LENDINGFRONT

The 2021 Growth Playbook for Alternative Lenders

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True or false: Scaling your lending business is harder than you think?

Your loan volume is impressive. But imagine being able to multiply your current business by 10 or even 100—could you do it without significantly increasing your overhead or headcount? Would your current systems, processes, and people be able to handle a surge in applications?

The answer is likely no, and it's not an isolated challenge. For alternative lenders of all sizes, specialties, and ages, the inability to grow in a scalable manner is the pain point that plagues their visions for increased revenue and profitability—but it doesn't have to be.

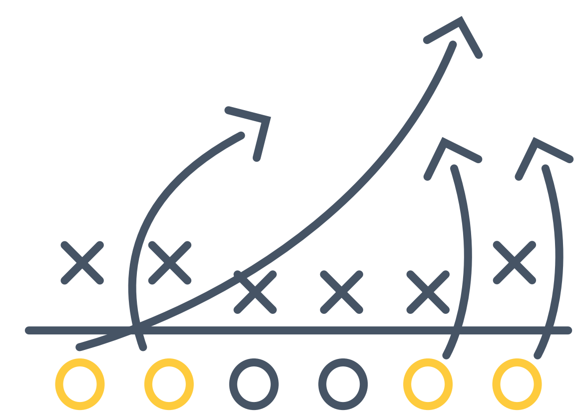
The current system is broken.

By definition, alternative lenders *only* lend. With no depository, checking, or savings account balances, no certificate of deposits, and no cash flow from mortgage payments, your path to growth is paved by one thing: lending more.

Despite this reality, loan volume is static for the vast majority of alternative lenders. Your systems, processes, and people can't support significant growth because they're static, too. Inefficient processes and disconnected workflows limit capacity, and your solutions are built around the way you do things today, not the way you *should* do things tomorrow. Because they're unable to evolve alongside your institution, profitability suffers.

In a fast-growing, increasingly crowded space, the last thing you want is to be held back. And whether you want to increase your lending volume from 100 loans per month to 1,000 or from 1,000 to 10,000, the root of the challenge—and its solution—remains the same.

Scale is a market-wide hurdle, but it's not insurmountable.



The 2021 Growth Playbook for Alternative Lenders can help equip your institution to multiply your lending volume—and scale successfully. Here's how.

Examine the landscape for opportunity.

When it comes to identifying areas of lending opportunity, there's one category that maintains a greater capital need and higher demand than ever: small businesses.

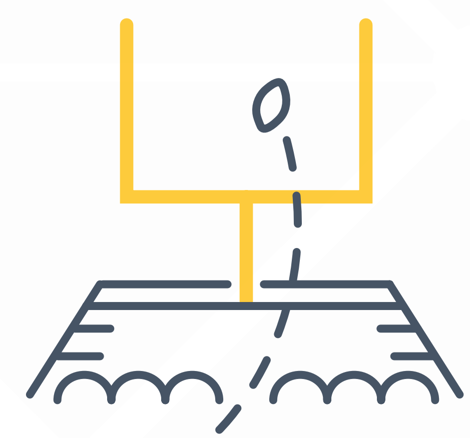
Even before the COVID-19 crisis put small businesses in a cash crunch, all statistics pointed to a need for increasing capital. By and large, the alternative lender category has grown steadily alongside the capital needs of small businesses, with both developments following a fairly unprecedented growth trajectory over the past few years.

As of early 2020, there were roughly 5.1 million companies making up the small to medium-sized business (SMB) category in the U.S., with the segment continuing to grow at a rate of 4% annually.

The Federal Reserve's 2019 Small Business Credit Survey points at steady growth since at least 2016. In 2017, 40% of surveyed businesses applied for some form of capital, and in 2018, that number grew to 43%. Over the course of 2019, 64% of small businesses needed capital—and more than two-thirds wound up using personal funds. Why did they resort to personal funding? A few reasons. One being that, in 2019 43% of businesses sought financing, but less than half of them (47%) actually received the full amount of capital they needed. This was up from 24% in 2017, and a big leap from the 19% in 2016.

In 2020, this number skyrocketed. Amid statewide lockdowns and strict stay-at-home orders, digital became the new standard as small businesses fought (and continue to fight) for their lives. According to the Federal Reserve's 2020 Small Business Credit Survey, less than half (44%) of small businesses have obtained funds from a bank in the last five years. 22% of small businesses received funding from online lenders in 2020, and 6% received funding from credit unions. Of course, the 2020 lending landscape was unique—dominated by Paycheck Protection Program (PPP) loans above all. And while alternative lenders weren't folded into the first round of PPP until later on, they are part of round two. You need to be equipped to handle more loan volume than ever before.

Booming demand is a good situation to be in. But do you have a clear pathway to meeting it—and to fulfilling the needs of your small business customers in the process?



