How to develop a small business lending program that works for your bank and your community

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Every town has them: the bakery that sponsors the Little League team, the florist that delivers last-minute bouquets for school dances, the landscaper who hires local teens each summer. These small businesses are more than customers. They're part of the economic and social fabric of the communities that financial institutions serve.

Supporting these essential contributors to local economies—while also meeting a financial institution's expectations around risk and return—requires more than offering loans. It demands a deliberate, well-structured program designed to make small business lending scalable, compliant, and sustainable.

With competition from fintechs offering fast, digital-first experiences, financial institutions have an opportunity to stand out by being both efficient and relationship-driven. That starts by approaching small business lending not as a sideline activity, but as a focused capability worth building intentionally.

The six steps below outline a practical framework for building a small business lending (SBL) program designed for speed, efficiency, and community impact.

1. Build a team and policy

This is not a Nike moment where a bank can just do it. Small business lending needs to be a focus—a program. An institution must be able to say, "We are small business lenders," not just "We do small business lending."

The first priority is clearly defining the "who" and the "how." Will there be dedicated production staff or underwriters? Will loan officers manage both commercial and small business portfolios? Define roles and responsibilities and identify a team to own the process from start to finish.

Next, create a small business lending policy supported by the institution's risk appetite. This policy should live within the core credit policy and include:

- How an SBL loan is defined (vs. a commercial loan)
- Allowable and excluded products or industries (e.g., cannabis-related businesses)
- Dollar thresholds (minimums, maximums, or total exposure limits)
- Target markets
- Acceptable collateral (e.g., no CRE loans)

- Required documents
- Credit risk attributes for decision models
- Staff responsibilities

Keep it simple. Focus on reducing the burden for borrowers and staff while getting the information needed to make sound credit decisions.

2. Create decision models

Decision models allow lenders to move quickly and consistently. The goal is to eliminate unnecessary complexity so small businesses can access capital faster.

Scorecards that combine quantitative factors like debt service coverage ratios and credit scores with qualitative inputs such as management experience or industry concentration help standardize decisions across the institution. That consistency mitigates variation across lenders and underwriters, promotes compliance, and makes exceptions easier to audit and track.

Attributes can be weighted, and outcomes assigned, such as “auto-approve,” “recommend for review,” or “decline.” It’s the art and science of lending, combined.

3. Leverage technology

Technology plays an essential role in making SBL programs efficient and scalable. Borrowers expect a seamless digital experience—not just during application but throughout the life of the loan.

Prioritize small business lending technology that enables:

- Online or mobile-first applications
- Automated underwriting and credit decisioning
- Real-time decision tracking
- Prefilled, auto-generated loan documents
- Core system integration for booking loans

API integrations can streamline KYC/KYB checks, pull data from credit bureaus and deposit accounts, and connect to accounting systems like QuickBooks. Reducing time spent on each deal lowers cost, improves NIM, and supports scalable growth.

4. Address the cultural shift

Often, the biggest challenge in building a small business lending program is not technology—it’s the cultural shift. Adopting faster underwriting, streamlined workflows, and different risk thresholds can feel uncomfortable in institutions used to traditional commercial lending processes.

Tone at the top is critical. Without leadership buy-in, clear communication, and staff training, change can stall. People may revert to old habits when under pressure.

Help teams understand the vision: Why is this shift happening? How will it strengthen the institution and benefit the community? The goal is for this to become the way business is done, not just a *new* way.

5. Implement the program

Once built, the SBL program must be rolled out thoughtfully. That means collaboration across marketing, sales, credit, risk, and compliance. Each function plays a role in ensuring success.

Marketing should create a plan to generate awareness, both internally and externally. Promote the program online, in branches, and through local business groups. Avoid a “build it and they will come” mindset. Generate momentum with consistent outreach.

Start with the bank’s existing customer base. Review deposit relationships to identify prospects. Connect with accountants, attorneys, and local economic development agencies to build a referral network.

Don’t stop at the loan. Offer bundled services that support small business needs—from treasury management to merchant services—and make ongoing interactions seamless, whether it’s payments, statements, or loan servicing.

6. Monitor and report

This is not a one-and-done step. Ongoing evaluation is essential to ensure the program delivers on expectations.

Establish benchmarks: What defines success? What metrics will be tracked?

Monitor the borrower experience. Are applications being abandoned? Is the approval rate where it should be? Are there too many manual reviews? These may indicate policy or model adjustments are needed.

On the portfolio side, track loan types, pricing, terms, charge-offs, and performance by decision tier. Make sure the portfolio is healthy, diversified, and aligned with strategic goals.

Decision models must evolve with experience and results. Continual monitoring and adjustment keep the program effective and responsive.

Not just any community bank

A well-developed small business lending program furthers the mission of community financial institutions. It supports the businesses that keep local economies running and strengthens the bank's position as a trusted partner. When designed with intention and executed consistently, it helps institutions not just be a community bank—but be *the* community bank.

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