



Credit Unions and Small Business Members: A Perfect Fit

Convenient location, credit availability, and low fees/interest charges are the three most important factors for credit unions in establishing a favorable reputation with their small-business programs, according to a recent Greenwich Associates' research study of U.S. small businesses. And while most credit unions offer all three, surprisingly, many credit union executives feel ill-equipped to enter the business services arena.

For example, it's common for executives to cite a lack of cash-management capabilities, night-drop facilities or lending restrictions as major barriers to entry. Yet, Greenwich Associates lists cash-management and night-drop facilities as two of the least likely products for small businesses to purchase.

To set the stage for what small businesses need from their financial services provider, it is important to note a distinct difference in the product usage by various business segments. Many financial institutions establish an arbitrary definition of small business as those companies with sales of less than \$5 million or \$10 million. But a company with \$10 million in annual sales has a usage pattern that is quite different from a company with sales of \$1 million. Commercial banks tend to ignore businesses with less than \$2.5 million in annual sales, creating a made-to-order opportunity for credit unions. There are several advantages to targeting the smaller firms:

1. This segment is not aggressively marketed to or well served by national or regional banks.
2. Smaller firms' borrowing profiles better match credit unions' lending restrictions.
3. Product usage and preferences closely match credit unions' product offering capabilities.

Providing the right products

Business checking accounts are the single most-prevalent service that small business owners need, while sweep accounts are one of their least-used products. And, frankly, the ability to offer analysis accounts with or without sweep capabilities is not a very important decision factor in most small-business owners' choice of a new financial institution. They tend to prefer simple, easy-to-manage accounts rather than complicated and expensive analysis accounts.

After checking accounts, the next three most-used products for small businesses are credit cards, secured credit and unsecured credit. Happily, all four of these products are well within most credit unions' operational capabilities.

Credit products serve to illustrate the point: Most credit unions' existing system platforms are easily able to deliver the credit products needed by small-business owners. And typically, loan amounts of \$5,000-\$100,000 unsecured and \$5,000-\$500,000 secured will meet the needs of companies with sales below \$2.5million. For lines of credit, a monthly statement with either interest or a minimum payment due is usually all that is needed, along with a monthly or annual record of interest paid on all business loan types. Because secured and unsecured term loans generally amortize monthly, most consumer loan systems are capable of servicing these credits.

Leverage outside firms

Underwriting and documentation of business loans also can easily be outsourced. There are several services available with trained, experienced commercial lenders that cater to the credit union community. These services can enable your credit union to leverage a very capable staff for a fraction of the cost of a stand-alone commercial loan department. This allows you to concentrate your resources on member relationships rather than back-office functions, enhancing your business members' experience and successfully differentiating your services from commercial banks.

According to Greenwich Associates, there are four key factors that cause businesses to switch providers:

1. Better/lower fees than current provider
2. Better commitment to serving small businesses
3. Better/more convenient branches/offices
4. More flexible credit terms

All of these attributes fit well with our credit union philosophy of meeting the financial services needs of people of average means – your member/owners. Whether they are current members who have their business accounts elsewhere or small-business owners you wish to attract, they will respond very well to credit unions' "people-helping-people" values. By focusing on your strengths and sharing the credit union difference with small-business owners, you will soon realize the benefits of serving this new and fast growing market segment.

For more information on Member Business Solutions, a Credit Union Service Organization (CUSO) owned by \$4.2 billion Southeast Corporate, please contact Jim Gallagher at 888-627-7881 or visit <http://www.mbsllc.org>.