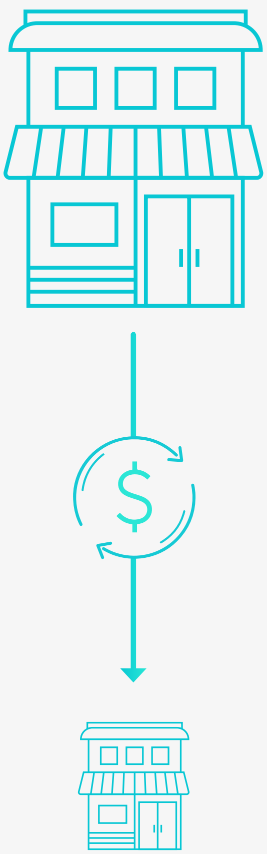
AMOUNT

REIMAGINING SMALL BUSINESS LENDING

How to Turn Challenges into Opportunities

The Mountain of SMB Lending Challenges is Shrinking

Delivering loans to small- and medium-sized businesses (SMBs) that are cost-effective for your bank has always been a steep climb. Now, however, we're sitting atop an even higher peak of difficulty thanks to tighter credit across the board and banks' reliance on commercial loan origination systems (LOS) that simply weren't designed to handle the unique requirements of SMB lending. As a result, banks end up trapped in a cycle of slow decision-making and high operational burden — both of which significantly undermine their ability to attract and retain SMB customers.



Another challenge comes from a common misconception that SMB loans and relationships are just like large corporations, only smaller. In reality, SMBs have their own unique characteristics, and they are actually more like consumers than large corporate customers. Not having the frameworks in place to cater to these nuances is another reason banks struggle with attracting and retaining SMB customers.

Adding to the mountain of challenges is SMBs' expectations for cutting-edge digital experiences. They want banks to mirror the same convenience and innovation that they enjoy in other areas of their life. Things like seamless one-click checkout and one-tap digital wallet purchases have set a high bar for every digital interaction. The added twist in lending is that you must combine those conveniences with robust risk management practices to safeguard against fraud.

These types of digital-first experiences require a front- and back-end framework that works for the SMB and the bank. The front-end application experience must include data capture, credit inquiry authorization, offer selection, and all of the necessary verification tasks. Building it is hard, though — without the right technology, you risk creating an experience that's confusing, inefficient, and a turnoff for the very audience you're trying to impress.

The back-end application experience has the potential to be just as confusing, inefficient, and frustrating. You need a system of record, consent capture, customer authentication, back office tooling, underwriting, KYC and KYB workflows, fraud prevention, identity verification, cash flow verification, bank account verification, access to data providers, and OFAC screening.

Traditionally, executing against this extensive list of requirements has been time-consuming and expensive. For the loans the banks originate, it's a struggle to turn a profit, especially for community banks that fund 60% of SMB loans[1].

7%

of small business owners say their last loan was more challenging than in previous attempts

The good news? There's an evolution currently unfolding in SMB lending.

Banks are beginning to overcome these longstanding challenges, creating pathways to build better relationships with SMB customers and leverage them as significant profit drivers. Read on to learn how to turn these challenges into lucrative opportunities — and why the current market creates even more potential for your bottom line.

The View Through SMB-Colored Glasses

There's no shortage of challenges on the SMB side. While they are distinctly different from what banks are trying to overcome, they make just as much of an impact on their day-to-day operations.

Nearly a quarter of SMB owners say inflation is the single biggest problem when operating their business[2]. They have already raised prices as much as possible in an attempt to offset higher costs, but the harsh reality is it's not enough — they need more capital.

It should come as no surprise that 49% of SMB owners took out a loan between mid-2022 and mid-2023 simply to cover the higher costs due to inflation. Unfortunately for SMB owners, getting a loan is not a guaranteed lifeline in the current market. The numbers prove this out — 7% of small business owners say their last loan was more challenging than in previous attempts[3], and there was a 15% decrease in new term SMB loans in Q1 2023 compared to Q1 2022[4].

While banks have always viewed SMB loans as inherently riskier because they don't have the track record of profitability and predictable cash flow that more established businesses do. Add in higher variability and less data available to underwrite, and you end up with a myriad of risks many banks don't want to take on. Skyrocketing interest rates have made this uphill battle even more severe because many SMBs can't meet the stronger lending criteria. Many of those who do qualify discover that financing is prohibitively expensive.

That doesn't eliminate their need for more capital, though. And that's where the opportunity for banks lies. If you have the strategy and the tools to reimagine your SMB lending process, you'll be able to tap into a vast reservoir of eager applicants.

How to Unleash the Profit Potential of SMB Lending

We've established that the SMB demand for capital is especially strong in today's market, and we've shown that most banks aren't making them a priority because they can't envision the resulting profits.

Make no mistake, though, the profitability is there.

