

Attitudes and Priorities During a Pandemic

Member Survey Results Report

October 2021



Small Businesses and the Economic Effects of COVID-19

Small businesses are often referred to as the engine of the U.S. economy. The Small Business Administration Office of Advocacy reports that the U.S. has 31.7 million small businesses, which make up 99.9% of all firms. These businesses employ approximately 62 million Americans, or 47.1% of private sector employees. Further, the Office of Advocacy notes, “While the effects of the COVID-19 pandemic are still not fully known, the economic impacts have been particularly difficult on small businesses so far.”

The pandemic has had no shortage of stories of small businesses facing unprecedented challenges, and the quick depletion of first-round Paycheck Protection Program (PPP) funding was just one clear indication of the urgency and desperation experienced by this sector. The U.S. Census Bureau’s Small Business Pulse Survey, for the week ended Sept. 12, indicates that 23.4% of businesses nationwide have experienced a large negative effect from the pandemic, while another 43.8% have experienced a moderate negative effect; in contrast, less than 10% have been positively affected.

In the Southwest corner of the U.S., the data tells a similar story. In California, 26.8% of small businesses have experienced a large negative impact and 42.8% report moderate negative impacts. In Arizona and Nevada, 20.7% and 21.4% of small businesses in the states reported large negative impacts and 42.8% and 46.8% reported moderate negative impacts, respectively.

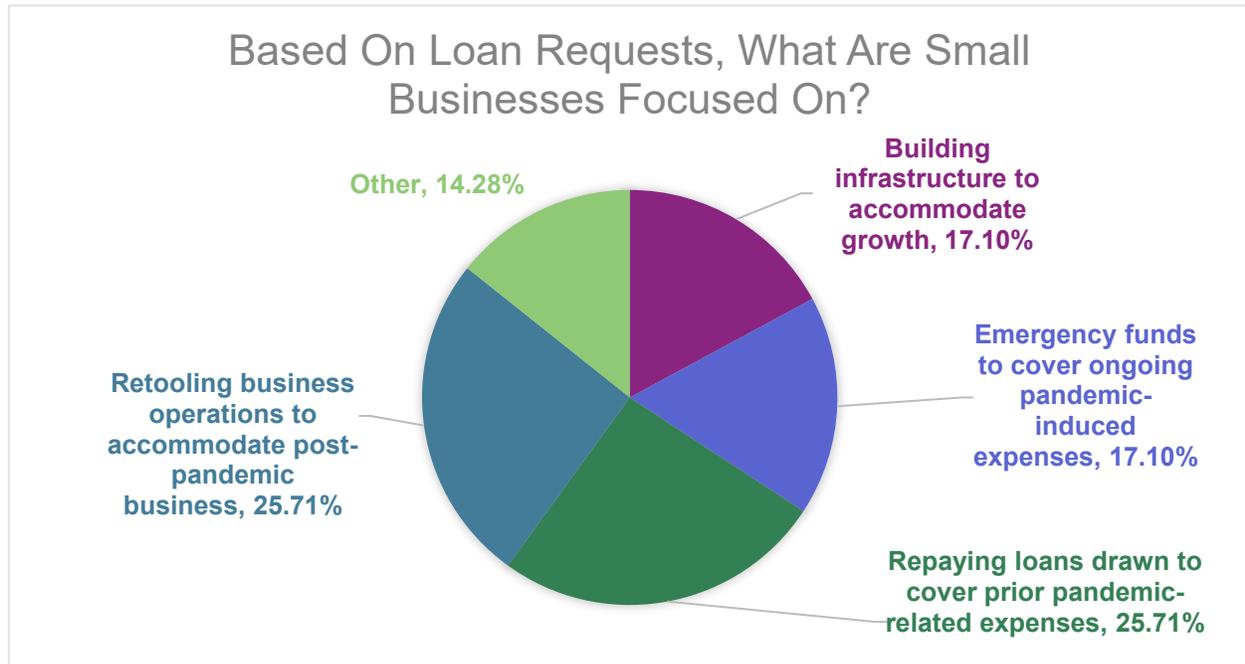
The economic effects of COVID-19 have hit some industries harder than others, particularly those in accommodation and food service; arts, entertainment, and recreation; and educational services. Additionally, the SBA reports that “the decline in business activity among Black small business owners has been nearly three times the decline among other owners.”

