



Lending To Small Businesses

👤 lending business customers

Summary: As community financial institutions know, lending to small businesses can be tricky, especially if they are new ones. We provide some insight on the matter.

Every month an average of 543,000 new businesses are started, according to Yahoo. That is a huge number, but it is also worth noting that sadly only a fraction of those may survive.

As community financial institutions (CFIs) know, lending to small businesses can be tricky, especially if they are new ones.

In such cases, it is important to use both loan officers and underwriters who have extensive expertise on which small businesses will have enough cash flow, especially during economic downturns.

This is especially true for SBA and USDA loans, which come with complex loan documentation and underwriting requirements. More and more financial institutions are now outsourcing loan processing, and some are even relying on outsourcers for loan servicing. The outsourcer's fees are incorporated into borrowers' loan payments, so the financial institution's piece is made quite simple.

CFIs can also develop specialized niches, such as lending to a particular profession or to small businesses in low-income areas to help satisfy CRA requirements, for example. Here, we find a TX bank that offers two small-dollar loan products: an unsecured line of credit in amounts of \$500 to \$10,000 and a secured revolving line of credit in amounts of \$5,000 to \$50,000. Both loan products have competitive interest rates and no hidden fees. The bank reports it has seen some good traction too.

Some CFIs find other ways to finance small businesses that may not qualify for conventional credit, including offering accounts receivable factoring or other types of asset-based lending. However, this takes additional expertise, including knowing how to appropriately value inventory used as collateral. It also takes additional diligence to spot potential fraud with non-existent collateral, such as making regular unscheduled trips to a small business' warehouse and opening up the third box from the top to see if there is indeed a product in the box and if it actually works.

No matter which type of financing offered to small business customers, CFIs should have robust underwriting software that can also help monitor the loans too.

But, use of technology shouldn't stop there. As more and more fintechs are encroaching upon CFIs' bread and butter businesses, you will also want to consider the advancements of the latest digital banking apps and other services that small businesses are increasingly expecting. This also means applying and receiving loan funding much faster than ever before.

Above all, successful small business lending entails superior personal service to customers, including shepherding them through the process, if necessary. We know that this is an area in which you already excel. So, with a few tweaks, you can continue to lend to your small business customers successfully.

COME JOIN US IN ARIZONA!

The [WBA Annual Conference](#) (2/29-3/3) in Scottsdale promises to be an engaging event focused on successfully managing industry challenges. We hope to see you there!

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