

A photograph of a woman with short, wavy, light-colored hair, smiling warmly. She is wearing a light blue long-sleeved shirt under a dark red apron. She is holding a tablet computer in front of her. The background is a workshop or storage room with wooden shelves filled with various items, including boxes, containers, and tools. The lighting is soft and natural.

The role of small
business lending in an
uncertain economy*



In today's economic climate, small businesses need to be especially agile as they prepare for growth in a rapidly-changing world. And for many of them, the right loan can play a big part in enabling that growth and agility.

As larger banks continue to focus on larger-dollar loans, small-dollar loans often fall to smaller community banks. These banks often lack the technology, staff, and size to make up for the large banks pulling back from the market. Consequently, lending to the smallest businesses has plummeted. SBA 7(a) Loans under \$350,000 have dropped by 42% since 2016, perhaps due to small business needs not being met due to lack of resources.¹

The truth is, the general business landscape is changing rapidly and, while small businesses may need additional funding to keep up, they also want to learn how to find the right loans for their circumstances. As a lender, your guidance and the resources you provide can be invaluable as customers grapple with funding decisions for their businesses.

What's covered in this SmartBiz ebook:

- The challenges small business owners face that influence whether or not they apply for a loan
- How business owners benefit from extra capital in the face of uncertainty
- Helpful tips to guide conversations about lending products with small business customers
- Information about SBA 7(a) loans and bank term loans to help your clients compare the two options side by side

Small businesses currently face big challenges

Small businesses have had a challenging 2022, to say the least. The global pandemic impacted everything from day-to-day business operations and the way consumers use and purchase goods, to the pressure on our complex network of global supply chains. Nearly every type of business has been touched in some way by these challenges, but for small businesses the road has been especially bumpy.



Inflation

Rising costs due to inflation have a ripple effect across the economy. They result in higher prices for raw goods, which in turn increase the prices of finished goods. These higher prices influence inventory, supplies, and labor costs as well. As a result, businesses may be forced to raise their prices on customers who may be strapped for cash themselves.

In January 2022, the net percentage of small business owners raising their prices (Weil, 2022) swelled to 61 percent – a 38-year record and a four percent increase from just a month earlier. As inflation continues to swell in 2022, many business owners are unsure of what to do in the face of such an unpredictable future. They may not feel confident enough in the current economic climate to pursue financial products, and they may find themselves with a shrinking customer base that needs to recalibrate their own budgets and put purchasing plans on hold. This situation can leave your small business clients in a tough spot.

Evolution in hiring

Hiring has been a substantial hurdle in the post-COVID-19 era. The pandemic has changed what some prospective employees want and need. Remote work, flexible schedules, work/life balance, higher salaries, and better benefits may be in high demand for certain sectors. These types of perks, which may be beneficial for the growth of a small business seeking to hire and retain talent, can come with a high price tag.

Inflation plays a role in your clients' hiring practices as well. As inflation increases your clients' expenses, they may have less profit with which to fund payroll and the other high in demand benefits that keep a team happy. These increased demands can stretch already-tight budgets even further.

Global conflict

Times of global uncertainty impact businesses large and small. The Russia-Ukraine conflict has disrupted supply chains in Europe at a time of already-significant inflation. No doubt you've seen the effects at the gas pump, where prices at the beginning of 2022 were the highest they've ever been. Overseas partners are even more closely affected by the war. For example, McKinsey predicts that, if the conflict continues into 2023, Eurozone GDP growth would decline in 2022 and 2023.

The impact of uncertainty was upon us even before 2022's global conflicts and domestic inflation. The pandemic sent shocks into the global supply chain starting in March 2020, and the world is still dealing with the after-effects. Massive delays are common in numerous industries, from vehicles to including vehicles, furniture, and more.

Supply chain problems have introduced serious delays in overseas manufacturing and shipping. Many businesses across industries are, figuring out how to adapt their everyday operations. Most, if not all of these businesses are paying more for fewer goods and waiting longer for what they buy. This is undoubtedly stressful for your clients.

Why small businesses may still seek out a loan now

Inflation, evolving hiring practices, and global conflict can paint a bleak picture for some business owners. Naturally, some may be averse to taking on additional risk, even if it may help them weather the storm. But for healthy businesses with good prospects, there may be no better time to apply for a loan.

Potentially optimistic future outlook

With inflation high and the economy struggling, a small business owner's first instinct may be to reign in their spending. However, business owners can look at inflation through a different lens - an opportunity for reinvestment. A small business that takes out a loan now can use it to fortify their business and prepare for growth once the economy improves. Planning for that future expansion now can put these businesses ahead of the competition as the economy recovers.

