Four Ways To Successfully Ramp Up SMB Lending

technology lending business customers

Summary: As the economy opens up more and more, community financial institutions will be looking for ways to use their liquidity and boost SMB lending. We give you a few ways to do that: leverage automated processes, continue to offer SBA loans, boost construction lending (in the right markets), and create new lending niches.

Amazingly, there was a tunnel built underneath the Euphrates River joining two parts of Babylon back in 2160 BC. This was the largest underwater tunnel until 1824 when a tunnel was built underneath the River Thames. These were incredible feats!

Turning to more of a metaphorical tunnel, we can finally see the light at the end of the pandemic tunnel. As the economy continues to gain steam, community financial institutions (CFIs) will be looking for ways to use their liquidity and boost small and medium-sized business (SMB) lending. Here are four ways to do that.

1. Leverage automated processes. As SMBs rushed to apply for Paycheck Protection Program loans, many CFIs had to either adopt new technology to expedite their lending processes or partner with fintechs and other vendors that could help them. Indeed, roughly two-thirds of CFIs last year accelerated their automation plans, implementing functionalities like electronic signature capture to fast-track the lending process. Post-pandemic, experts believe the road to automation across the industry will be even faster as the expectations among SMB customers for more efficient services have been heightened. Many are now familiar with mobile banking and will likely continue using it for the convenience. Focusing on updates and advancements as needed is important to stay competitive and retain those new customers you worked hard to earn.

2. Continue to offer SBA loans. Not only did CFIs rise to the occasion for PPP loans, but also for other SBA lending. CFIs should consider providing not only SBA 7(a) loans for working capital, but also SBA 504 loans to finance fixed assets like real estate or equipment. These loans are another great way to deepen relationships, as borrowers could subsequently need deposit services, additional lines of credit, or loans outside the SBA programs to keep their businesses going.

3. Boost construction lending (in the right markets). As the economy recovers, so will construction activity. In fact, the Dodge Momentum Index rose 8.6% in April and is now at a 12Y high, with a 77% spike in momentum within the institutional category, which includes healthcare, education, dormitories, recreation facilities, and public buildings like courts and prisons.

Like other areas of banking, construction lending is also getting a boost from automation, as more CFIs are now adopting technologies or enlisting the help of fintechs and other vendors for back-office support and subsequent loan servicing activities.

CFIs can also create specialized areas of focus within construction lending, like working with developers to build smart homes or smart commercial office buildings that leverage IoT sensors within HVAC, lighting, and other systems to automatically control them, even remotely, making the structures more efficient.

4. Create new niches. Digital transformation has spawned the creation of new types of niche lending for CFIs far outside their physical branch footprints — a trend that is gaining even more steam as the pandemic subsides. A CFI in WI offers luxury motor coach loans nationally through its online platform, and its business is set to explode as cooped-up people during the pandemic shutdowns are now itching to travel the open road. Likewise, a CFI in MA is set to have a banner year within its online yacht loan program to customers nationwide. There are certainly other niches out there as well.

CFIs can be more nimble and proactive than larger financial institutions; taking advantage of that flexibility will serve you well in this evolving market.

LOOKING TO GROW YOUR LOAN PORTFOLIO?

Financial institutions are looking for ways to boost their loan portfolio. Depending on your portfolio concentration, you may need C&I loans or choose a hedging solution to satisfy the long-term, fixed-rate needs of your customers. Check out our Lending Services to find the right solution for your institution.

ECONOMY & RATES

Rates As Of: 05/25/2021 05:15AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.02	0.01	-0.07
6M	0.03	0.00	-0.06
1Y	0.04	-0.01	-0.07
2Y	0.16	0.00	0.04
5Y	0.81	-0.04	0.45
10Y	1.59	-0.04	0.67
30Y	2.29	-0.01	0.64

FF Market	FF Disc	IORB
0.06	0.25	0.10
SOFR	**Prime**	**OBFR**
0.01	3.25	0.05