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# Taking Advantage of Opportunities in Small Business Lending

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### Research overview

#### Objective

The primary objective of the research is to better understand how banks view the future of SMB lending and identify trends, changing priorities, and best practices.

#### Methodology

- Online survey conducted during Q3 2023.
- A total of 100+ banking leaders responded.
- Qualified respondents work at a bank or credit union with \$500M - \$100B in assets and have knowledge of SMB lending practices.
- All respondents are management-level.



**Where does small business lending rank as a priority for your bank among other services you offer to small businesses?**

**Q: Where does small business lending (less than \$1M) rank as a priority for your bank among other services you offer to small businesses?**

Results:

43% - It's in the **top three**

25% - It's in the **top five**

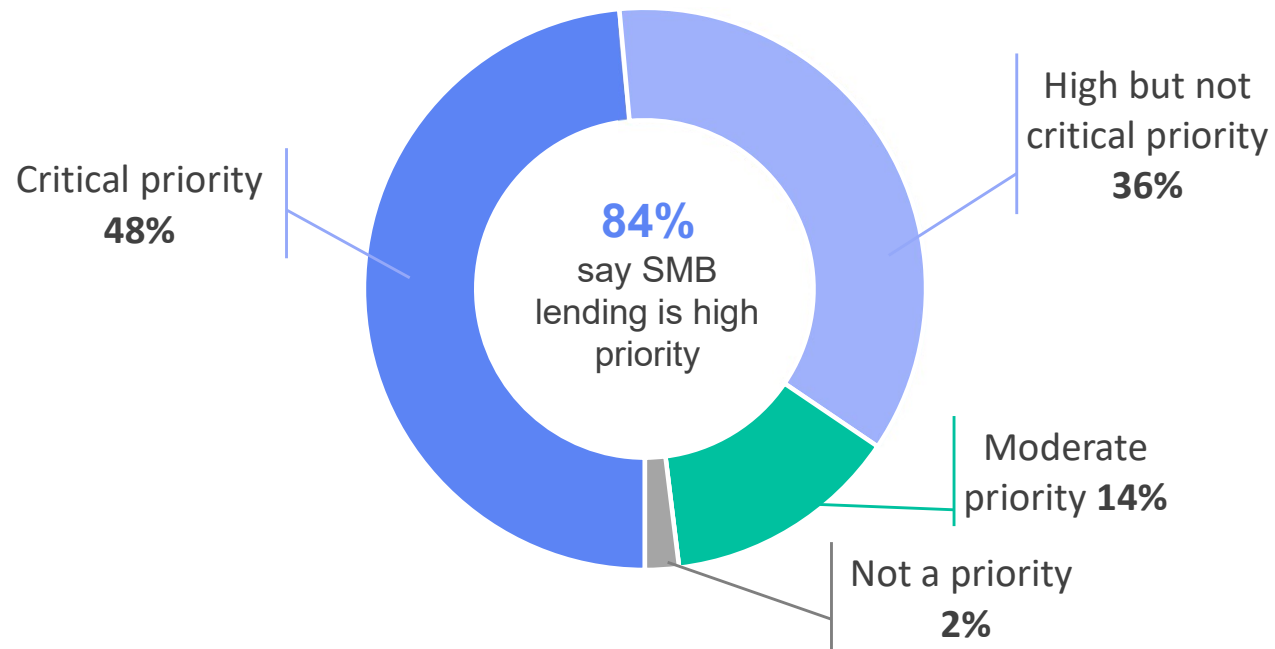
19% - It's our **top priority**

14% - It's a **lower-level priority**

*Results based on a Slido poll at the American Banker Small Biz Banking Conference, Nov. 14, 2023. Number of respondents ranged between 25-45 on each question.*

More than 8 in 10 banks says SMB lending is a critical or high priority

*Q. How important is small business lending as a strategic priority for your bank over the next two years?*



### Commitment to community is a common driver for small business lending initiatives

*"To improve our reputation in the community as a trusted and supportive bank."*

– Division or Department Head at a Retail Bank

*"It cements our leadership role in the communities we operate in, provides consistent and loyal business customers, represents a large percentage of profitability, strengthening the communities."*

– Senior Business Unit Executive at a Retail Bank

*"Small business lending is a commitment of the Bank. It aligns with the overall strategic goal and neighborhood commitment."*

