Small Business Capital Needs

lending business customers

Summary: The SEC's inaugural report on small business capital development caught our eye. We provide you with some of the highlights.

We just read about a study with mice and flies that showed how a naturally occurring protein, Sestrin, produces the benefits of exercise. When this protein was maxed out in flies, they were capable of more activity, even without exercise. Where this goes, we don't know. But, the idea is to help geriatric patients or those with mobility issues. Could this even mean exercise may be a thing of the past?

Exercising your lending to small businesses is definitely not a thing of the past, and today we continue our discussion on this topic from our article last week, Lending to Small Businesses, to provide you with some highlights from an important new SEC report. This report on the state of small business capital formation highlights pain points certain small businesses are facing.

First of all, some small businesses have been hit hard by the movement away from smaller-dollar loans by banks, according to the inaugural report of the SEC's Office of the Advocate for Small Business Capital Formation. The report covers the time period from July 1, 2018 to June 30, 2019.

While smaller loans can be less profitable, the policy shift makes it more difficult for small businesses seeking loans of less than $100k. Also, many financial institutions it seems, won't lend to businesses with annual revenues of less than $2mm. These are decent customers for many community financial institutions (CFIs), so there might be an opportunity for you too.

To meet their funding needs, some small businesses turn to alternative funders. The trouble with that is once these fledgling businesses grow, they often continue to bypass financial institutions, which means lost revenue opportunities. These types of policy decisions are something you may want to take into account when refining underwriting practices.

The report also highlights challenges faced by women-owned and minority-owned businesses.

While not entirely surprising, it's disappointing nonetheless to see that these groups still face higher hurdles, when it comes to raising capital. By identifying these obstacles, CFIs should be able to capture these great customers too.

The study found that women-owned businesses are less likely to apply for bank loans, even though they are founding more startups than in the past. Research doesn't point to any difference in loan approval rates for men and women, and yet, women aren't as readily taking advantage of this option, it seems. The study doesn't identify reasons for the disparity, but you might consider doing some local market research to flesh this out further.

When it comes to minorities, it would seem there is even more work to be done, based on the study's findings. Disturbingly, the report notes that minority-owned businesses are 3x more likely to be denied loans, and they are also more likely to be offered a higher interest rate. These are great customers for CFIs, so this could be a good opportunity when seeking new customers.

Good luck, as you determine what opportunities this information may add to your planning, as you continue to grow your business.

<B>WEBINAR:</B> GENERATING UPFRONT FEE INCOME THROUGH HEDGING

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