



Niche Lending: It Pays To Step Out of Your Lending Comfort Zone

🔖 [lending](#) [business customers](#)

Summary: Niche lending can be extremely lucrative — if executed correctly. We highlight some niche industries that are bringing success to other CFIs and provide guidance on how to identify unique, profitable niches in your area.

What happens when a mountain lion temporarily occupies the same niche as a wolf or a bear? [The mountain lion will retreat](#) — even after it has killed any prey — and let the more dominant species take over. Which is why only one member in that top echelon of the food chain typically has reign over a particular geographical territory, while the mountain lion resorts to outlying areas such as forests and steep inclines to avoid more aggressive predators.

The word “niche” has many different meanings, but for community financial institutions (CFIs), it can mean focusing on a lucrative specialty line of business to expand a portfolio.

General businesses that serve a wider range of individuals most likely comprise most of a CFI’s commercial business customers, but there is something to be said for businesses that take up the Unix philosophy of “do one thing and do it well.” While that philosophy was originally applied to software design, it can also be applied to niche businesses that find that one unique category or calling and do that one thing exceptionally well.

With the help of technology, CFIs can seek out these niche businesses from outside their regional footprint, whether that’s nationally or even internationally. According to PwC in their 2021 Digital Banking Consumer Survey, with the rise of alternative financial institutions that are not tied to a location, CFIs and other traditional financial institutions need to break away from relying on their geographical location and pursue “[a well-defined customer niche with a relevant offering](#).”

Niche Business Examples

Here are a couple of niche lending areas — among many — that CFIs are capitalizing on:

Microbreweries and distilleries. Heartland Bank in Whitehall, Ohio has a dedicated lending group that serves almost 30 craft brewery and distillery customers who make beer, bourbon, vodka, or other spirits. The CFI makes CRE loans for facility purchases and arranges financing for the purchase of new equipment and raw materials, such as hops.

Heating, ventilation, and air conditioning contractors. Some CFIs are lending money to HVAC contractors to purchase properties and equipment, along with offering them working lines of credit. But the niche lending sector also provides an opportunity to white label an online lending platform that an HVAC contractor can offer its own customers who might need financing to purchase a new heating or air conditioning system.

Identify Your Niche

It’s important to enter niche lending with a thoughtful, methodical approach. Here are a few things to keep in mind if your CFI is interested in breaking into a new niche lending and business category:

- Identify an optimal client base with a segmentation strategy.
- Determine what products and services that client base would need from you. Aim for a well-rounded relationship that’s not just based on lending.
- Consult an expert to have a full understanding of both the opportunities and the credit risks associated with the new lending area.
- Enhance your marketing strategy by actively participating in that sector’s industry associations and events.
- Consider implementing a lending and account opening process that’s tailored to that industry.

Developing a niche lending area with commensurate deposits and other products and services can be quite rewarding and distinguishes your institution from the competition. But do your homework about your sector of choice, hire expertise, and foster relationships within the sector at industry functions, and you stand a much better chance of succeeding.

LOOKING TO GROW YOUR LOAN PORTFOLIO?

Is your institution looking for ways to boost your loan portfolio? PCBB offers a variety of lending solutions, including loan participations, national shared credits (C&I loans) and hedging solutions. [Discover which solutions are right](#) for you and give us a call to get started at (888) 399-1930.

ECONOMY & RATES

Rates As Of: 02/05/2024 08:15AM (GMT-0800)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.43	0.01	0.03
6M	5.22	0.04	-0.04
1Y	4.86	0.15	0.09
2Y	4.47	0.26	0.22
5Y	4.13	0.30	0.28
10Y	4.18	0.26	0.29
30Y	4.35	0.18	0.32
FF Market	FF Disc	IORR	
5.33	5.50	5.40	
SOFR	Prime	OBER	
5.32	8.50	5.32	

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