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Modernize and Boost Efficiency: Your Guide to Small Business Lending Software

This guide is presented by LendingFront.

Small businesses make up 99% of businesses in the United States ¹—needless to say, they're the heartbeat of the economy. Yet in 2018, only 11% of small banks had a digital origination channel for small business lending. As a financial institution, you likely already have a strong base of small business customers. But how often do you extend capital to them? And how easy is it when you do?

For many lenders, *costly*, *burdensome*, and *time-intensive* all describe the process of extending capital to small businesses.


What if you could deliver that capital more efficiently?

The answer (not surprisingly) revolves around digitization—but understand that general business lending software isn't sufficient. Small business borrowers have a different set of needs and resources compared to large businesses, and their requests must be treated accordingly. An SMB-focused lending platform enables you to:

- ▶ Provide capital more efficiently
- ▶ Generate greater ROI
- ▶ Increase your team's productivity
- ▶ Strengthen your customer relationships
- ▶ Capture new customers.

¹ U.S. Small Business Administration, 2018 Small Business Profile. 2018. Retrieved from: <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf>





According to the 2019 Federal Reserve Small Business Credit Survey ², when deciding where to apply for a loan, small business borrowers value speed and convenience more than anything else—including interest rate.

Are you delivering the speed and convenience that small business customers want?

Chances are... you're not, but if you don't adapt and modernize, someone else will. Competition doesn't sleep, and just because you have existing customer relationships doesn't mean those customers will stick with you when someone else meets their needs better. This guide is designed to help you evaluate small business lending software to find the best fit for your—and your customers'—needs.

² U.S. Federal Reserve System, Small Business Credit Report. 2019. Retrieved from: <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-employer-firms-report.pdf>

Part 1: Understanding Your Challenges

Before you can pick the right solution, you need to understand the current challenges with your small business lending process. First thing's first: identify what your limitations are (currently and as you try to scale). Only then can you prioritize what you're looking for in a lending platform.



Here are the areas you'll want to evaluate:

Unit economics. Because your current commercial lending process is costly when applied to small credit requests, you're hampering your profits—or even losing money on these loans. The interest revenue generated by a small business doesn't sufficiently cover the cost of underwriting it, and you need a more efficient way.

Changes in customer behavior. You likely think of yourself as “relationship bank,” but the definition of a customer relationship has changed. Small business customers value convenience more than the ability to visit you face to face—so much more

that they are willing to pay higher interest rates. While they still value the option to visit a branch, customers are looking for 24/7 availability in the form of digital services—from mobile banking to capital requests, and everything in between. If you can't offer precisely what they need, it's likely that customers will search elsewhere for a quicker loan decision.

The macro environment. If the COVID-19 economy proved anything, it's that business continuity is table stakes. Ask yourself: how well does your current process enable you to weather an unforeseen storm? Whether it's a pandemic, flood, wildfire, or holiday, you can't rely on physical operations alone to power your small business lending.

Your competition. Competition never sleeps. With more companies entering the world of small business lending, your lending process needs to encourage and incentivize customers to stay with you. New alliances—like that between Amazon and Goldman Sachs—offer customers speed and convenience that they're willing to pay higher rates for.