The age-old adage still applies: innovate or die.

The alternative lending space is more competitive than ever. And it doesn't include just alternative lenders anymore. It includes digital giants—like PayPal, Amazon, and Stripe—that have added small business lending to their operations. And it includes other, larger alternative lenders like Biz2Credit, Kabbage, and others.

Think about it this way: the reason alternative lenders came into being is because it was, and still is, hard for small businesses to get the capital they need from traditional financial institutions. But now, your competitive pressure isn't coming from just banks that are getting better at small business lending, it's from other alternative lenders and digital giants that have faster, easier, more user-friendly processes.

So how can you compete? And how can you make sure you are still relevant in an overly crowded space and can scale successfully to capitalize on growing demand?

There are a few key strategies, but it all hinges on a crucial component of growth—one that the early alternative lenders from 10 years ago and the industry leaders of today have in common: Technology and Data.

The top 4 challenges to alternative lender scalability:

• *Outdated technology*
• *Disconnected systems*
• *People-dependent processes*
•. *Manual and time-consuming operations*

When thinking about alternative lenders, it's assumed that they must be technologically savvy, especially compared to traditional community banks. But that's not necessarily true. Aside from being "online shops" without brick-and-mortar storefronts, the vast majority of alternative lenders—especially those struggling to scale and meet demand—lag in adopting modern technology.

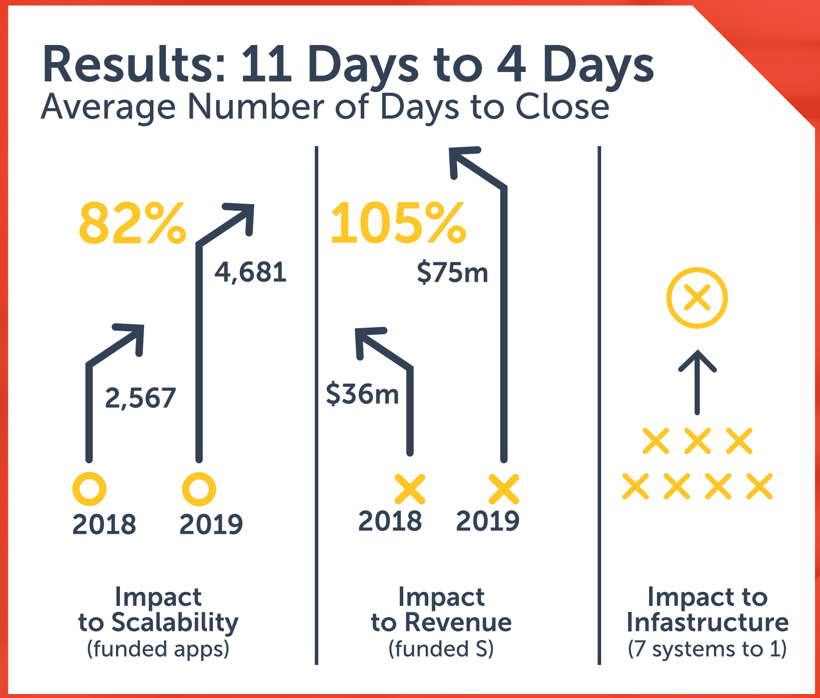
Case study:

For one real-life alternative lender, this was certainly the case. Before the company adopted an end-to-end, digital small business lending solution, a single small business loan required them to rely on seven disparate systems, and it took them an average of 11 days to make one loan decision.

For small business owners who value speed and convenience above everything else, 11 days is far too long. Whether the lender is this company, another one, or you, business owners opt for whomever is fastest. In the all-too-frequent scenarios where you're not, you don't just lose the lending opportunity, you lose the labor and capital that went into originating, processing, and beginning the decision-making process on that application. Now multiply this sunk expense over and over again for every application.

The takeaway? Alternative isn't synonymous with cutting-edge—but that doesn't mean it can't be. When this alternative lender adopted their end-to-end digital lending solution, they consolidated seven systems into one, cut their average decision-making time down to four days, and dramatically increased their close rate.

The consequences of outdated, disconnected lending technologies and systems were clearly impacting this company's lending volume, efficiency, and productivity. And for many alternative lenders—yours included—the same likely remains true. So what's outdated technology costing you?



The top 4 consequences of scalability challenges:

- *Scaling solely by hiring*
- *Increased profit pressure*
- *Slower time to decision*
- *Non-competitive presence*

To close more loans, alternative lenders look to ramp up the number of applications they process and to make funding decisions faster. All too often, the fallback solution in this situation is to hire more employees. And therein lies the roadblock to scalability.

When your only path to scale is to throw more people at the problem, you don't solve the root of the issue—you just put more of your profits under pressure.

So, how do you solve for scale?

