
THE SMALL BUSINESS

by [Steve Brown](#)

One of the hottest growth sectors in banking is the small business customer. Large banks, credit unions and finance companies are tripping all over themselves to attract this lucrative and fast growing customer base. Both Wells Fargo and BofA have publicly proclaimed this area to be a focus in 2006 and beyond. In many markets, such as Las Vegas, Northern CA, Miami and Atlanta, small businesses have been growing at a 22% annual rate or greater. Not only is this a fast growing customer base, but it delivers the ability to cross-sell both commercial and retail products and happens to be extremely profitable. Because of this, almost 60% of small business customers are profitable versus 32% of commercial and retail. Further, under the new Basel II framework, banks that extend credit to small and medium sized businesses may be able to hold lower capital - to the tune of 10% less. Several years ago we conducted a series of small business focus groups in an effort to distinguish their thoughts on banking. While we will be discussing what products, services and delivery platforms are best suited this customer segment at our High Performance Bank Workshop coming up in July, here is a quick overview. A successful small business initiative begins with satisfying 3 criteria: 1) physical proximity - if not a branch, then a kiosk, loan production office or courier-type service to handle customer needs is required; 2) individual and personalized service - before expanding your small business initiative, ask what it is about your service that is attractive. "Superior customer service" is one of the most overused clichés in banking. If you can't define or quantify "service", chances are you can't sell it either. Find your bank's value proposition and build a brand around it. At a minimum, decision making needs to be rapid and localized; 3) technology - despite what bankers rationalize, 84% of small businesses expressed a strong interest in technology. Account management, electronic statementing, product research, an ACH gateway, ability to prepare wires and a host of other Internet options are all at the top of the small business' list of "desired items" from their financial institutions. In the last 6 months, remote item capture has rocketed to the top of this list. Beyond this, small business credit needs include: competitively priced working capital lines (including overdraft coverage), credit card availability, real estate and receivable financing (in order). Next to credit, a healthy array of cash management products is extremely important. ACH, wire transfers, cash sweeps and international settlements round out this list of cash management features. Finally, small businesses care about ancillary services. Helping protect your clients from identity theft, check and employee fraud are all important. One bank we work with is successful at holding regular credit evaluation seminars. The bank helps small businesses establish and manage credit lines to their customers. Small businesses have a unique and diverse set of needs, so banks that take the time to develop, market and manage a bundle of services (designed for this segment), will undoubtedly recognize an increase in profitability.

BANK NEWS

Acquisition

Banco Bilbao Vizcaya Argentaria will acquire two Texas lenders for nearly \$2.6B as it seeks to expand in the U.S. BBVA will purchase Texas Regional Bancshares (\$6.6B, TX) for nearly \$2.16B or 3.11x book, and State National Bancshares (\$1.6B, TX) for \$480mm, or 2.26x book.

Acquisition

Republic Bancorp (\$2.7B, KY) will acquire GulfStream Community Bank (\$66mm, FL) in a transaction valued at nearly \$18.1mm or 2.02x book.

Downstream

Given the recent slowdown in the mortgage market, Wells Fargo is shifting focus to less creditworthy borrowers as the bank seeks ways to maintain lending volumes. Wells recently introduced a new program designed to help people with lower credit scores improve their finances.

Network Expansion

JP Morgan Chase is significantly expanding its ATM network in FL by branding nearly 300 ATMs in Walgreens stores throughout the state. It will boost the number of ATMs from 70 to over 400.

Small Business Optimism

The index fell to 98.5 in May from 100.1 in April, however small firms that plan to expand their business remained steady at 18%.

BERNANKE ON BANKING

The FOMC Chair's speech last night carried on the standard Fed line about how banks must be more active in managing credit risk and how strong capital can help with unexpected credit shocks. During the Q&A session, Bernanke reiterated the Fed's concerns about ILFCs and banks owned by commercial concerns. Bernanke also said that regulators will issue guidance over the use of some types of variable-rate home mortgages.

Copyright 2018 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.