



Five Lending Tips To Stay Competitive

lending automation funding

Summary: According to the Federal Reserve's Senior Loan Officer Opinion Survey, commercial loan demand is starting to increase. But, the competition is fierce. While some community financial institutions have increased their small business approval rates, will it be enough to stay in the game? Here are five lending tips to help your institution stay competitive.

Since the holidays are soon upon us, we thought it was interesting to see some of the expensive gifts given in the past. For instance, Katie Holmes received a \$20MM Gulfstream jet as a wedding gift from her then-husband, Tom Cruise. Meanwhile, Robin Givens received a 24-carat gold bathtub as a birthday gift, worth \$2MM from her then-husband, Mike Tyson. Expensive gifts don't seem to be a sign of relationship longevity, but they are nice for the receiver.

Businesses are glad to be on the receiving end of the gift of consumer spending these days. Consumer spending rose 1.3% in October, despite the stubborn presence of inflation. People are spending more, which in turn, causes businesses to seek more financing to fuel their growth. Community financial institutions (CFIs) are more than happy to oblige them.

Small banks' [approval rates on small business loans are on the rise](#), according to Biz2Credit. They increased to 19.7% in October from 19.5% in September. Credit unions stayed flat MoM, but still experienced 20.6% approval rates. *"We are seeing an increase in funding requests from transportation and warehousing companies. These industries have rebounded well from the pandemic," says Biz2Credit CEO Rohit Arora. "Entertainment-related companies are starting to come back, although restaurants are still hurting. Many small businesses are gearing up for the holiday season and need capital to cover anticipated additional costs."*

Demand is increasing across most commercial loan categories, according to the [Federal Reserve's latest senior loan officer survey](#). Numerous businesses are starting to invest again in factories and equipment, while others are financing inventories, accounts receivable, and M&A activities.

Flush with deposits from customers receiving stimulus payments and PPP loan proceeds, CFIs have been eager to lend excess liquidity and boost earnings. Yet, CFIs are not alone in this desire to increase lending. Bigger banks, fintechs, and other nonbanks are just as eager. Here are **five tips on how CFIs can get a leg up on their competition**.

1. **Ease terms.** Easing terms for those businesses that have otherwise been financially reliable and are in a recovering sector could help seal the deal. Of course, it is prudent to review the data along with the business plans to reinforce your decisions. Now that the economic outlook is more favorable and several sectors are recovering, financial institutions are easing terms on lines of credit, as well as CRE and construction loans, according to the Fed's survey. Heavy competition is a big driver of this practice.
2. **Aggressively market.** Being proactive in your sales and marketing, especially in hot markets, keeps your brand in front of the customers and can increase your loan activity over the competition. A CFI in OK is actively looking for deals, not waiting for businesses to reach out to them. *"There's definitely a need for*

construction lending in smaller markets,” its president says. *“This is also our first chance to get our bank’s name in front of people when they move into the area before anyone else does.”*

3. **Automate.** CFIs can save from 30% to 70% on back-office costs, if they leverage commercial loan origination software. Automation can also generate a higher loan volume. It would be easier for more customers to apply and loan officers would have more time to solicit new business. Taking the time to research and implement this type of software could give you an edge over other financial institutions.
4. **Expand offerings.** Look for areas where you can add more value to your community. A CFI in DE has expanded its construction lending business to people wanting to build vacation homes in its resort community. *“If a community bank wants to take care of the market, they need to offer a wide array of services they can manage,”* says its president. *“You don’t want to say no if you can develop a process and system that works.”*
5. **Enter new markets.** While entering new markets and establishing relationships take time, it could pay off nicely. A FL CFI dispatched loan officers into new markets last year. As the business grew, this institution was able to open new branches — one of the few institutions that did so during the pandemic. *“It’s the antithesis of ‘build it and they will come.’ That doesn’t happen,”* the CEO says. *“If you don’t have relationships, you won’t grow in that market.”*

Loan demand is increasing, but competition is fierce. Finding ways to proactively grow your portfolio will give you an advantage over the other institutions. Whether you use these five or others, we encourage you to find ways to grab your share of the market!

LOOKING TO GROW YOUR LOAN PORTFOLIO?

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ECONOMY & RATES

Rates As Of: 12/06/2021 12:34PM (GMT-0700)

| Treasury | Yields | MTD Chg | YTD Chg |
|-----------|---------|---------|---------|
| 3M | 0.06 | 0.01 | -0.03 |
| 6M | 0.09 | -0.01 | 0.00 |
| 1Y | 0.27 | 0.02 | 0.16 |
| 2Y | 0.63 | 0.07 | 0.51 |
| 5Y | 1.21 | 0.05 | 0.85 |
| 10Y | 1.44 | -0.01 | 0.52 |
| 30Y | 1.76 | -0.03 | 0.12 |
| FF Market | FF Disc | IORR | |
| 0.08 | 0.25 | 0.15 | |
| SOFR | Prime | OBER | |
| 0.05 | 3.25 | 0.07 | |

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