Exploring The World Of Untapped Borrowers

by Steve Brown

For eons, people have stared up at the night skies and wondered when or if we might travel to a habitable planet. Roll forward to this year and astronomers report finding just that. Even better, this planet known as Proxima Centauri or Proxima b is only 4.24 light years away. It orbits the closest star to the sun, is about the size of the Earth and it may have water. This discovery is pretty interesting if you ask us.

In another interesting thing more directly related to community banking, we focus our energies today with some methods and madness around finding small business customers.

Business loans are the bread and butter of community banking. But with all the competition for business customers these days (including new alternative lenders), community bankers may feel the need to scramble for leads.

Conventional wisdom suggests that one good place to look is among successful existing businesses in need of additional financing for expansion, or at promising new businesses in need of capital. However, there may be another untapped market opportunity for bankers - successful business owners who simply refuse to borrow.

That idea may at first sound a little nutty, like trying to travel to the stars, but in fact, the loan-averse business owner may be an excellent prospect for a community banker willing to take the time to understand this type of business owner's needs and concerns.

Consulting firm Aite Group recently surveyed 600 small business owners who don't borrow money and asked them why. The results offer some clues about what motivates these self-financed businesses.

Aite asked business owners to rate the importance of various factors in their decisions to avoid borrowing. Slightly more than 50% said the fact that they had enough cash flow or savings to cover expenses was "very important" in their decisions not to borrow. Another 23% cited this reason as "important." In effect, 75% said they simply didn't need the money. In addition, these business owners tended to say they were philosophically risk averse and wanted to avoid borrowing money.

Ironically, all of this gives these business owners a favorable profile as potential loan customers. They probably won't take excessive risks and they appear to have sound cash management skills. Also, since they don't really like borrowing money, they can probably be counted on to pay back any loans they take out.

The same survey also offered some clues about the characteristics of business owners who are infrequent borrowers. They prefer dealing with their primary depository institution as opposed to alternative lenders. Score one for community bankers who already have deposit relationships with small business owners who are infrequent borrowers.

So how does a banker turn one of these business owners from depositor to borrower? The first step is to review the business and understand its needs. We know that community bankers excel in this area so you may simply need to revisit earlier discussions with your best deposit customers and prod gently to unearth possible lending opportunities.

Digging a little deeper, a banker can assess the credit and capital needs of the business, including such things as inventory, marketing, sales, and site requirements. Is the business poised for expansion that requires financing? Could it sell more if it had more inventory, which would require financing? Would the business be helped by investing in capital improvements?

Once you have identified those high value potential borrowers, remember you will still need to be competitive with your pricing and your lending process. Here, the survey indicated that infrequent borrowers tend to be very rate sensitive, so keep that in mind. In addition, the loan process needs to be streamlined and easy to use. About 50% of business owners who don't borrow cited dissatisfaction with the loan process, stating the difficulty of applying for a loan seemed to exceed its benefit.

Finding untapped borrowers can be an interesting journey, so enjoy it as you do so and ponder the future.

BANK NEWS

Complexity Matters

A survey by Phoenix Synergistics finds 63% of people want to open a new account at a branch vs. only 3% who prefer to do so using mobile and 60% would prefer to use the branch for mortgages vs. 2% for mobile.

AML Issues

Dow Jones & SWIFT research of risk executives worldwide on AML finds the greatest organizational challenges cited right now: having enough properly trained AML staff (57%); insufficient, inadequate or outdated technology (48%); too many false positive screening results (46%); budgetary constraints and increased scrutiny related to independent third party reviews (35%) & avoiding sanctions enforcement actions (20%).

Risk View

A Deloitte survey of board members and C-suite executives on risk management finds: 87% think risk management should drive value creation for the company, but only 18% actively harness risk to drive returns.

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