

## Patriotic Lending

by [Steve Brown](#)

There are few things as patriotic as making a loan to a small business. Doing so ignites an economic rocket that drives our country. Community bankers originate most loans to small businesses, but studies find this customer segment has been changing and is increasingly vulnerable. Today, about 30% of small businesses have 2 financial institutions and 22% use 3 or more. The good news is that about half of all small business customers say they still conduct most of their financial business with a single community bank (under \$1B in assets). Lest community bankers get complacent, however, note that the same studies also found larger banks (above \$10B in assets) have increased their market share from 24% to 38% over the past 5Ys. As the data shows, competition for this profitable customer segment (small business customers are 5x more profitable than consumer) has been increasing sharply. Community bankers should also note that 21% of small business customers have shopped for a new financial institution in the past 3Ys, so they are vulnerable. While only one-third of shoppers actually ended up switching banks, customers that looked around said they did so because they were looking for a better deal and were dissatisfied with their current bank. Those are the pro-active customers, but it is important to note that 75% of customers who changed banks were not actively shopping around (most simply responded to a marketing offer or sales call). Continually surveying and visiting customers to discern areas of improvement and dissatisfaction are critical tools community bankers should be utilizing as they defend hard fought customer business. Of interesting note, community bankers that make it easy for customers to switch institutions stand a much better chance of landing new business. In fact, 18% of small business customers say they would switch banks if it were easy to do. Banks may want to consider creating a specialized team to assist customers in the switching process. This group could help fill out and process the paperwork, while offering specialized loan and cash management products. Calling on customers, special marketing offers and consistent marketing can all produce significant results. Loans that have been paying consistently, but carrying higher spreads and coupons, should be identified as carrying the highest risk of refinancing. Small business owners have a greater awareness that there are more options than ever before, which is increasing the refinancing rate on their loans. In fact, 53% of small business customers switched banks because they received better loan terms and 47% did so to gain access to expanded services. It is important to recognize that the days of sticking one's head in the sand and hoping "great loans" priced at Prime+1% don't pay off are gone. Customers have more choices now (70% say the number of banks operating in their market has significantly increased in the past 3Ys), they are more aware (small business owners can name 7 different banks operating in their area) and competition for their business is greater (74% receive mailings, 65% receive phone calls and 57% report in person visitations). Holding onto this customer segment these days is all about offering customized financial products and services, maintaining active contact, staying proactive (think about refinancing some of your customers yourself to keep the relationship) and constantly monitoring and refining product mix to match competitive offerings. Small business lending has seen plenty of fireworks as of late, but community bankers are up to the challenge.

### BANK NEWS

**M&A**

Washington Federal (\$9.9B, WA) will buy First Mutual Bancshares (\$1.1B, WA) for \$189.8mm, or about 2.6x book.

### **M&A**

The banking subsidiary of Mutual of Omaha Insurance will buy the HC of Nebraska State Bank (\$262mm, NE) for an undisclosed sum. This is the 3rd bank acquisition announced recently by Mutual of Omaha.

### **Debit Card Protection**

A bill introduced in the House last Thursday would require banks to provide the same level of protection for fraudulent or incorrect debit card charges as they do for credit card transactions.

### **Tighter Lending Standards**

Federal regulators issued guidance regarding hybrid adjustable-rate mortgages in an effort to correct problems in the subprime mortgage market. The new provisions would severely limit the use of stated-income loans, curb prepayment penalties and require lenders to use a fully-indexed rate when underwriting.

### **Debit Rewards**

Portland, Oregon's Umpqua Bank has launched a merchant-based debit reward program that gives customers cash back for purchases at local businesses. Umpqua's merchant-based program is unique because, rather than funding rewards through interchange fees, merchants pay cash back (20% on initial purchases and 14% on subsequent purchases) only after customers shop at their stores, and do not pay an up-front fee. About 200 businesses are participating in the program.

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