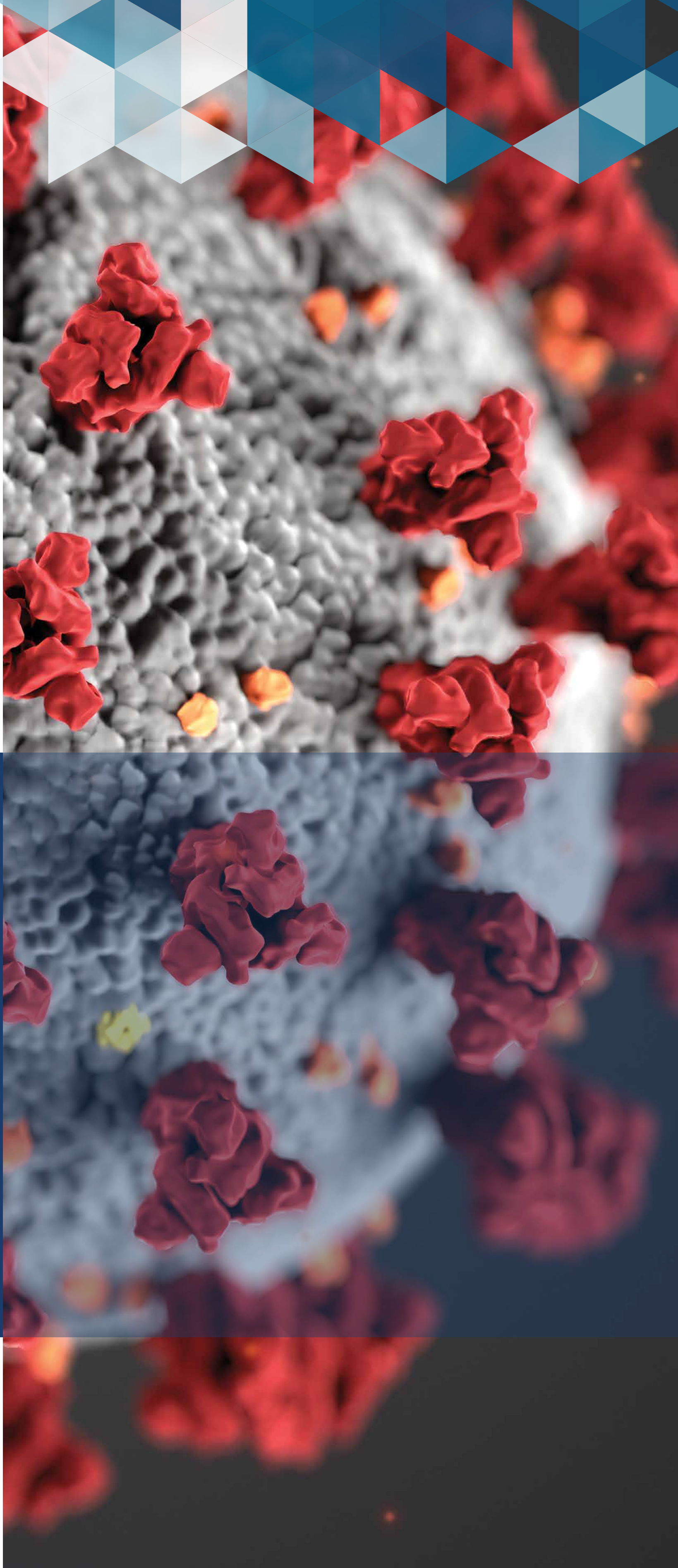

THE CORONAVIRUS

Impact on Small Business Lending

bakerhill NextGen

WHERE TO START.

Small businesses need access to capital now more than ever before—time is of the essence. Small businesses not only have the least amount of excess working capital, they also have the highest risk of closure. It is important for financial institutions to partner with a solution that can help small businesses obtain the necessary funds while allowing banks and credit unions to address credit concerns.

A crucial piece for small businesses to overcome these challenges is the ability to share information across all parts of the financial institution. The right solution will provide robust reporting capabilities that allow transparency from pipeline management to operations.

CRITICAL PILLARS FOR SUCCESSFUL SMALL BUSINESS LENDING:

Determining the right solution for your institution can be overwhelming. There are four most critical pillars for successful small business lending.

1

Quick access to money.
Unlike commercial enterprises, small businesses cannot wait weeks to get needed funds. Evaluate the many facets that can assist in streamlining approvals without increasing risk.

2

Simplify requirements.
It's true, you can simplify loan requirements without jeopardizing the financial institutions credit risk model. Learn what information your institution needs to make a strong, predictive business loans with ease.

3

Focus on your sweet spot.
Is now the right time to try your hand lending to new industries or new lines of business where you have no experience? Leverage your financial institution's knowledge to make good, quick loan decisions.

4

Leverage available programs.
Both state and local levels of government are working to support small businesses in the U.S. It is important to know and understand what options are available for your financial institution to quickly propel funds to small business clients and stay up to date on the changing programs.

QUICK ACCESS TO MONEY.

While many financial institutions have diligently worked to give small business clients faster loan decisions, others have lagged in this effort. It is time for all financial institutions to embrace the technology that is available and move to a more efficient, digital experience. Consider a small business solution that can manage the following:

ONLINE LOAN APPLICATIONS, CUSTOMER PORTALS, AND EMAIL.

