



- ☐ yes
☐ no
☒ maybe

A Bear Of A Small Biz Lending Survey

by [Steve Brown](#)

If you're an animal lover looking for your next vacation hot spot, a visit to Churchill, Canada in the province of Winnipeg could be an enticing destination. Known as the polar bear capital of the world, it is one of the few places inhabited by humans where polar bears can be observed in their natural habitat. Prime viewing times of the tundra environment are during October and November, when the bears are on the move from their summer lodgings. You can see them eating, playing and on the go, learning more about them as they interact with their surroundings.

Banks are also on the move when it comes to small business lending. Consider what can be learned from customers by stepping into their shoes. For more perspective, here are some observations from online focus groups the Cleveland Fed recently conducted. The findings were compiled into a study that provides several insights into how small business borrowers approach borrowing. While the sample size is too small to drive sweeping policy changes, the results are a good conversation starter for community banks and their customers as our industry continues to grapple with how best to compete with alternative players.

Focus group participants consisted of 44 mom-and-pop business operators with 2 to 20 employees and less than \$2MM in annual revenues. The businesses represented a variety of industries throughout the US. Of note, about 25% of the participants had direct experience with an online alternative lender. Others were at least vaguely familiar with online lenders or had heard the names of a few larger players in the space.

The findings corroborate similar studies that show small-business owners seek financial advice from a number of sources, including banks. The focus groups also highlight a growing problem for banks--that small businesses don't necessarily perceive banks as a likely source of short-term credit. Quite a few participants cited concerns about their ability to satisfy banks' lending criteria, while others expressed doubt that banks would lend to businesses of their size.

The focus groups also provide some insights into the concerns of small-business owners about online borrowing. Small businesses said they want clear and concise information about loan products, particularly when it comes to cost. They also want an easier way to compare product offerings. The findings underscore the high level of confusion that exists among small businesses about the various funding products that are available. It also raises the question of whether implementing standard disclosures for alternative funding would prod borrowers to comparison shop, ultimately leading to better borrowing decisions.

One recurring theme small business owners expressed was concern over the safety and security of their business information. Automated record pulling and algorithms for underwriting are very important to the online credit industry, so this is a big deal. The findings suggest that in the event of a significant data breach, potential borrowers might become gun-shy about sharing the type of information that many online lenders depend on. It's an issue that alternative lenders and banks will

continue to contend with--how to create a streamlined, customer-friendly experience that simultaneously upholds the highest standards for data security.

Certainly, the study raises many questions to which we don't yet have the answers. As things continue to develop, we urge community bankers to engage small business customers in ongoing conversations. At the very least, it will help your team better understand and respond to ongoing lending needs.

BANK NEWS

Nonbank Lending

Regulators are warning banks they are closely monitoring loan activity between banks and nonbanks to be sure risk exposures are properly managed, correlations are measured and managed and that underwriting standards do not expose the bank to violations of fair lending laws. Regulators said bank activity with nonbank lenders will be a "focus" of supervision strategies going forward.

Building Liquidity

The Wall Street Journal reports the Depository Trust & Clearing Corp (DTCC) (which is used heavily by banks for investment securities settlement) is seeking \$50B from banks and trading firms. The money will be used to help shore up the finances of its Fixed Income Clearing Corp (FICC) that supports the \$2.6T repo market. Regulators want DTCC to increase its liquidity backstop to ensure resources are available to cover a large default.

Job Cuts

Dutch bank Rabobank Group said it will cut 9,000 jobs (about 19% of its workforce) in the next few years, as it adjusts the business model to stricter regulation. These cuts will be on top of the 3,000 already announced. The bank said its ROE goal after the cuts that it is seeking to achieve is 8%.

Plugged In

Research by Deloitte finds 48% of people surveyed check their phones up to 25x per day and those aged 18 to 24Ys old look at their phones 50% more than the next age group.

Boosting Productivity

A survey by Microsoft finds the primary issues workers in the US say reduces productivity are procrastination (42%), a lack of team communication (39%) and ineffective meetings (35%). Maybe this is something to focus on fixing in 2016.

Switching Reasons

A Market Force Information survey finds the main reasons consumers say they think about switching banks include: lower checking account fees (45%), unhappy with service (36%), the bank doesn't help them improve their financial well being (32%), better returns on money (27%) and an advertisement from a competitor (15%).

Technology Spending

A survey of IT professionals by Computerworld finds the top 5 categories where respondents plan to increase spending in 2016 are: security technologies (50%), cloud computing (48%), business analytics (41%), mobile applications (36%) and virtualization (35%).

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