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## Small-business loan servicer pivots away from PPP

John Reosti | January 07, 2022

NEWITY, a company created to help purchase and service Paycheck Protection Program loans, always knew it would have to pivot its business model once PPP activity began winding down.

It's now launching a nationwide small-dollar Small Business Administration 7(a) business. The company began building an online-lending platform in May — the same month PPP lending ceased — and recently launched a pilot that provided small-dollar 7(a) loans to about 80 borrowers. On Thursday, NEWITY unveiled its 7(a) lending portal to the broader marketplace.

“We think if we can prove that we can turn loans around in two weeks or less ... that will be very powerful,” said Luke LaHaie, co-founder and co-CEO of NEWITY.

NEWITY's pivot has the potential to put the Chicago-based firm, known formerly as ACAP SME, in direct competition with the SBA itself. The Biden administration's 2020 budget plan includes funding that would permit the SBA to originate and disburse direct loans of up to \$150,000 — a move that could displace banks and credit unions that target the same market. The SBA declined to comment for this story.

For NEWITY, which helped purchase 115,000 PPP loans totaling \$11.3 billion from banks beginning in June 2020, the 7(a) lending market emerged as a natural second act. Like PPP, the 7(a) program focuses on providing capital to small businesses, offering guarantees on loans up to \$5 million.

“As the buying program ended ... we began planning for the next phase of the business, which in our minds always meant 7(a) loans,” LaHaie said. He added that



Luke LaHaie (left), co-CEO of NEWITY, and Rick Wayne, CEO of Northeast Bank. “As the buying program ended...we began planning for the next phase of the business, which in our minds always meant 7(a) loans,” LaHaie said.

the 115,000 PPP borrowers whose loans NEWITY continues to service are central to its strategy of building a nationwide business.

“Small-business owners still need capital,” LaHaie said.

Once it hits its stride, NEWITY expects to help originate as many as 1,000 7(a) loans a month, LaHaie said. If it comes anywhere close to hitting that target, NEWITY's lending partner, the \$1.4 billion-asset Northeast Bank, would quickly rise to the upper echelon of 7(a) lenders in terms of number of loans.

By comparison, the \$174 billion-asset Huntington Bancshares in Columbus, Ohio, the nation's most prolific 7(a) lender, closed 653 loans between Oct. 1 and Dec. 9, according to the SBA. During the 2021 fiscal year, which ended Sept. 30, Huntington closed 4,366 7(a) loans.

Northeast, in Portland, Maine, is continuing to work with NEWITY, offering its capital and balance sheet in support of the firm's SBA lending ambitions. The bank, which originated \$3.3 billion of PPP loans and has earned about \$31 million in fees so far by providing correspondent services to NEWITY, is flush with capital that needs to be put to work, according to Northeast CEO Rick Wayne.

"We have about \$240 million in Tier 1 capital, which is enough to double the size of our loan book," Wayne said.

While NEWITY and Northeast want to offer loans as large as \$350,000 eventually, for now it is focusing on the market for \$18,000-to-\$25,000 loans, which both LaHaie and Wayne claimed is underserved.

"A lot of banks don't want to do these really small loans," Wayne said. "There're a lot of i's to dot and t's to cross."

LaHaie said the market is served today by merchant cash advances and credit cards — "really expensive stuff."

Initially, NEWITY will market within its pool of PPP borrowers.

"We think that's a big advantage," Wayne said. "We have all the information on them because we're their lender already. ... If you try to find these borrowers nationally, customer acquisition costs can be very high."

At the same time, NEWITY plans to add to its client base by soliciting referrals from banks. Since NEWITY and Northeast are more than willing to limit their contact with referred borrowers to providing a 7(a) loan, LaHaie expects that lenders will be willing to refer their clients.

"For most banks, are they really going to build out a full technology stack and team ... for these small-dollar loans? We don't think so," LaHaie said. "We think a lot of them will choose to outsource to us."

Wayne and other SBA bankers, including Nimi Natan, president and CEO of Gulf Coast Small Business Lending, a unit of the \$2.6 billion-asset Gulf Coast Bank and Trust in New Orleans, have said the market for small 7(a) loans is underserved by banks, giving NEWITY's plans an air of plausibility.

Still, Bob Coleman, editor of the Coleman Report and a longtime SBA expert, said a number of other companies sought to build businesses based on referrals from banks and other lenders, only to fall short of the mark.

"I'm not saying it can't be done, but I've never seen that model work," Coleman said.

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#### *CORRECTION*

*This story has been updated to clarify the relationship between NEWITY and Northeast Bank.*