Three Ripe Ways To Refine Your Lending Process

lending business customers pandemic

Summary: As businesses reopen and change gears, it may be time for community financial institutions to refine some of their lending processes. We give you three ways to do that.

The tomato is believed to come from Central or South America originally. There are 7,500 varieties, of which the heirloom variety is quite popular. Depending on the soil, water, and sun, you will get a different resulting crop. Similarly, businesses are finding the challenges of COVID-19 are affecting their result in different ways.

Even as businesses reopen, things are still in flux. Some businesses may shift to more online sales, need to reduce face-to-face interactions, and face unique credit challenges through this transition period. As businesses reopen and change gears, it may be time for community financial institutions (CFIs) to refine their lending processes and even possibly identify new segments. Using alternative data, processing with simple automation, and tapping into new profitable banking relationships could help.

Alternative data. Using alternative data isn't new. But, it could be a good option right now. FinRegLab, a non-profit focused on researching finance and tech, showed that broadening data sources sped up identity verification for PPP loan applicants who did not already have an existing relationship. To construct a borrower profile in compliance with due diligence requirements, institutions combined data from phone usage patterns, online marketplaces, payment processors, business review sites, social media, and delivery services. When this data can be corroborated with other data, you get a more legitimate identity of the borrower. However, your process may not need to be as involved to get more clarity on customers and their creditworthiness.

Simple automation. Before you opt for machine learning or sophisticated analytics to help with your lending process, it's important to recognize the impact that smaller digitization efforts can produce. Facilitating easier document upload management and integrating payroll data through APIs can provide you with the information needed quickly to assess lending viability and spot any potential credit risks.

New banking relationships. While CFIs know their customers better than anyone, you may want to broaden your customer base (for PPP loans for instance). Business customers are still in need of funds and the PPP application deadline was just extended. Approximately $130B is still available. The Fed reports businesses that are younger, women-owned, or located in low-to-moderate income areas are less likely to have a relationship with a traditional financial institution. These businesses may turn to you and be a good opportunity, if you are looking for new business customers.

We know that it is still a little complicated to lend in the current environment. Interest rates are so low that NIM is squeezed. Borrowers could be defaulters with the high unemployment rate curbing consumer purchases. But, looking cautiously at your borrowers with fresh eyes and some of the tips suggested may at least help.