– Senior Business Unit Executive at a Retail Bank



**How critical is lending to your  
small business deposit  
retention strategy?**

## Q: How critical is lending to your small business deposit retention strategy?

### Results:

66% - **Critical**, I worry about deposit flight without adequate lending

17% - **Moderate**; We have some degree of focus on SMB lending

10% - **Unrelated**; we can retain/grow deposits without lending

7% - **Tangential**; we lend to SMBs as an accommodation but don't focus on it

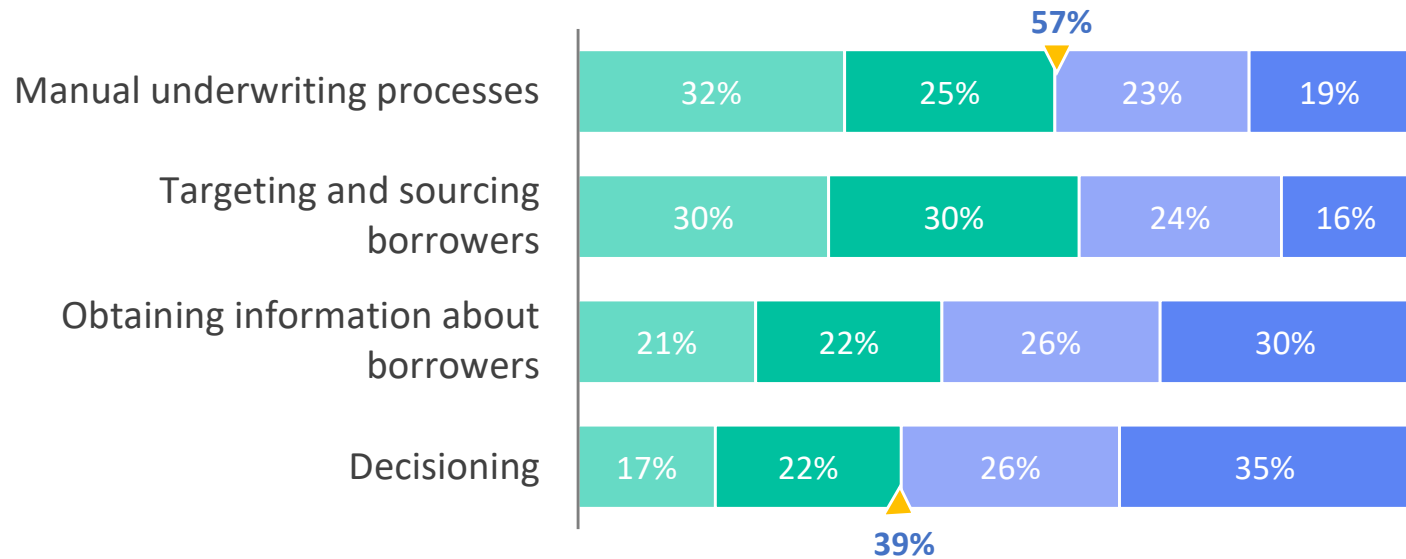
*Results based on a Slido poll at the American Banker Small Biz Banking Conference, Nov. 14, 2023. Number of respondents ranged between 25-45 on each question.*