As the pandemic situation continues to evolve, at least one fact remains constant: small businesses need the support of their community lenders to survive challenging times. FHLBank San Francisco surveyed its member banks and credit unions to gain more insight into their priorities and the challenges faced by both small businesses in Arizona, California, and Nevada, and lenders seeking to put their capital to work.

Small businesses focus on retooling and repayment

FHLBank San Francisco member financial institutions weighed in about what small business owners are paying most attention to right now. Based on discussions with borrowers submitting loan requests, lending teams say about equal numbers of businesses are focused both on retooling and on repayment. Approximately 25% of survey respondents noted that small businesses are seeking to retool their business operations to accommodate post-pandemic activity. The same proportion of participants relayed small businesses are focusing on repaying the loans they drew to cover pandemic-related expenses.

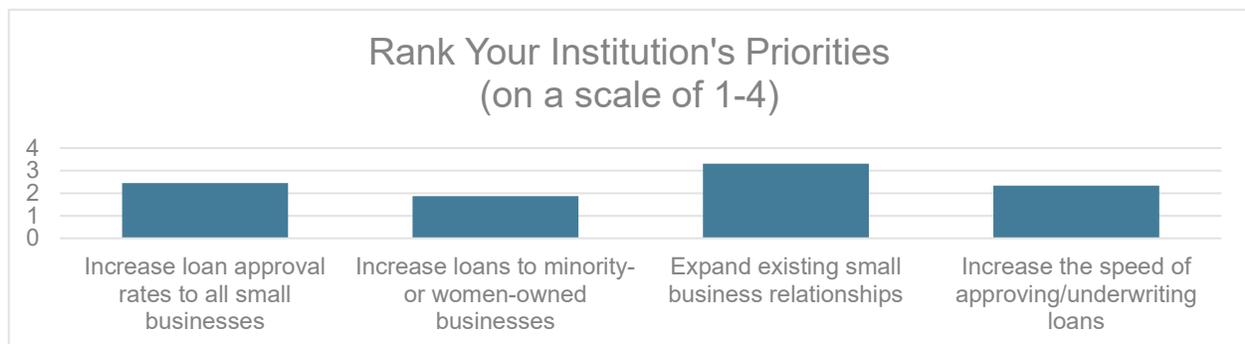
Among survey participants, approximately 17% noted an encouraging sign: small businesses are seeking to build infrastructure to accommodate growth. At the same time, the same proportion of respondents noted that small businesses are concentrating on emergency funds to cover ongoing pandemic-induced expenses.



Lenders prioritize relationships

FHLBank San Francisco members responding to the survey noted that their highest priority is expanding their small business relationships; more than half noted that these relationships are a top priority, and another third ranked this as their second-highest priority.

Financial institutions are also prioritizing the ability to increase loan approval rates to all small businesses. The pandemic has demonstrated the urgent needs of such firms, which have had to be quick to pivot with changing local and state safety mandates—but those pivots have come at a cost. Not surprisingly, a fair number of institutions are looking to increase the speed at which they can approve and underwrite small business loans to get business owners the help they need when they need it.



