

After PPP runs out, businesses could be shut out from SBA loans until July

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By Ashley Portera - Reporter, South Florida Business Journal

Businesses in need of a U.S. Small Business Administration 7(a) loan could be temporarily out of luck once Paycheck Protection Program funds are exhausted.

The legislative package that authorized a second round of PPP loans last month includes language that says the SBA's regular 7(a) loan program will shut down once funding is depleted. That means businesses would not be able to receive an SBA loan until at least July 1, when the 7(a) program is scheduled to be funded again.

That could cut off much-needed capital from small businesses as they attempt to recover from economic hits caused by the Covid-19 pandemic, according to an email the National Association of Government Guaranteed Lenders sent to its members April 22, the day after the U.S. Senate reached a deal for second round of Covid-19 relief funding.

"The unintended consequence ... is that the SBA's flagship loan program will shut down at a time when we can least afford to cut off any access to the capital necessary to keep small businesses strong," said the email, which was provided to the *South Florida Business Journal*.

The SBA reported that \$135 billion of PPP funds had yet to be allocated as of May 5.

The 7(a) loan program is the SBA's main program that offers financial assistance to small businesses.

Yvonne Boucugnani, VP and SBA team leader with Amerant Bank, said the program is a key source of funding for startups that may not have the collateral to receive a traditional bank loan. She said SBA 7(a) loans offer up to 10-year loan terms, versus five-year terms at many banks.

"That can be a huge difference for businesses that need more cash flow," Boucugnani said. "It could give them more working capital they need to buy equipment, real estate or make improvements."

The economic uncertainty stemming from the pandemic means banks will likely be more conservative with their lending moving forward, said Daniel Pische, senior VP of First American Bank.

"The credit market will be considerably different coming out of this crisis than it was going in," he said. "It's going to be the first really challenging credit environment since the last financial crisis 10 years ago, and that will affect a business's ability to get a bank loan without SBA backing."