



Hypertension & Business Lending Competition

by [Steve Brown](#)

Summary: Post 2008, banks retreated from lending while PayPal and other online lenders saw an opportunity and moved in. Find out how community banks can leverage their strengths to compete.

If you suffer from high blood pressure, you might want to read up on a new study that finds taking sauna baths could reduce the risk of hypertension. Scientists in Finland who track such things found during a 22Y follow up that the risk of hypertension decreased 24% among those who bathed two to three times a week and 46% for those who bathed four to seven times a week. We are more of the showering types, but it is interesting nonetheless.

When it comes to interesting in banking, look no further than online powerhouse PayPal. They are rapidly becoming a more powerful small business lending competitor to banks than perhaps any other. The company just bought a small business online lender and it sure looks like they are going after small and medium sized businesses.

Following the financial crisis, banks retreated from lending of all sorts and online lenders saw an opportunity. For its part, PayPal in 2013 created its own lending program. Within 4 years, it had funded \$3B in loans to 115,000 small businesses. Now with its recent acquisition, PayPal has merchant sales volume and data around borrower's receivables. This allows them to better understand the strength of the business. This data allows PayPal to service larger business customers and provide same day responses for loan prospects.

Small business lending partnerships have definitely been accelerating as everyone in the industry tries to meet customer expectations for speedy capital.

So what should community banks do to compete? Well, some banks are taking matters into their own hands - either through fintech partnerships or by building the online platform themselves and licensing it to others. Partnerships can vary from simple referral arrangements for declined loans to a white-label agreement to actually purchasing an online platform. Community banks looking for a solution may find these options a good fit, knowing they don't need to provide a sizeable investment.

If none of these solutions appeal to your bank, a study by Raddon may still give you hopeful news. It found that while business owners are all looking for good interest rates and low fees, high service quality and convenient locations, most community bankers are in good standing - at least with their existing customers.

The difficulty is attracting new customers. The report notes that business customers often stick with their primary financial institution for all their banking needs.

That said, the silver lining here is that 40% of respondents with big bank relationships said they would follow their business banker to another bank. Looking for any business bankers jumping ship may be one way to help capture some of these relationships. Further, the time may be ripe as 51% who did not currently have community bank relationships were "extremely" or "very likely" to think about using one for future needs.

There are many different paths to take as a community banker to continue to succeed. By considering some of these discussed today as potential opportunities for your strategic planning discussions, you may be better able to map a good course for your bank. If not, perhaps you should consider taking a bath and letting your mind wander free. After all, that's reportedly how retired Fed Chair Greenspan used to clear his head.

BANK NEWS

Technology Shift

The Wall Street Journal reports large banks have launched new software trading systems in the \$6T investment grade corporate debt market. Believe it or not, the BIS reports only 40% of investment grade corporate bond trading is executed through computers while the rest happens over the phone. Look for this to shift more rapidly in coming years now that the largest banks are pushing for the change.

Online Growth

According to FTI Consulting, by 2027 online retail sales are expected to exceed \$1T. Online sales are forecasted to increase at a compound annual rate of 12% through 2020 and thereafter, at 9%. Amazon's share is expected to hit 53% by 2027 (from a 34% share in 2016) and represents 12% of all US retail sales.

Debt Warning

The IMF warns financial leverage outside of the banking system is now higher than before the financial crisis high. It is currently \$135T or 235% of aggregate GDP of the G-20 economies vs. 210% in 2006. Low borrowing costs and muted market volatility support these levels but with asset valuations high, a downturn could cause harsh global repercussions.

States Short

State pension funds are falling more behind, leaving taxpayers on the hook. Research by S&P Global Ratings finds states are not setting aside enough money to keep up with rising liabilities that will eventually come due to pay public worker pensions. In all but 2 states (AL & MI), the money set aside as a percentage of what is needed averages 68 cents for every dollar. States in the worst situation: NJ (only 31% set aside), KY (31%), IL (36%), CT (41%) and HI (51%). States in the best situation: WI (98%), SD (97%), NY (93%), TN (88%) and NC (87%). To catch up in NJ each person would have to pay over \$27,000.

No Response

PwC cybersecurity research finds 54% of executives surveyed say their company does not have an incident response process.

DEPOSIT OPPORTUNITIES

In an effort to expand our relationships, PCBB is pleased to offer community banks a money market deposit account rate of 1.35%, subject to availability. Contact operations@pcbb.com.

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