Lower borrowing rates

Although interest rates have increased amid the current economic challenges, they still remain notably low. As of July 28, 2022, the prime rate is 5.5 percent. Additional rate increases may be on the horizon, though, making now a good time to help your small business customers learn more about how to look for a loan if they think they will need one.

Great way to combat inflationary effects

Inflation can pose challenges for your clients' cash flow and payroll. A loan can help to bridge these gaps now before further inflation and economic challenges make it more difficult to keep the status quo going comfortably. Your clients can also use their financing to buy products now, saving them from costly potential future price hikes as ongoing supply chain issues impact availability.

Discussing loan options with small business clients

There are many good reasons for a small business to consider a loan now. It may just take some reassurance from a trusted adviser to help them navigate available options.

Lead with empathy

Times are tough for small business owners. Now is an opportunity for you to show your clients you understand their circumstances and care about their needs.

Start your conversations with broad, open-ended questions such as, "How's business going?" or "How are your finances?" You can then get more specific about their cash flow strategy.

Refocus discussions about risk

At the moment, your clients might feel that every financial decision poses a big risk. You can help them think about what's a smart risk to take at the moment. What risks could a cash infusion help take off the table as you move through this period of economic uncertainty? Are there risks associated with not taking specific actions - for example, with not continuing an expansion, growing your team, or launching a targeted marketing campaign? Encouraging your clients to think more fully about risk will help move the conversation beyond fear and uncertainty to clear steps they can take to fortify and grow their businesses. Suggest some loan options that may be helpful.

Explain the different ways a loan can help

During your conversation, you'll likely hear all about your client's business goals and learn about how a loan can effectively support them. For example, maybe your client wants to hire new employees to launch a widely requested service, but can't afford to do so amid inflation. The right loan product can help fund the creation of this new position, enabling that business to capitalize on a good opportunity that benefits them for years to come.

Helping your client understand the loan options that may match their needs can enable your client to proceed further. When that happens, you'll be best equipped to help them efficiently apply for funding with a dedicated banking partner in your corner.

Offer loans to your small business clients with SmartBiz

Now that you know how to help your small business clients learn about how loans can help during uncertain times, you're almost ready to start the loan process. The final step is to help your client choose a small business lending partner that provides a streamlined application process, hands-on customer service, and cutting-edge technology. SmartBiz can be that partner.

SmartBiz is your one-stop-shop for small business lending for your customers, enabling you to support them from application to funding. With the robust technology to help your institution efficiently and compliantly make more small business loans, along with an expert customer support team, SmartBiz can help you reach more customers who, given the current environment, may need financial help.

To learn more, visit the SmartBiz partner page and email partners@smartbizloans.com to schedule a one-on-one consultation with a Relationship Manager. You'll be meeting your clients' needs – even when they're uncertain – before you know it.

More information about SBA 7(a) loans and bank term loans

Loan Merits

SBA 7(a)

- ✓ Offers between \$30,000 to \$350,000 in loan funding
- ✓ 10 year term loan with monthly payments - prime + 2.75% (variable rate)
- ✓ Receive funding within one month
- ✓ No prepayment penalty

Term Loan

- ✓ Offers between \$30,000 to \$350,000 in loan funding
- ✓ Fixed interest rate - not susceptible to economic trends/interest rate changes
- ✓ 2, 3, or 5 year repayment options
- ✓ Receive funding within 1-2 weeks
- ✓ No prepayment penalty

Components & Requirements

SBA 7(a)

- ✓ Low monthly payment
- ✓ Currently a low interest rate
- ✓ Lower fees than our term loan product
- ✓ Detailed loan application process, requiring a dedicated, active client
- ✓ Requirements include: proof of insurance, business landlord documentation, tax transcript verification, etc.
- ✓ Stricter use of loan proceeds than the traditional term loan

Term Loan

- ✓ Minimum documentation required, but stricter parameters for cash flow and underwriting to qualify
- ✓ Leniency on Use of Proceeds (can be used for construction, remodeling, business acquisitions, partner buyouts, and tax refinancing)
- ✓ Typically higher monthly payments than an SBA Loan



* WHAT YOU NEED TO KNOW: This material is intended to provide general information on relevant topics for small business lending. Be aware that this is not a comprehensive analysis of the subject matter covered and is not intended to provide specific recommendations to you or your business with respect to the matters addressed. Please consult legal and financial professionals for further information.

1 Data accessed from:

SBA's 2021 Weekly Lending Reports page: <https://www.sba.gov/document/report-2021-weekly-lending-reports>
SBA's 7(a) and 504 FOIA page: <https://data.sba.gov/dataset/7-a-504-foia>