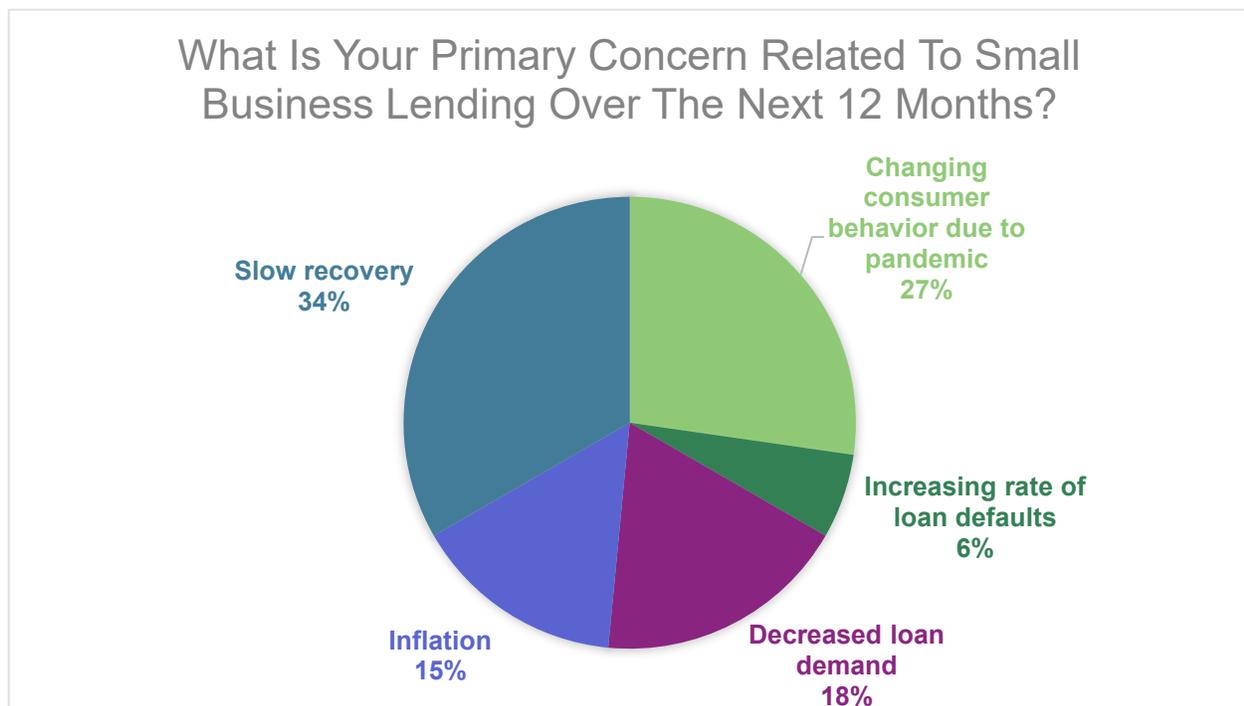
Lending to established businesses

The majority of FHLBank San Francisco members responding to the survey indicated that most of their loans were channeled to established businesses open for at least five years. Approximately 36% believe that less than 20% of loan activity is directed to new businesses (opened within the last five years), while nearly 40% think that new businesses make up 20% to 39% of their small business loans. About one in five members think that new business loans make up roughly half (or 40% to 59%) of their activity.

Slow recovery and changing behaviors lead concerns

When considering the small business lending environment over the next 12 months, one-third of survey participants cited a slow recovery as a concern. New waves of the virus in communities around the country, spurred by the delta variant, have introduced more uncertainty about the strength and timing of an economic recovery. The optimism felt earlier—with the introduction of vaccines and the loosening of state and local mandates—has faded somewhat, as communities explore ways to react to surges.

More than one quarter of survey participants, 27.3%, are most concerned about changing consumer behavior as a result of the pandemic. Many small businesses have had to shift their service models, such as restaurants and retailers offering curbside and contactless delivery. Some businesses that relied on foot traffic and in-person experiences may fear that customers have grown accustomed to distance and may not resume their old habits and entertainment options quickly enough.

