

Small Biz by the Numbers

by [Steve Brown](#)

Ever wonder how the popular search engine Google got its name? The now famous moniker is actually a play on the word "googol," which is the term for a very large number--the number 1 followed by 100 zeros. Here's another interesting word/number connection. To remember the value of Pi (3.1415926), just count each word's letters in the phrase: "May I have a large container of coffee?"

As bankers, we all know how important numbers are. In particular, we turn your attention to a few numbers as they relate to small businesses.

In 2010, there were around 27.9mm small businesses in the US. They employed about half of the country's private sector workforce and accounted for 64% of the net new jobs created between 1993 and 2011.

Small businesses remain a fast-growing facet of the economy, and yet nearly 1 in 3 still cannot access adequate financing, according to The Small Business Association (SBA). We're well aware how tough it has been for our nation's entrepreneurs for the past several years. The good news is that the tide seems to be shifting. The bad news is that there still seems to be a great divide between the haves and the have-nots.

Opening up the loan spigot - responsibly, of course - is good for the economy. It ultimately leads to job growth and greater spending. It's also a prime opportunity for community banks to forge new relationships with small business customers.

For a host of reasons, we don't recommend a laissez-faire approach. To continue to compete for loan growth, bankers must be proactive and stay in front of customers and potential customers or risk losing out. Large banks aren't sitting on the sidelines and neither should community banks.

Two years ago, for example, 13 large banks agreed to collectively increase lending for small businesses by \$20B over the course of 3Ys. They've already upped their SBA total lending by roughly \$17B, putting them on track to meet their goal by the end of next year. That means refinancing of small business loans has increased (as new activity is tougher to find) and deals are getting done at attractive levels for small businesses.

Another area to monitor is credit cards. Credit cards are a mainstay of financing for small business owners, so it makes sense to ensure your rates are competitive. According to the SBA, 56% of small business owners pay credit card interest rates of 15% or more. Granted, this business too is highly competitive and volume matters, but there might be some ways to make your offerings more attractive and beneficial to small business owners, so it is worth a try to discuss options at your next management team get together.

Here are some more numbers to consider. SBA data shows that the annual turn-over rate for small business is between 10% and 12%. Further, about 50% survive at least 5Ys and 33% make it 10Ys or more. The data shows many small business owners don't know all that much about business and that's where having experts at your bank can help. Jump in head first on financial matters and share your expertise to capture new customers.

According to SBA, there are more than 70mm people in the US that work for or run a small business. That's a hefty number as it represents about 25% of the total population. If you aren't already doing so, now is a good time to figure out how to make the most of your existing small business relationships and to pursue additional ones, so run the numbers to see what makes sense and keep executing on plans that are working.

BANK NEWS

M&A

Talmer Bancorp (\$4.9B, MI) will buy the remaining banks (Bank of Las Vegas, Indiana Community Bank, Michigan Commerce Bank and Sunrise Bank of Albuquerque) from Capitol Bancorp (\$1.4B, MI) out of bankruptcy. Talmer is backed by billionaire Wilbur Ross.

Earnings

Bank of America reported higher 3Q profit as improved credit quality offset weaker revenue from fixed income and mortgage banking activities.

Settlement

JPMorgan Chase will pay \$100mm to settle a CFTC inquiry into its so-called London Whale transactions, following \$920mm it already paid to settle other inquiries by the US and UK governments.

Settlement

SunTrust Bank (\$167B, GA) will pay \$1.5B to settle claims of poor lending, servicing and flawed foreclosure practices related to residential loans.

Calmer Waters

The CFPB said it will no longer physically send enforcement attorneys to regular bank examinations. Bankers welcomed the news as the prior structure was seen as hostile right from the start.

D&O Insurance

The FDIC sent a notice to banks warning directors and officers to check liability insurance policies because they would face personal liability if the insurer does not cover damages. The advisory reminds directors and officers to closely review exclusionary terms or provisions (such as absolving the insurer's responsibility if a defendant is accused of fraud or other illegal conduct). This notification could increase M&A activity as more bank directors determine staying in the banking business is simply becoming too risky.

Gen Y

In 7Ys, research shows Gen Y consumers will represent 40% of the US workforce.

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