Grow Your Own Small-Business Loan Platform

BANKS THAT GROW REVENUES DO IT IN SPREAD OR FEES. To grow spread, increase your net interest margin or grow earning assets while maintaining net interest margin. To grow fees, either increase your fee schedule, or the activities that generate fees, or grow fee-based lines of business.

Since 2007, banks have been challenged to grow revenues. And if the bank strategic planning sessions I attend are an indicator, bankers think small-business account acquisition and growth will be a significant driver of revenues.

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This presents a challenge. Many if not most small-businesses are not "bankable" in the lending sense of the word. I once offered this hypothetical situation to a senior lender: An owner of a three-year-old engineering firm wanted to expand. The expansion would take him into the red for the next two years and his seed capital, taken from his personal savings and a home-equity loan was not enough to fund the expansion. He leased his office space. Would the senior lender make the loan? His response: "I'm glad you're not one of my lenders."

Would his reaction be different at your bank? Check out your current and recent past loan pipeline. How many non real-estate backed business loans did you make? Yet this hypothetical business is more typical of the businesses that will lead our economy forward. So to grow revenue, perhaps your bank should be a little more creative in getting capital to businesses of the future.

No risk appetite to do early stage business lending? There are alternatives to help that business get much needed capital to grow without plunking a risky loan on your balance sheet. Perhaps develop a small-business lending marketplace with several options. One option could be balance sheet lending in the form of home-equity loans or other similar avenues that fit your bank's risk appetite. Think: Your Bank's Small-Business Capitalizer package.

If outside of your risk appetite, how about SBA lending? Ridgestone Bank in Wisconsin ($395 million in assets) was ranked seventh in SBA 7(a) lending last year, generating between $20 million and 25 million in gain on sale of loans per year.

SBA loans not an option for our hypothetical engineering firm? How about a partnership with a peer-to-peer lending platform such as Prosper that can be co-branded with your financial institution? Prosper will pay an affiliate fee for each loan offered. OnDeck Capital, which specializes in business cash flow lending, will also affiliate with financial institutions, providing another avenue to fund our hypothetical engineering firm.

It's not necessarily the affiliate fees that will move our revenue needle. It is, rather, the fact that providing budding businesses the needed capital to succeed will build loyalty, deposit balances, and eventually "bankable" loans should these businesses succeed. By being shortsighted, we send them elsewhere, giving a potential competitor the opportunity to win these businesses' relationships.

Imagine the "Your Bank" small-business loan platform, with multiple opportunities for the local business person to help fund their growth. You start with the least expensive, such as "bankable" real-estate secured loans from your bank, and work through the other options such as SBA, OnDeck, Prosper, and even equity platforms such as Kickstarter. That would be a bank dedicated to small-business capital formation and growth within its communities.

And a growing community usually leads to revenue growth at your bank.

Or you could stick to business as usual and hope small businesses come your way. Your choice. ■

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