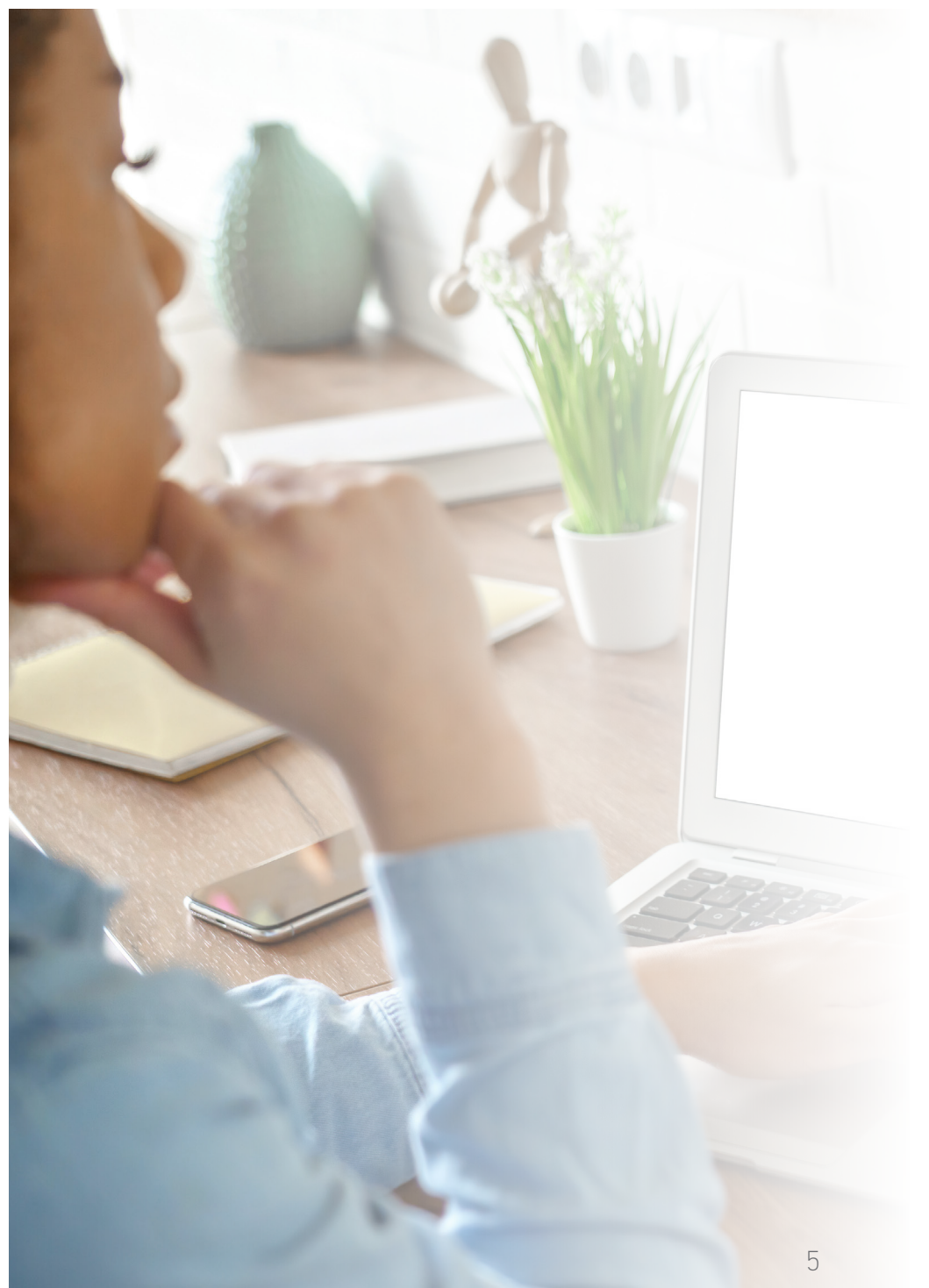
Part 2: Identifying your Needs

When looking for a small business lending platform, the biggest area to assess is the actual capabilities it provides. Does it perform the functions you need it to? Is it easy to use? Does it integrate into your existing workflows? Below are key ways to evaluate small business lending platforms.

Go end-to-end. Your lending process can only move as fast as its slowest step or component. There are technology platforms on the market that individually perform practically every function you need:

- ▶ Online application intake
- ▶ Document management
- ▶ Underwriting automation
- ▶ Loan presentation
- ▶ E-contracts
- ▶ Electronic payments

Each can save significant time on their own—but if you digitize just one piece of the puzzle, you're not being as efficient as possible. An **end-to-end** small business platform provides the best of all worlds: maximizing efficiency and minimizing costs so you can give your customers the speed and convenience they demand.



Think intuitively. A good small business lending platform ought to automate easy tasks so that your loan officers can focus their attention on higher value relationships or more complicated credit requests. Look for a solution that enables easy online origination with a customer-friendly interface, and is intuitive on the back-end, too. The simpler the software is to use, the easier it will be to generate ROI quickly. Key features to look for include:

- ▶ A view of your entire loan portfolio
- ▶ A comprehensive audit trail of every action associated with a credit request
- ▶ Important data about the borrower's payment history

Deepen your existing customer relationships.

