holding 1 to 5 percent; and those with 5 percent of assets or greater. About one-fifth of all community banks met the criteria for the highest-concentration group.

⁴ [“The Geography of Pandemic Stress and PPP Lending,”](#) December 7, 2020.

As figure 2 clearly depicts, **the greater the need and demand for PPP lending, the greater the concentration of metro area banks originating PPP loans.** This was particularly the case for the most active PPP lenders (those with 5 percent or more of assets in the program). In this group of active PPP lenders, two-thirds of the banks operated in metro areas and played a significant role in supporting small local businesses during a time of unprecedented unemployment and declining economic activity.

Figure 2: Share of Banks by Intensity of PPP Lending and by Metro and Rural Bank Location



Source: OCC Integrated Banking Information System, OCC Economic and Policy Analysis calculations

Figure 3 shows that there was also a geographic component to the most active PPP lenders. States where active PPP lenders made up at least 30 percent of community banks in that state are shown in dark blue. These states with more PPP lenders are primarily concentrated along the coasts and in the west. These are states with higher shares of leisure and hospitality employment, states reliant on tourism and travel along the coasts, and energy-heavy states in the southwest (energy demand plummeted when the pandemic triggered a sharp drop in travel).

Figure 3: Percentage of Banks With 5 Percent or More of PPP Loans as a Share of Assets



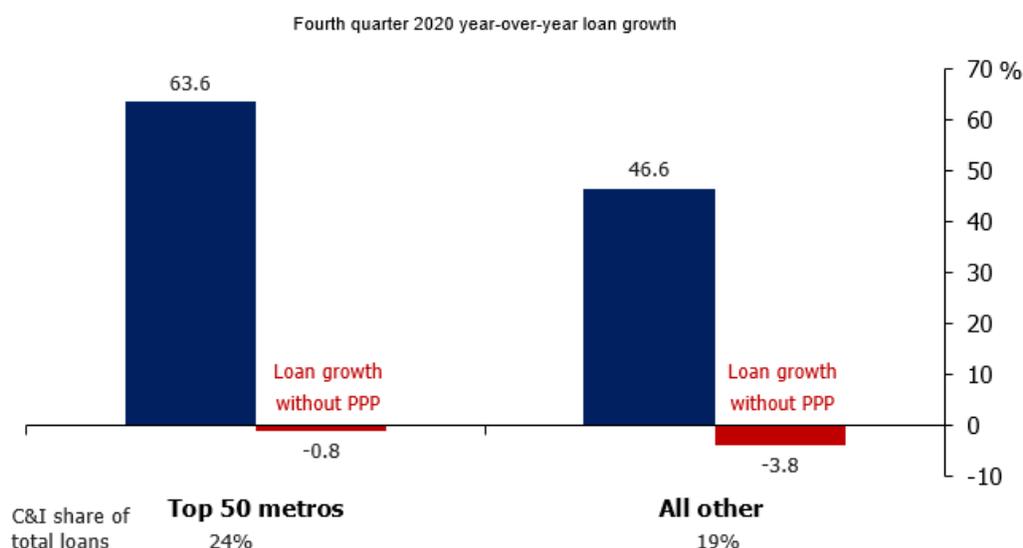
Source: OCC Integrated Banking Information System, OCC Economic and Policy Analysis calculations

PPP Lending Supported Faster Loan Growth

Even as the intensity of PPP loan utilization differed between metro and rural area community banks, it also differed for banks headquartered in the 50 largest metro areas compared with all other community banks. Homebase is a free scheduling app for small businesses that began reporting data early in the pandemic. Homebase data enabled relative comparisons of the pandemic's local economic effects across metro areas. These data indicate that the 50 largest metro areas had an average business closure rate from before the crisis to the end of 2020 of 36 percent, almost twice the 20 percent overall U.S. average.⁵

Within the 50 largest metro areas, local community banks generated faster commercial and industrial (C&I) loan growth in 2020 and ended 2020 with a higher concentration of C&I loans, relative to total loans, than similar community banks headquartered outside these metro areas. Indeed, C&I loan growth at community banks in 2020 was entirely due to PPP lending. Absent these PPP loans, C&I lending for these banks would have been flat or lower in 2020, as shown in figure 4.

