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Banks shift focus in small business as loan growth slows

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More community banks are adding deposit products and fee-generating services targeted at small businesses.

Those efforts are coming at a time when small-business loan growth is decelerating and as banks grapple with thinning margins and more payoffs tied to lower interest rates. Adding products also allows banks to deepen relationships with existing clients, industry experts said.

"Banks that know the space and can ride it out will be well-positioned in the future," said Vincent Hui, a managing director at Cornerstone Advisors. Banks that remain committed "will have built a very loyal customer base as others pull back."

Small-business loan growth is slowing down, according to data compiled by the Federal Deposit Insurance Corp.

Loans of \$1 million or less to small businesses rose by 1.9% in the third quarter from a year earlier, to \$645 billion in outstanding balances, a cool-down from the 2.3% growth rate of the prior 12 months. Softer demand and payoffs on shorter-duration loans were factors cited by bankers.

There are still opportunities even if demand is cooling, industry experts said.

Nearly a third of small businesses surveyed in October by the National Federation of Independent Business said they plan to invest in their operations in coming months. That response was up slightly from a month earlier.

That has spurred more banks to offer low-cost deposit products and cash management tools.

First Internet Bancorp in Fishers, Ind., recently created Amplify, a product that provides small-business owners with a checking account that has free ACH and bill pay, along with no service charges. The product includes treasury management tools. Accounts that maintain an average balance of at least \$10,000 get paid higher rates.

David Becker, First Internet's CEO, said the product addresses many of the issues he faced as a younger entrepreneur.

"I can remember paying hundreds of dollars to my community bank in monthly service charges based on my ACH activity," Becker said.

PCSB Bank in Yorktown Heights, N.Y., recently expanded its cash management services to include fraud prevention, liquidity management and financial reporting tools. The \$1.7 billion-asset bank also offers escrow management services to businesses and municipalities.

Some banks are also diversifying the loans they offer.

Columbia Banking System in Tacoma, Wash., recently increased its dealings with the Small Business Administration.