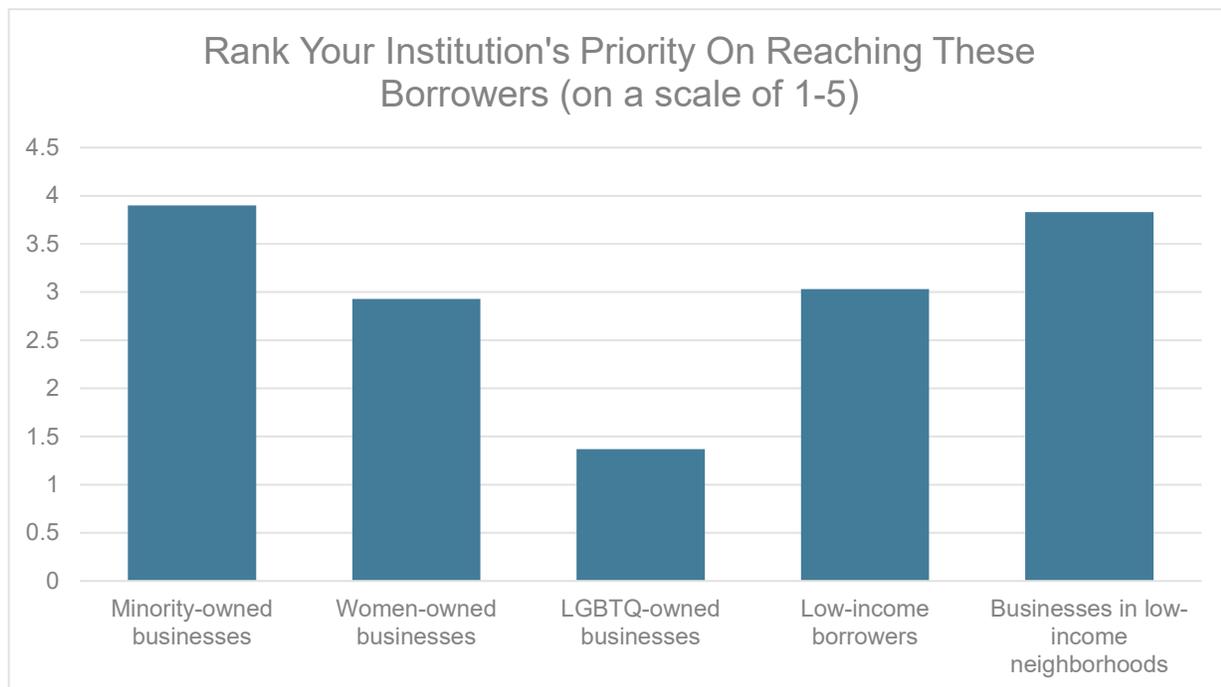


Some FHLBank San Francisco members, 18.2% of respondents, are concerned that a softening of loan demand may materialize, while 15.2% consider inflation as a potential threat. Perhaps reassuringly, only 6.1% of survey respondents felt that they needed to be concerned about a higher rate of loan defaults. Despite the speed at which funding has been reaching small businesses, this sentiment may reflect that those financial

institutions are confident in the quality of their loans, both in terms of their own underwriting processes and in the prospects of the small businesses that are seeking an influx of capital.

Prioritizing minority-owned businesses

FHLBank San Francisco works to provide low-cost liquidity or wholesale funding to its member institutions so they can make loans that, among other things, help boost economic development. One way to do so is through small business loans and getting those loans into the hands of historically underserved populations and communities. This year, minority-owned businesses represented the highest-priority borrowers for survey participants, and businesses in low-income neighborhoods were a close second. To a slightly lesser extent, the Bank’s members are focusing on reaching low-income borrowers and women-owned businesses.



About the Survey

FHLBank San Francisco solicited feedback from its member institutions, which are located in Arizona, California, and Nevada. In total 35 valid responses were received, representing approximately 12% of FHLBank San Francisco’s membership. Among the survey participants, approximately 58% identify as a bank, 37% as a credit union, and 5% as a Community Development Financial Institution. The brief survey was available online and administered Aug. 17-30, 2021.