Figure 4: C&I Loan Growth for Banks in Top 50 Metro Areas and in All Other Locations



Source: OCC Integrated Banking Information System, OCC Economic and Policy Analysis calculations

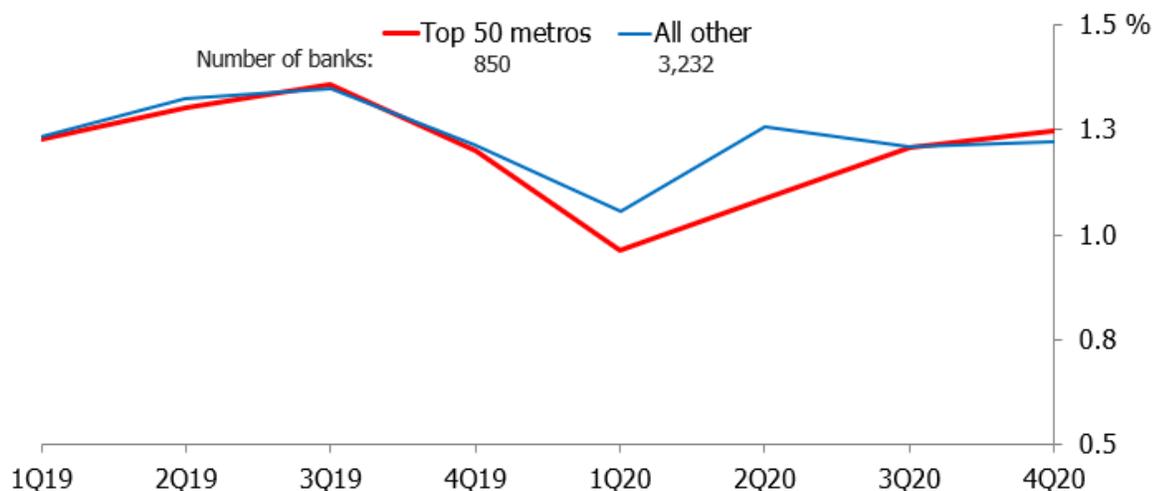
PPP Lending Supported Community Bank Profitability in Hard-Hit Metro Areas

In addition to providing significant lending support, PPP participation boosted profitability for metro area community banks that were hit hardest early in the pandemic. Facing the greatest potential risk for loan losses from the pandemic's effects, community banks in the top 50 metros posted the sharpest early rise in loan-loss provisions during 2020, resulting in even more

⁵ [Homebase](#), Haver Analytics, and OCC Economic and Policy Analysis calculations.

notable profitability declines in early 2020 compared to all other community banks.⁶ Figure 5 shows that although there was a greater lag in return on assets (ROA) performance in the early part of the pandemic as banks in metro areas made larger provisions, this profitability gap between banks in the 50 largest metro areas and all other banks narrowed by the end of the year as PPP participation provided much-needed lending and earnings support. As origination fees are recognized once loans are forgiven or repaid, PPP lenders will continue to accrue benefits. As of March 11, 2021, \$179 billion out of the \$521 billion total 2020 PPP loan volume had been forgiven, with bank origination fees ranging from 1 to 5 percent, depending on the size of the loan.⁷ This suggests that PPP loans were not only a benefit to many small businesses, but also to many small banks as well.

Figure 5: ROA for Banks in Top 50 Metros and in All Other Locations



Source: OCC Integrated Banking Information System, OCC Economic and Policy Analysis calculations

The Point?

Community banks and their small business customers saw great benefit from the SBA's PPP lending program, especially in metro economies hardest hit by the pandemic.

⁶ OCC Integrated Banking Information System, OCC Economic and Policy Analysis calculations. By the second quarter of 2020, community banks in the top 50 metro areas tripled loan-loss provisions while all other community banks increased provisions by 2.3 times.

⁷ SBA [Procedural Notice, July 13, 2020](#).