Look no further than TD and Bank of America, which originated a combined $834.2 million solely from 7(a) loans in 2023. And there's room for plenty more — Bank of America's $394.2 million represents less than 2% of market share. This isn't just an opportunity for banking giants, though. BayFirst Financial originated nearly $456 million in 7(a) loans in 2023, and First Internet Bancorp was right behind them with $426.5 million[5].

So, how do you turn SMB lending into a profit driver? The answer lies in a dual-strategy approach.

SOLUTION #1:

High-Velocity Account Origination

The formula is simple — a high volume of SMB loans is essential to substantially impact your bottom line. Most legacy processes are not equipped for high-velocity scale, which means banks can't reach their full growth potential.

Which leads us to the next part of the answer...

SOLUTION #2:

A Significant Digital Upgrade

Don't assume that your existing SMB customers will naturally turn to you for a loan because they are not particularly loyal to banks. In fact, more than half of SMBs will consider a different bank or credit union for loans than the one that holds their checking account[6]. If one lender offers a better digital experience than another, they'll likely opt for the former. Faster, simpler applications are a critical competitive differentiator.

Digital advancements give banks the power to lower their operating costs and optimize revenue. In fact, between 2010 and 2020, traditional banks that created internal digital spinoffs lowered their costs by 70%[7].

REAL WORLD IMPACT

High-Velocity Account Origination

A few months after implementing Amount's origination and decisioning platform, one community bank:

- Received 1,000+ SMB loan applications
- Generated 300 new bookings for a total of $25 million
- Reduced application submission to loan approval time from three weeks to less than three days – and in some cases, less than three hours

REAL WORLD IMPACT

A Significant Digital Upgrade

When a large Japanese bank used Amount's end-to-end SaaS platform to launch a digital-only bank, it:

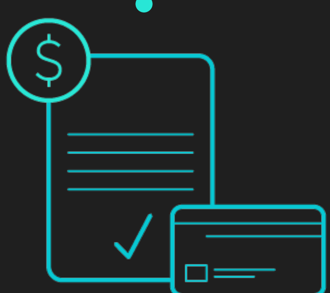
- Originated over $140 million in less than five months
- Originated $56 million in one month alone
- Had $0 in fraud losses, which surpassed their budgetary expectations by $1 million

Today's digital capabilities are better at reducing fraud and expensive human errors than manual lending processes.

It's not just about improving the existing process, though. The right digital capabilities create stronger data sources that refine the underwriting process — giving banks a path to expand their offerings, attract new SMB customers, and grow their relationships with existing customers.

And speaking of relationships, it's important to extend these modern capabilities to your in-branch experience as well, because SMBs also want convenient face-to-face interactions. Having a cutting-edge mindset will satisfy those wishes and make work faster and more streamlined for your in-branch team members.

But what about fraud? Does moving faster open your bank up to more risk? No, it's actually the opposite. Today's digital capabilities are better at reducing fraud and expensive human errors than manual lending processes. For example, Amount uses a sixth-generation fraud detection model and client-defined business rules to segment applications into identity risk tiers. The platform also flags high-risk applications for additional due diligence that can be done digitally, further reducing manual review required by banks. A manual process could include these steps, too, but they're far more time-consuming. Significantly upgrading your digital strategy gives you the best of both worlds — the speed SMBs crave and the protection your bank relies on.



The Bottom Line

The stage is set for banks that are ready to strategize and innovate, offer SMBs the financial support they desperately seek, while simultaneously opening new avenues of profitability and growth for themselves. With the right strategy and the right digital tools, it isn't just possible to make everyone's wishlist come true — it's easy and cost-effective to do. The time to act is now, though. While some banks have already spotted the untapped potential in this new era of SMB lending, most haven't. Now is your chance to get ahead of the curve.

SOURCES

1. CNBC; 2. NFIB; 3. NFIB; 4. Bankrate; 5. American Banker;
6. Forbes; 7. McKinsey

It's Time to Jumpstart Your SMB Lending Strategy

Amount gives banks of all sizes — from large enterprises to credit unions and community banks — the power to offer enterprise-grade solutions. Uncover new opportunities during a custom Wellness Check with Amount's experts so you can:

- **Maximize profitability:** Find out how modernizing your technology capabilities can unlock untapped potential for your SMB lending business.
- **Optimize efficiency:** Learn how to reduce production costs for SMB loans and lines of credit, boosting your profitability.
- **Benchmark your success:** Gain a competitive edge by comparing your per-branch production to industry leaders.

Contact our team to schedule your Wellness Check today.

About Amount

Amount helps financial institutions make banking simpler, safer and more convenient with a full suite of end-to-end omnichannel consumer, small business and embedded finance solutions. Developed by lending industry experts, Amount's fully integrated and flexible platform is underpinned by enterprise bank-grade infrastructure and compliance, enabling banks to securely power new and differentiated offerings within months — not years.

With Amount, banks can optimize performance across product categories while tapping into various service offerings including customer acquisition, funnel and performance assessments, and risk analytics. Amount clients include financial institutions collectively managing just over $3.1T in US assets and servicing more than 50 million U.S. customers. Let's talk about what we can do for you.

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