



Hot Small Businesses

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Summary: Small business lending is a competitive market. We outline some of the details based on the latest [Community Banking in the 21st Century](#) report, including potential opportunities.

Inc. Magazine's list of the hottest industries to start a small business is thought-provoking. They crunched data from experts, fast growing sectors, investors and entrepreneurs and identified the following as the best: canned wine, disaster relief, beauty tech, eSports, elderly care, alternative-protein food products, influencer agents (turning social media followers into profits), and women's reproductive health care. Now you know where to focus your lending efforts in the coming year!

As you think about these interesting areas, we continue the conversation on small business lending and competition. To do so, we switch to data from the recently released [Community Banking in the 21st Century](#) report for additional insight.

No surprise that this report details intensified competition in small business lending. But, while respondents are concerned about big banks and alternative lending competitors, 85% of community bank respondents said their greatest rivals were other community banks (particularly those with less than \$1B in assets).

Although this report did not outline comparative data on small business lending, the same report from a year ago pointed out that small business lending at community banks dropped by 2.2% in 2016 vs. 2017. That decline compares to a 5.1% increase in SMB lending among large banks (>\$10B in assets) between 2015 and 2016, so clearly competition is running high.

In trying to deal with these competitive times, some community banks have lowered rates or fees to keep customers from straying, according to the 2018 report. Here, 20% of respondents said they typically will lower interest rates on small business loans due to competitive pressures. Yet, over 40% said that they rarely or never do, since rates are usually accepted with "little pushback". Similarly, 15% typically lower fees, but over 53% say they rarely or never do.

Needless to say, this isn't a good time to start losing small business customers. After all, these businesses are riding a 2Y wave that makes them even more attractive as borrowers.

Community banks may have additional opportunities to explore considering such strong customer relationships. Offering customers other useful services or extending current products to keep them from looking elsewhere can be an important precursor to capturing loan business.

As the 2018 report shows, there is still plenty of opportunity for community banks to provide additional services. While 27% of respondents said they provide long-term strategic advice as an additional service, and 21% provide general management advice, almost 75% said they rarely or never provide wealth management advice. Further, over 75% said they never or rarely provide a service connecting business customers with suppliers. These are just a few of the many options bankers can offer customers.

Of course, community bankers tirelessly connect with business customers and provide great service. Yet, with the current environment, the stakes are higher than ever before. It may be worth considering offering some new services to show customers how completely you support them. That way, they will have more reasons to be loyal when refinancing or getting a new loan.

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