

Bad for business? Weighing shutdown's impact on commercial loans

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Published January 18 2019, 8:00am EST

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Commercial loan portfolios may take a hit if the government shutdown persists.

The current partial closure, which started on Dec. 22, is the longest in U.S. history. Credit unions and banks have jumped in to help members and retail banking customers as federal employees miss paychecks. But there are questions about how commercial customers and member-business loans will be affected.

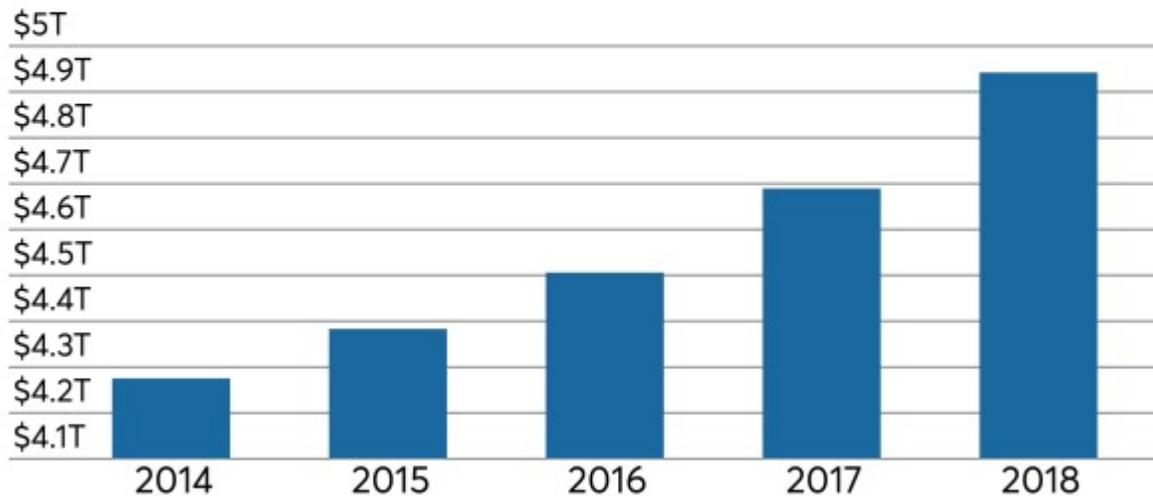
Research into the effects of a past shutdown has shown that as government workers go without pay, they will cut spending. That means retail locations, restaurants and other businesses could see a slowdown. That dip in revenue could eventually affect those businesses' ability to repay their own commercial loans.

Though it's too early to tell what damage the work stoppage might have this time around, lenders are preparing to potentially help small businesses and others who see their revenue decline.

Another side effect

Spending has increased but there are concerns that businesses could be hurt as furloughed workers cut costs

● Total retail and food services sales*



Source: Census Bureau report; *through October of each year

"It is the trickle-down theory," said Geoff Bacino, a partner at the advocacy firm Bacino & Associates and a former board member at the National Credit Union Administration. "That's something most people don't think about is how our economy is so intertwined. If you take out one thing, it hurts the rest."

There have been warnings that the government closure, which affects roughly 800,000 workers, is harming the overall economy. Jamie Dimon, chairman and CEO of JPMorgan Chase, said during a media call for his company's fourth-quarter earnings that he's heard that if the shutdown persisted until the end of the first quarter it could "reduce growth to zero."

Contractors, which rely upon the federal government for revenue, are being hurt. But the damage may go beyond that. Furloughed workers could curb their spending in their communities, potentially hurting other businesses, such as restaurants.

A study published in the Review of Economic Dynamics found that government workers decreased their spending by more than 10 percent during the October 2013 shutdown, which lasted for 16 days.

Furloughed workers will get back pay eventually, which could lead to a boost in spending. But businesses currently being squeezed won't necessarily be able to make up for lost revenue, Bacino said.

"It will be individualized based on what the business is, but if you are talking about something like a vanishing good, like a hotel room not being filled or an airplane seat not being filled, then that's something you can't sell again tomorrow," Bacino added.

Right now it's too early to claim that the shutdown is doing significant damage to businesses, said Trent Fleming, who runs his own financial services consulting firm. Instead, the key will be how long it lasts. If the shutdown persists, he said, the government could end up permanently stripping out layers of employees, similar to how private companies cut costs during a recession.

"We know the government has some excess built into it," Fleming said. "If this goes six months to a year, some of these government agencies may not be around anymore."

Headquartered on Capitol Hill, National Capital Bank of Washington is at the heart of the showdown. National Capital lends to "any kind of business that would have a reason to be near the seat of government," such as lobbying and government relations firms, said Richard Anderson, the bank's president and CEO. But it also works with nonprofits, private schools, retail businesses and restaurants.

January is traditionally a slow month for business anyway. That could help blunt any impact of the shutdown, he said.

"We have our antenna up and our feelers out to see how our client base is dealing with this," Anderson said. "From the commercial side, we aren't having folks coming in and saying, 'I can't make payroll.' "

But if the shutdown continues past 60 days then "it will start to get tricky," Anderson added.

President Trump has threatened that the shutdown could go on for "[months or even years](#)" if he doesn't get funding to build a wall along the U.S.-Mexico border. So far congressional Democrats have refused to give in to his demands. Bipartisan efforts to reopen the

government at least temporarily while separate negotiations happen over border security have failed.

America First Credit Union in Riverdale, Utah, has already started reaching out to some business clients that have had a returned check recently or indicated any concerns during a visit to a branch, said Blake Weathers, vice president of business services. The \$10.2 billion-asset credit union makes loans, including commercial real estate credits, to a range of businesses across several states including Idaho, Arizona and Utah.

Utah is home to about 29,000 federal employees, and about a third of those workers are going without pay, according to Governing, which produces analysis and news about state and local government issues.

"I'm sure there are some" businesses "that are feeling the effects," Weathers said. "We have locally a fairly large contingent of federal employees and there's probably some effect for those operations. As for restaurants and coffee shops, there might not be as much traffic because [employees] aren't going to work."

Jeff Dick, chairman and CEO of MainStreet Bank in Fairfax, Va., said some companies that do work for the federal government took a hit less than a year ago when some contracts were slow to be awarded. That forced some of those companies to burn through their liquidity. That could complicate financials for those companies now if the shutdown affects them.

Dick said is concerned that other small businesses could be suffering due to falling foot traffic. Like other executives, Dick said the \$1.1 billion-asset MainStreet would work with individual businesses to develop plans to help them weather this current blip. That could be taking steps such as making a bridge loan or extending the time they lend against receivables.

"If you aren't getting a paycheck, you aren't able to go out and enjoy entertainment," Dick said. "I think the full force of this won't be realized for probably weeks from now."

Point Breeze Credit Union in Hunt Valley, Md., has run into trouble getting tax information from the Internal Revenue Service to verify information in business loan applications, said Bernard McLaughlin, its president and CEO. While the IRS is one of the agencies affected by the

shutdown, some staffers are expected to be called back to work later in January to handle tax season.

With roughly 28,000 federal workers in the state currently going without pay, Maryland is one of the top five states affected by the shutdown, according to Governing. McLaughlin said he believes that many small businesses are prepared to weather some temporary declines in revenue.

But McLaughlin also predicted that if the shutdown extends another 30 days, it could “get really serious on all fronts.”

“Overall the government shutdown for Point Breeze has had minimal impact,” he said. “But I will throw in the caveat — it is the longest shutdown in history and it is early yet. It is may be too early to tell. If this drags out, then it is obvious that it will have a much more detrimental effect.”

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