Digitizing your small business lending enables you to mine your existing customer deposits to identify those who are most likely to want a working capital loan. From there, you can send them pre-approval offers—and help them gain the capital they need.



Generate relationships you don't have yet (but should). Being online means you can reach a broader range of customers—including those who don't already have an existing relationship with your institution. But if they begin an application and then leave, how will you follow up with them? Look for a lending platform made to help you capture and cultivate these relationships. For example, some software platforms have an account-building function where customers must provide contact details in order to request a loan so that even if they abandon the page, you can collect insights and follow up with them.



Look for opportunities to offer additional products. You already have access to customers' bank accounts, and you can see what these businesses are spending money on. A great platform will enable you to identify additional product opportunities to grow your financial institution. Is your customer spending on payroll? Offer them treasury management. Do they have credit card receipts? Offer them payment processing. The ideal platform will offer you a wealth of opportunities to enhance your profitability through new product offerings while helping you better meet customer needs and deepen your customer relationships.



Ensure system compatibility and integrations. A small business lending platform should be able to stand alone—but also offer the flexibility to integrate into other systems. If you want to use your core system for servicing, for example, you should be able to—easily. Certain platforms also offer integrations with popular CRM systems so you can keep your existing infrastructure (should you choose) while modernizing your approach to small business lending.

Tap into leading indicators of creditworthiness. The traditional lending criteria—credit scores, collateral, financial statements, and owner wealth—have always been lagging behind in terms of their ability to predict creditworthiness. Especially in a volatile economy, you need to understand how a business is performing right now—not a year ago. This means linking to an active bank account or uploading additional documentation that supports the borrower's creditworthiness. Not all platforms support this type of configurability, but it's a good idea to look for one that does so you can better assess these customers using non-traditional credit criteria.

Find a pricing model that scales. Some platforms charge by the seat—so the bigger your institution gets, the more you're paying the vendor. Other platforms reward you for your success, encouraging you to actually use them. Look for a platform that will continue to support your growth one, three, or five years from now and beyond.



Part 3: Determining the ROI

You're looking to a small business lending platform to add value to your organization. But how can you be certain you'll receive the greatest benefit to employees, customers, and your bottom line? A high-ROI platform should ideally tick the following boxes—and it should do so within a short amount of time.



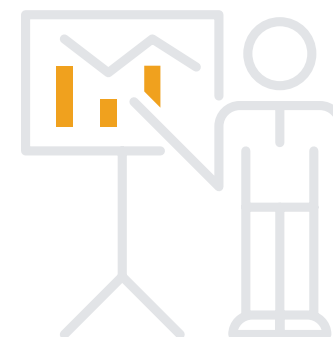
Realize two-way time savings. The old way of doing things isn't working—for you or your customers. Small business owners can't take time away from their customers to apply for a loan in-person—and then wait weeks for a

decision. Whether the answer is 'yes' or 'no,' a technology platform for small business lending enables you to deliver faster decisions and higher customer satisfaction. And even if the answer is 'no,' getting there faster saves you time and resources.

Increase productivity. If a small business lending platform can boost efficiency and put time back in your loan officers' days, their productivity will increase. By digitizing your small business lending process, your employees can focus on growing your small business initiatives—as well as spend more time personally cultivating relationships with high-value large business customers.

Analyze progress. One of the biggest downsides of manual, paper-based loan processes is that there can be large gaps in the data—and those data

often exist in different places. With the right digital small business loan platform, you can access important insights and reporting metrics, while also tracking repayment progress all in one place—helping you visualize the benefits and payoff over time.



Build profitability. Many lenders have turned away creditworthy small business customers that could add to their overall revenue. A quality small business lending platform is designed to help your business grow by being able to serve these customers—and serve them more efficiently.



Your small business customers are looking to you to lead the way. And you already have a relationship with them, unlike your competitors. As more and more corporate lenders set their sights on the small business market, digitization and modernization can make your institution more competitive and provide the speed and convenience your customers crave. A tailored small business lending platform is designed to give you that edge—and help you tap into this profitable audience.



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