



Helping SMBs Juggle Success in a High Interest Rate Environment

small business business customers economy

Summary: Although the Fed has kept interest rates steady since mid-2023 and may cut them sometime this year, they're still the highest they've been in many years, and they continue to impact small businesses across all industries. We discuss three ways in which CFIs can support their small business customers as they navigate the high interest rate environment.

Did you know that the [Guinness World Record for the most balls juggled](#) is 11? This record was achieved by Alex Barron from the UK in April 2012. More recently, on May 16, 2023, David Rush from Idaho achieved the record for the longest duration for juggling three objects: 13 hours, 10 minutes, and 5 seconds. Small businesses are also keeping up a juggling act of their own lately, trying to keep up their profits amid a market with skyrocketing costs and the highest interest rates seen in 22Ys.

What's more, although inflation appears to be moving towards the Fed's 2% target, it was higher than forecast in December 2023, at 3.4%. As such, many small businesses are having to juggle increasing costs, higher interest payments, reduced cash flow, lower consumer spending, and greater difficulty accessing finance — all of which can be a drag on growth and profitability. In fact, a 2023 survey highlighted that [50% of small businesses](#), across all industries, have experienced eroded margins, reduced revenues, and reversed growth because of high interest rates.

To cope with these challenges, businesses are likely making cash flow management a priority, alongside potentially adjusting their pricing, marketing, and product offerings. They're also likely to be shopping around for more attractive loan rates and more flexible lending requirements. Here are some ways that community financial institutions (CFIs) can support their existing small business customers as they navigate these challenges, as well as make themselves an attractive option to new business customers.

Three Ways CFIs Can Support Small Business Customers in a High-Rate Environment

1. Deepen Relationships

CFIs are well known for forming strong relationships with their business customers. Personalized relationships are crucial for building trust and understanding, and become even more important when the economy is tight and businesses are seeking more financing support.

While businesses will, of course, be looking for the best deals, CFIs can differentiate themselves by emphasizing their personalized, customized relationship banking service. Key to this is remaining responsive to their business clients' needs and working closely with them to ensure they're thinking about their longer-term goals beyond short-term interest rate pressures.

2. Offer a Wider Range of Services

As well as advice and guidance, small businesses may need access to specific products and services to help

navigate the high-interest rate environment. CFIs might position themselves as go-to providers for services such as:

- **Payment processing and cash flow management.** These are key for small businesses seeking to increase efficiencies, better forecast cash balances, and minimize transaction fees and delays in payment processing. Small businesses are often turning to fintechs for these solutions, so CFIs need to promote themselves as providers of choice for these products.
- **Treasury management.** By providing small business customers with [treasury management services](#), CFIs can help them use their funds more efficiently, maximize investment returns, and minimize risk in the long run — thereby providing a stronger foundation for financial stability. These services are particularly important to small businesses, as margins and resources tend to be tight.
- **Financial education and resources.** CFIs can help empower their small business customers by providing them with advice, tools, and resources that help them feel more confident to make decisions in a high-rate environment.

3. Build on Local Partnerships and Knowledge

CFIs should make the most of their insights into local economies and opportunities so that they’re well-positioned to make lending decisions tailored to the unique needs of businesses in the local area.

Partnering with local organizations such as chambers of commerce, economic development agencies, and small business administration associations can help CFIs keep up to date with local needs and be responsive to local regulations, as well as help them to offer personalized services based on local knowledge. Such partnerships can be key to enabling a CFI to offer small business customers additional services, advice, and resources relevant to current economic conditions.

Interest rates are still presenting challenges to small businesses, which means they’re looking for solutions to help them become more efficient and resilient. CFIs are well placed to use their strong relationships and local knowledge to provide the products and services that small businesses need while rates remain high.

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ECONOMY & RATES

Rates As Of: 02/14/2024 10:08AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.45	0.03	0.05
6M	5.32	0.14	0.06
1Y	4.92	0.21	0.15
2Y	4.55	0.34	0.30
5Y	4.23	0.39	0.38
10Y	4.25	0.33	0.37
30Y	4.43	0.26	0.40
FF Market	FF Disc	IORR	

5.33	5.50	5.40
SOFR	Prime	QBER
5.31	8.50	5.32

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