Three Ways To Manage 2021 Lending Challenges

lending fintechs CRE

Summary: With tight competition for top-quality borrowers and high levels of deposits, lending has its challenges in 2021. Three ways to handle these challenges: book more working capital loans, manage CRE portfolio challenges, and monitor nonbank and fintech competition.

On May 29, 1953, Edmund Hillary became the first person to reach the 29,035 feet summit of Mt. Everest and return back home. Similarly, there are many lenders that are waiting to return back to a sense of “normalcy” after climbing the heights of the coronavirus.

The lending industry has been in flux as the pandemic has created a number of lending opportunities as well as challenges. Bottom line: most community financial institutions (CFIs) need to book more loans, as deposit-taking far outstripped loan originations last year throughout the industry. According to the FDIC, total bank deposits increased 22.3% in the first half of 2020, while total loans rose just 14.9%. For credit unions, total median deposits rose 21.8%, while loan growth dropped 3.4%, the NCUA states.

Meanwhile, competition for creditworthy loans is tight as we see a bifurcation (of sorts) between businesses that have flourished during the pandemic and those that have been hit hard.

Here are three ways for your institution to handle a few of the lending challenges in 2021.

1. **Book more working capital loans and revolving lines of credit.** Businesses that have needed to severely curtail their operations or shut down altogether will continue to need working capital loans and revolving lines of credit — including Small Business Administration financing through the 7(a) and 504 programs. Underwriting such loans may need to consider forward-looking metrics in addition to historical performance. To best accomplish this, CFIs will need to closely communicate with borrowers to assess their changing situations.
2. **Manage commercial real estate (CRE) portfolio challenges closely.** CFIs need to tackle increasingly problematic CRE portfolios, according to Real Capital Analytics Inc. Consider for instance, new distressed CRE assets spiked fivefold in Q2 2020 from the prior quarter to $30.4B — almost as much as the $35.5B recorded in Q4 2009 during the height of the last financial crisis. Two key differences between this recession and the Great Recession are the level of money flowing to households, and the monumental regulatory “leniency” that is being offered at many levels (to tenants, to borrowers, and to lenders). Still, CFIs need to continue to proactively manage loans, especially those made to restaurants and hoteliers that have been especially hard hit. CFIs need to continue considering loan deferrals or modifications, and as a precaution, network with potential buyers of bank-owned properties to facilitate deal-making, if necessary.
3. **Increase monitoring of nonbank and fintech competition.** Fintechs participated in Payroll Protection Program lending to businesses, which helped to boost their market share and now allows them to continue servicing business customers. These competitors are moving up the credit tiers too, including A- loans that CFIs depend on booking. Luckily, many CFIs were able to support their customers with PPP loans and will continue to service them. Yet, stay on top of the fintech and nonbank financial offerings this year as they will likely step up their game and continue merging with traditional FIs or gain bank charters on their own, where possible. This is especially true as consumers are growing more accustomed to doing business online.

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