How to Make Digital SBA Lending Your Secret Weapon in 2021

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The year 2020 was a watershed in the lending industry; the pandemic irreversibly changed the playing field for SBA lenders. Gone are the days when a "time to decision" for SMB loans of three to five weeks is acceptable. In a fast-moving economic environment, some businesses need funds through programs like the Paycheck Protection Program (PPP) in a couple of days – or they risk going under.

It would be a mistake to dismiss the surge in Small Business Administration (SBA) lending. It isn't going away once we return to the normalcy. In a recent webinar hosted by the Independent Community Bankers Association (ICBA), we discussed exactly how this strategy should play out for lenders in 2021.

Instead, financial institutions should embrace the SBA lending revolution. By better serving small business borrowers, banks and nonbank lenders can capitalize on one of the biggest opportunities of the decade. This article will show you how to get it done. But first, let's explore why digital lending is a necessity in 2021 and beyond.

Borrowers Increasingly Expect Convenience with SBA Lending

The pandemic has shifted a lot of businesses online. Everything from furniture to used cars can be bought on the internet these days. Small business owners expect convenience in their personal lives, and have carried those expectations over to their professional lives.

That convenience has become a necessity in a pandemic-ravaged world. One week, everything is fine. The next week, coronavirus cases have surged in a business owner's locale and the authorities have instituted a fresh round of lockdowns. Revenue collapses and a business owner faces financial ruin if their loan request isn't approved quickly.

You may be thinking:

Won't the small business owners dial down their expectations once the pandemic ends?

That seems like a pipedream. A small but growing number of banks and credit unions have streamlined their loan application processes, and can return a decision to a small business owner in a couple of days – or less. So, the capability exists.

And a lightning-quick approval process is still important for servicing SMBs in non-pandemic times. Business owners always have time-sensitive items on their to-do lists. So, how do you deliver?

Streamline the SBA Lending Experience

The lending experience at most banks and credit unions could be a lot better; antiquated processes make borrowers jump through countless unnecessary hoops on the way to approval.

Create a Dynamic Application

You can start by adapting the application questions depending on the loan type. If the borrower is on a PPP loan path, don't have them answer questions that don't apply to their situation. The last thing you want to do is unnecessarily create frustration among your customers.

A dynamic application administered through a lending platform can tailor the types of questions that a borrower is prompted with to the specific requirements of the program, or even uniquely based on they type of business that is applying. This is particularly useful with borrowers who are unsure which programs best suit them. Or maybe they think they know, but a better fit exists.

Embrace A New Model for Relationship Banking

One of the most common questions that Biz2Credit and Biz2X receives from lenders is something along the lines of, "What will our relationships with customers look like if they're doing everything digitally?"

Some banks and credit unions are clinging to the old ways of doing things; they fear that digitization will diminish their relationships with small business owners. This fear is misplaced, however, because fintech platforms like Biz2X ultimately enhance the relationship by giving customers speed and accessibility without diminishing the personalized approach that so many financial institutions have adopted.

Relationship bankers can play a role in providing speed and accessibility. They just have to pick their spots. One possibility, at least in a post-vaccine world, is to start the application in branch. By pre-populating some of the information and letting the borrower complete it, bankers can provide value without slowing down the process. Bankers can also help borrowers if they get stuck on an application question. In this scenario, lenders can marry the digital and traditional approach by messaging the applicant through the platform itself.

In other instances, relationship bankers should take a step back. Maybe a small business owner simply wants to click into the app and check the status of their application. Or they want to complete the entire application from the comfort of their own home.

Whatever the case may be, lenders should seek to insert themselves into the lending process on an as-needed basis. A less-is-more approach often makes the most sense and acts as a win-win. Borrowers get exactly what they need without the endless back and forth and financial institutions save human resources for the places where they can add the most value and create the longest-lived impact on client retention.

Combat Fraud with Digital Tools

The Paycheck Protection Program has offered a lifeline to millions of businesses. Unfortunately, it has also attracted a number of swindlers. The Wall Street Journal reported that nearly 500 people are suspected of fraudulently attaining hundreds of millions of dollars of loans, according to the FBI.

The last thing that a financial institution wants is to be caught up in one of these schemes. Fraud prevention is a top priority at banks and credit unions. And justifiably so. The problem, however, is that fraud prevention can slow down the loan application process. What is a financial institution to do?

Digital verification tools are the best way to prevent fraud without slowing down the approval process. You can verify identification and accounts with built-in third-party tools. You can cross-check cash flows and bank statements against previous records, if you have them. There is no need for fraud-prevention to be manual and time-consuming in 2021.

The Paycheck Protection Program is a Great Opportunity to Expand Small Business Lending in 2021

The second COVID-relief package totaled $900 billion and was signed into law on December 27; among other things, it funded another round of PPP. President Biden and Congress are working towards a new $1.9 trillion package that would offer further assistance to small business owners.

There will likely be millions of SBA loans issued in 2021, which gives lenders a chance to cultivate relationships with small business owners, many of them first-time borrowers. Financial institutions should educate borrowers on their options. According to a Biz2X & Biz2Credit survey conducted in May 2020, more than 96.5% of small business owners are aware of the Paycheck Protection Program. But that number drops to 67.5% for the Economic Injury Disaster Loan (EIDL) Program. Most small business owners weren't even aware of the SBA 7(a) Loan Program and SBA 504 Loan Program. Now is an opportunity to expand the awareness of these lending programs and turn them into valuable avenues for growth even once the immediate pandemic relief work is done.

From there, lenders have an opportunity to convert borrowers into long-term customers by providing education and program access. PPP awareness may be high, but many borrowers don't know about the intricacies of the program, or how to maximize their participation or loan forgiveness. Moreover, the goalposts have been changed; eligibility requirements are much different now than when the program was first created. Helping borrowers get through these intricacies with a made-to-spec digital lending platform is a great way to win loyalty for the long-haul.

Differentiate Yourself from Other Lenders

Banks and credit unions can no longer count on getting local businesses to borrow from them by default. Small business owners are now choosing to borrow from whoever offers the best lending experience. Whether that lender is located in their neighborhood or across the country, or even only online.

Digitization has the potential to lead to a winner take-all environment. The losers will still take 3+ weeks to approve a loan and request endless in-person meetings, while the winners will have a near-instant approval process and alert relationship bankers only when necessary.

Obviously, you want to be in the winner category, but what if you're worried about your ability to scale up your lending operations to handle new business?

Turn to a Fintech Platform like Biz2X for Business Loans

The Biz2X Platform can help you scale up your small business lending operations without a hitch. You can easily manage a large number of loan applications from the Banker Dashboard, ensuring that your loan processors don't get overwhelmed by all of the PPP activity.

You can streamline the user experience in a customizable white label environment. Biz2X offers the dynamic application capabilities that were mentioned earlier – fueled by machine learning – to get your users to their destination as fast as possible. The platform also has AI-driven analytics that alert you if your risk profile is moving away from the targets set by your bank.

2021 is a Make-or-Break Year for Lenders

Small business owner expectations of lending experiences are at an all-time high in 2021. It is increasingly easy to find that desired experience with a) financial institutions starting to provide it and b) geographic limitations no longer holding business owners to their traditional local banks.

In 2021, some banks and credit unions will grow their market share in the wake of the pandemic's effects and start a new chapter in the world of small business lending. You want to adapt with the times and ensure your institution is among the ones who do this right.