## Taking Advantage of Opportunities in Small Business Lending

### Banks face a number of key challenges with small business lending

■ 1 - Most challenging ■ 2 ■ 3 ■ 4 - Least challenging

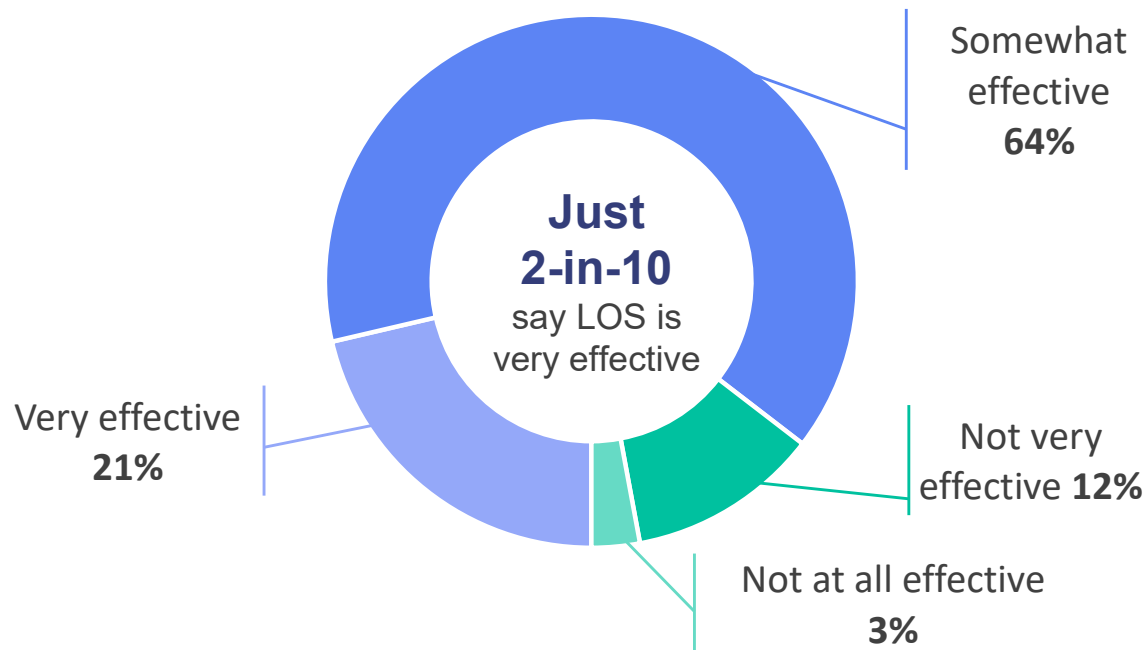


Q. What are the biggest challenges facing your bank with small business lending?

## Taking Advantage of Opportunities in Small Business Lending

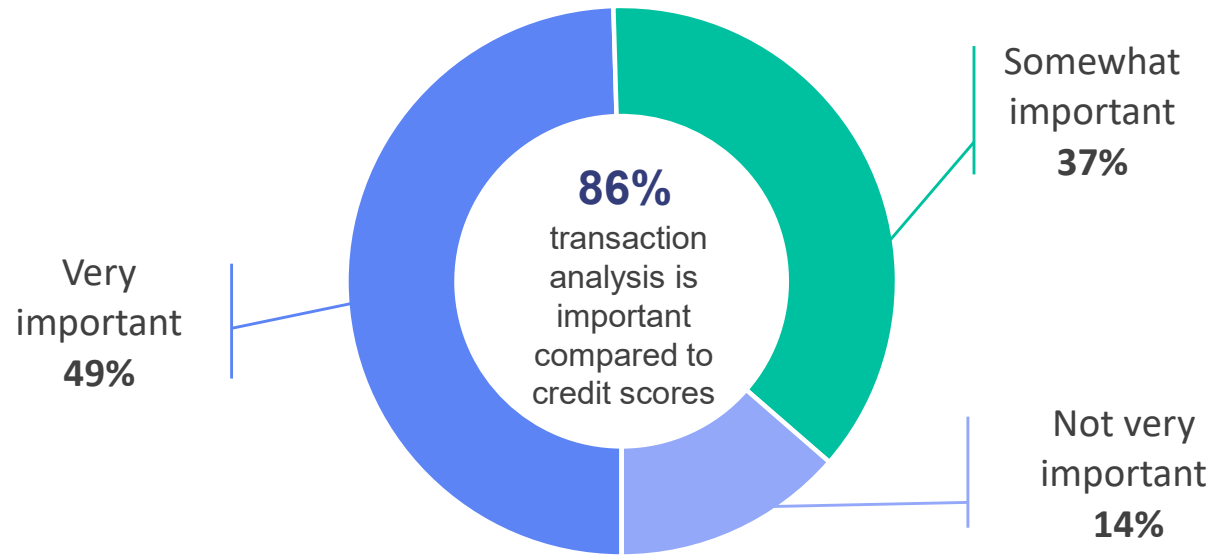
Few banks have a highly effective loan origination system to underwrite small-value loans

Q. How effective is your current **loan origination system** in helping your bank generate the required efficiencies to underwrite small-value loans (under \$1 million)?