In the age of technology, small business owners do not have time in their day to run to a branch, be interviewed by a branch manager, and complete an application. In order to grow your small business portfolio, it's critical to leverage a system that allows you to gather applications, needed financial information, and other documentation through a digital process. The right small business lending solution will give owners the freedom to apply online while using appropriate fraud technology to ensure the financial institution is making good decisions with accurate information.

CREDIT SCORES AND OTHER THIRD-PARTY DATA TO SPEED DECISION TIMES.

There is no benefit to getting the application and needed information quickly if underwriting process takes several days. Our experts recommend using credit scores and other data to decision loan requests quickly. To make a good loan decision, take the information you already know about your clients and their industries and pair it with third-party data.

ONE-TIME INPUT OF INFORMATION FOR BOTH THE CLIENT AND THE FINANCIAL INSTITUTION.

Making the loan application process and underwriting more efficient helps get loan proceeds into the hands of the small business owner faster, but it is not enough. Your loan origination solution should also make loan documentation easier by leveraging one-time input of information. This allows the client to enter the information once, and then underwriting enters the information once. This one-time input creates less errors, faster loan decisions, and quicker loan documentation.

02

SIMPLIFY REQUIREMENTS WITHOUT JEOPARDIZING THE FINANCIAL INSTITUTIONS CREDIT RISK MODEL.

Many financial institutions have operated under the model of "more information means less risk," however, that is not always the case. What we've found is that strong, predictive information means less risk. Information – including multiple years of financial statements for a small business loan – may just mean more paper. Now is the time to focus on the information needed to make a strong business loan. Consider focusing on the following requirements:

RISK TOLERANCE.

Some financial Institutions are willing to make unsecured credit card loans up to $50,000 with no financial information. However, this is no-less risky than a $25,000 line of credit secured by all assets. Use this time to determine your financial institutions actual risk tolerance. Is your starting point $25,000 with no financial statements? Maybe $50,000? Where can you work with one year of tax returns for the business and owner?

THIRD PARTY DATA.

Approximately 50-to-60 percent of all small business loan requests are declined. As noted in a previous section, our experts recommend leveraging third party data, including credit scores to decision small business loans at a faster rate. Credit scores have been around for decades and have proven their highly predictive capabilities. By taking advantage of this data and only handling additional information after an approval, you've reduced a significant amount of time and effort in your loan request process and can get the answer to the small business owner faster.

QUESTION THE CURRENT PROCESS.

For every requirement, ask yourself, "why do we collect this information?" Hint: 'because we always have' is not a good answer. For example, why would you choose to get proof of insurance on a $25,000 term loan secured by all assets? Have you lost money on a loan of this size due to a fire?

Apply this same line of thinking to the post-approval process as well to continue creating efficiencies within your institution. By streamlining the requirements both pre-and-post approval, you'll get capital to the small business owner faster without increasing risk.

03

FOCUS ON YOUR SWEET SPOT.

Every financial institution has a defined skill set, a type of loan or industry set it knows better than anyone else. That is the “sweet spot.” This is where you can do your best lending and help small businesses gain access to capital quickly.

To help more small businesses, it is tempting to want to lend to businesses types that you have no experience within or outside of your footprint. However, it is important to use your in-house skills and focus on what you know.

We understand small business loans at this time will be riskier than others in better economic conditions. However, there’s no need to make the situation more challenging by moving out of your “sweet spot.” Keep lending to industries and areas you know well. Your loan solution should flag industries and areas that have been risky in the past.

It’s important to note, credit quality is still necessary. If someone has a poor personal credit report or business score during the good times, it is not going to improve during these tough times. Again, focus on what you know and do well.

04 LEVERAGE AVAILABLE PROGRAMS.

The federal government is actively working to put out funds for small business across the US, and it is highly likely that the states are not far behind. Understanding what options are available to your financial institution will be important to support your small business clients.

Does your institution have an SBA specialist? An individual informing the executive leadership team on any government program updates and recommended next steps specific to your financial institution? Unfortunately, most institutions have an employee who wears multiple hats with a small focus on SBA. This creates some large challenges staying up to date with the ever-changing government programs. If your institution finds themselves in this situation, what changes can you make to have a solely dedicated SBA specialist?

> What changes can you make to have a solely dedicated SBA specialist?

If you don't currently have an SBA specialist and are unable to hire one at this time, you can work with third-patty vendors that specialize in SBA and other government guaranteed lending. With no in-house specialist, it is crucial to assign at least one employee, if not more, to the task of staying up to date on government programs and to coordinate with any third-party vendors.

It's important to remember, an SBA or other government guarantee cannot fix a bad loan, but it can help you to understand all the risks.

CONCLUSION

While small business lending can feel overwhelming, it doesn't have to. It is important to leverage your internal resources and use a solution that is flexible enough to allow you to change with times while structured enough to respond to credit risk needs.

ABOUT BAKER HILL

Baker Hill empowers financial institutions to work smarter, reduce risk and drive more profitable relationships. The company delivers a single unified platform with modern solutions to streamline loan origination and portfolio risk management for commercial, small business and consumer lending. The Baker Hill NextGen® platform also delivers sophisticated analytics and marketing solutions that support sound business decisions to mitigate risk, generate growth and maximize profitability. Baker Hill is the expert solution for loan origination, portfolio risk and relationship management, CECL and analytics for financial institutions in the United States. For more information, visit www.bakerhill.com.

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