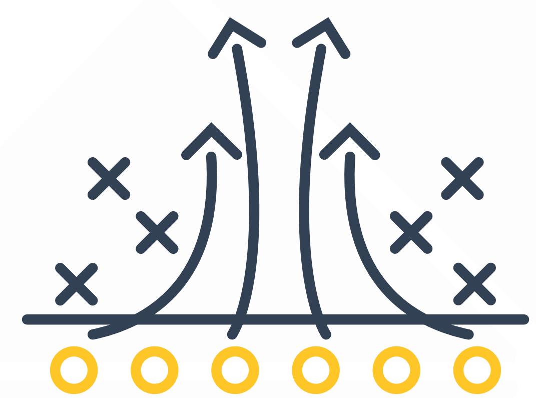
Secure capital. If you are looking to expand your monthly loan capacity, you need the funds to do that. Where do you get it from? With no deposits or additional capital to lend against, you need to gain—and secure—money from other sources.

Manage risk. Securing capital means showing a plan for mitigating risk. You need a clear and communicable risk-management strategy—one that relies on bulletproof assessments of creditworthiness, and trustworthy indicators of real-time cash flow.

Acquire customers. As an alternative lender, you don't have already-existing customers—there's no such thing. To successfully gain customers, you need a clear acquisition plan. Marketing, branding, advertising; you need to show investors you can acquire customers, and then you need to actually do it.

Deploy technology. It all comes back to digital. Without solving your technology problem, you're not going to be able to do any of the above—and you're not going to be able to solve for scale. Why? Because even if you have a slew of lucrative investors and the best marketing team in the world, you can't scale when you're using multiple disparate systems to make a single loan decision. As a player in an industry founded on filling a void in the market, staying competitive requires meeting customer expectations for speed and digital ease—or losing your spot in the game.

It comes down to this: You need all 4 of the above. But unless you solve for the technology challenge, none of it works.



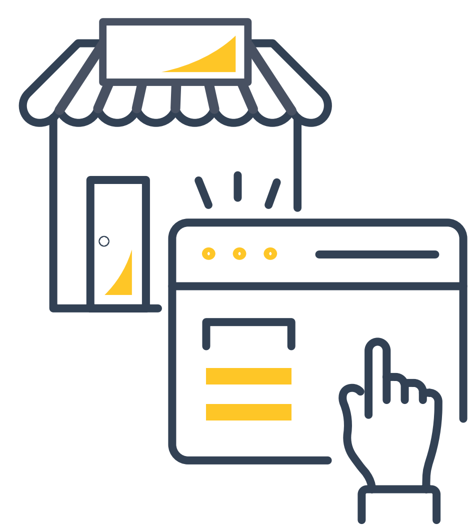
Meeting the tech challenge.

With the right tools, solving for tech becomes easy. By consolidating all of your platforms into one, and streamlining workflows along the lending continuum—from originating to underwriting to funding and even servicing—scalability is made simple.

Here's what to look for in your digital small business lending solution:

Multi-platform access. A completely digitized loan origination process enables time-crunched small business customers to submit loan applications entirely online. From desktop to mobile (and every device in between), there's no need for borrowers to visit a physical location. Even more, your employees don't get tied up in time-consuming, tedious, and costly manual processes for small (or later denied) credit requests.

SMB-specific credit criteria. Without processes tailored specifically to SMB lending, the bar for creditworthiness becomes too high for many credit-worthy small businesses. Their applications end up rejected, and lenders lose potential revenue. A comprehensive, data-driven digital solution offers the flexibility and precision needed to assess small businesses by the most accurate determinants of credit-worthiness for their sector. This means being able to tap into real-time cash flow. Not profits, EBITDA, or the like—and doing it in a way that doesn't drain resources, but instead reaps greater ROI.



Automation. With an end-to-end digital small business lending solution, you can save time and cut costs by transforming manual (and perhaps even paper-based) processes into rules-based, automated decisions without ceding control. A robust solution will allow you to automate as little or as much of the process as you'd like, making every decision—automated or not—yours. Some of the decisions and workflows you'll be able to automate include application scoring, bi-directional communication, offer presentations, e-contracts, and more.

Product structure and payment methods. With greater automation, you can deliver multiple loan offers at a time, in real time, and enable applicants to select their desired term, price, and loan amount based on predetermined parameters. Seamlessly monitor daily ACH payments electronically, and free your employees from needing to physically go to the office to open envelopes and process checks. Digitized monitoring means greater ease and scale without sacrificing on compliance.

With the right small business lending solution and greater automation capabilities, you'll be equipped to fund more small businesses in a fraction of the time that it took before.

So, back to our original question: Is scaling your alternative lending business harder than you think? Maybe. But finding a solution that can help is easier than you think—and in 2021, scale is the name of the game. It's time to get started.

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Ready to be at the forefront of small business lending?

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