### Most banks agree transaction analysis is important for SMB lending decisions

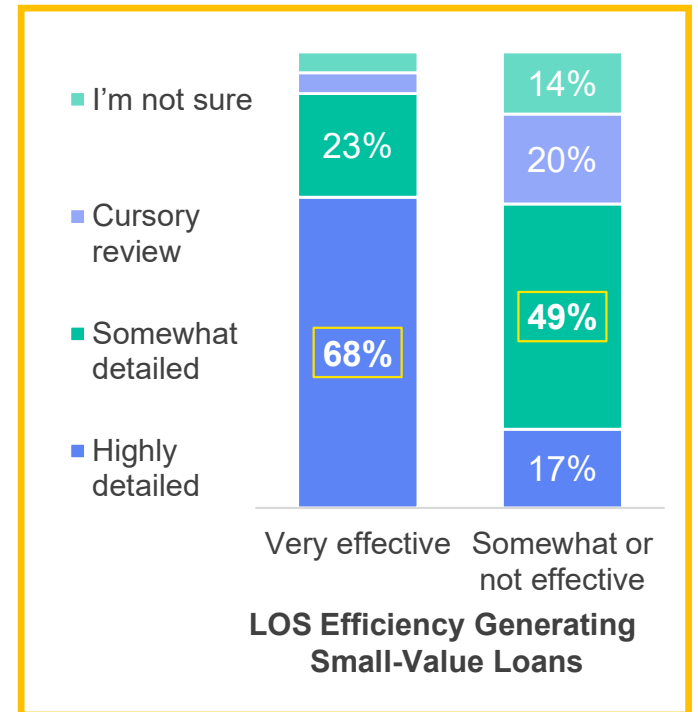
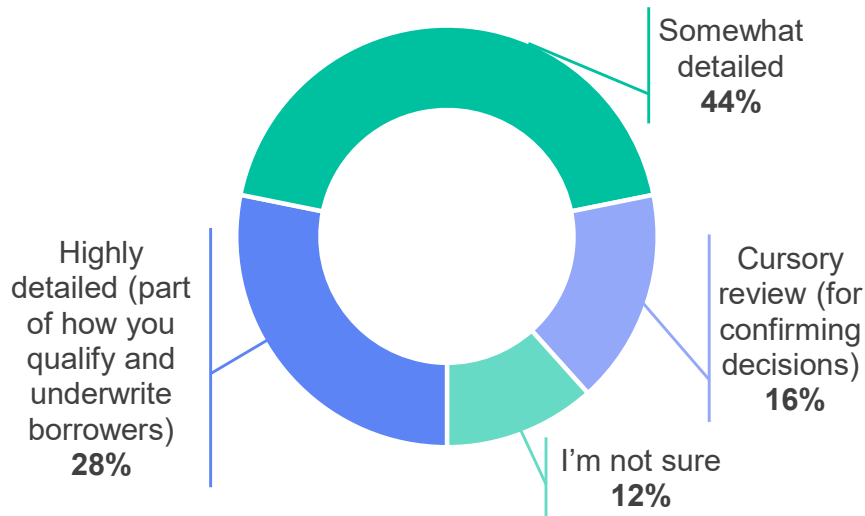
Q. How important is transaction analysis compared to credit scores for driving SMB lending decisions?

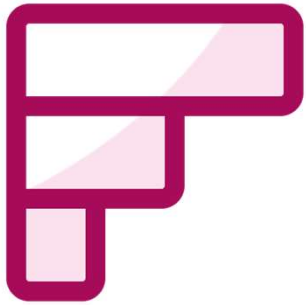


## Taking Advantage of Opportunities in Small Business Lending

Most banks are not performing detailed transaction analysis to determine SMB lending decisions

Q. To what degree is your bank performing bank or merchant transaction analysis to determine small business lending decisions?





**Where do you see the biggest opportunities for automation?**

## **Q: Where do you see the biggest opportunities for automation?**

Results:

#1 - Borrower experience/ self-service

#2 (three-way tie) -

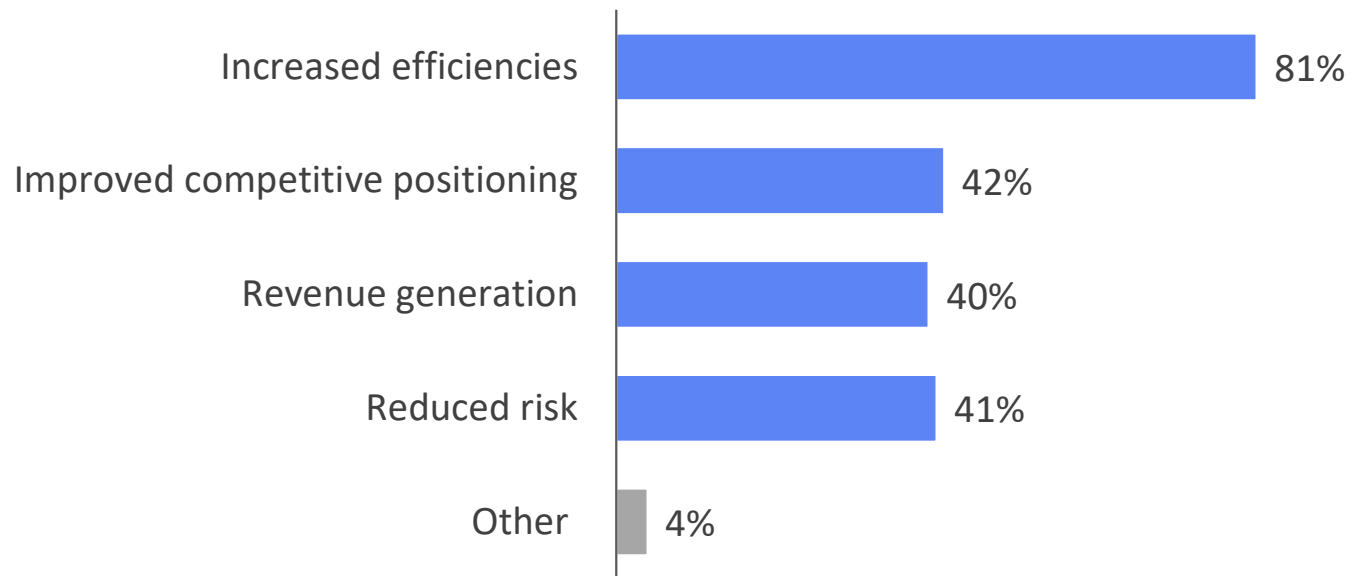
- 3rd-party data analysis and transaction analysis
- Underwriting
- Closing and boarding

#3 - 3rd-party data sourcing

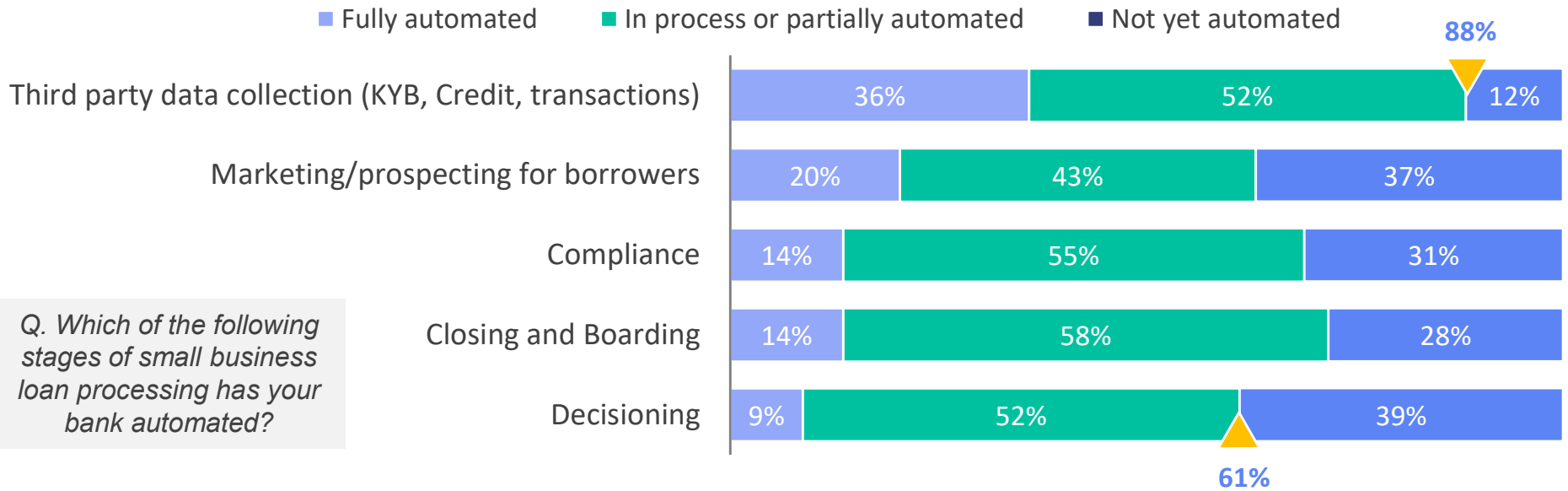
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### Automation can deliver key benefits to help banks accelerate progress

*Q. What benefits has your institution seen from automating its small business lending processes?*



## Automation adoption is mixed



Q. Which of the following stages of small business loan processing has your bank automated?





**What changes do you expect in your mix of new originations between SMB lending (unsecured/ SBA) vs. CRE in 2024?**

**Q: What changes do you expect in your mix of new originations between SMB lending (unsecured/ SBA) vs. CRE in 2024?**

**Results:**

40% - Small rotation from CRE into SMB

24% - Unchanged

20% - Significant rotation from CRE into SMB

12% - Small rotation from SMB into CRE

4% - Signification rotation from SMB into CRE

*Results based on a Slido poll at the American Banker Small Biz Banking Conference, Nov. 14, 2023. Number of respondents ranged between 25-45 on each question.*

The logo features the text 'AMERICAN BANKER' in a white, serif font at the top. Below it, the words 'SMALL BIZ' and 'BANKING' are stacked in a large, bold, blue, sans-serif font. The background is a dark blue gradient with a faint, repeating geometric pattern of overlapping squares and lines.

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