

# Small Business Credit: Make Your Bank Their Best Solution

By James Hudson

Ready access to credit is an integral part of the lifecycle for just about every business. As such, it is critical that community banks are able to fully meet this critical need for small businesses through a variety of lending channels. This fact becomes immediately evident upon even a cursory review of current small business trends.

According to data from the U.S. Small Business Administration and the U.S. Census Bureau, there are nearly 19 million small businesses with annual revenues of less than \$25 million. Of these, almost 13 million are non-employer businesses (“self-employed”), while almost 6 million are employer businesses (“firms”).



In the early years, many small business owners look to their personal credit resources to help fund the start up of their business. Consumer credit cards frequently serve as a convenient lending vehicle for start up enterprises. At the same time, these small business owners benefit from the convenience of immediate access to credit and simplified recordkeeping, and they can often receive rewards for their purchases.

The small business owner also receives the added benefit of being able to self-select whether they want to pay off their purchases after their interest-free grace period or revolve the balance for a few months to assist cash flow.

As businesses mature, so do their credit needs. Businesses are able to make this transition as they are able to demonstrate a track record of performance and growth. They often look to segment their credit needs by obtaining more traditional sources of business financing from community banks, while shifting their transactional activity to true business credit cards.

Unlike traditional consumer credit cards, the majority of business credit card accounts pay their balance in full each

Ironically, while travel rewards are still the most widely held rewards package, when business owners are asked about what is important to them in a rewards program, the most frequent answer is some type of cash rebate feature. Based on this, the best option may be to offer a broad-based rewards program that delivers a variety of choices.

Other benefits include the ability to establish their business credit card as a vehicle to support bill payment for recur-

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month. A recent industry study conducted by Visa shows less than 30 percent of business accounts revolve their balances.

## A Rewarding Solution

Business owners are still looking for many of the same things from their credit cards: convenience, float, rewards, and organized records. In other words, business owners still recognize that good things come in plastic. Business owners are also looking for an expanded offering that can include items such as specialized reporting, capability to download transactions and export them to money management programs, and online support across all cardholders. Business owners also have a greater interest in rewards.

ring transactions as well as traditional travel and entertainment expenses. Business owners are also able to segment their business activity from their personal activity. And, last but not least, they will treasure the upcoming change instituted by Visa resulting in zero liability for fraudulent transactions on business credit cards.

## Meet Multiple Needs

If your bank offers only consumer credit cards, you may not be meeting all of the needs of your small business customers. In fact, you could actually be prompting them to seek out other alternatives – including your competition. In 2004, the U.S. Small Business Administration ranked the top five small business lenders as American Express

Bank FSB, Capital One FSB, MBNA Corporation, Citigroup, and Wells Fargo. These five lenders are leading issuers of both consumer and business cards. If they see a business need worth serving, community banks should be able to serve that same need through their strength of “in-community” reach.

ceived value above 77 basis points generally have fees associated with them; yet some business owners may be wary of carrying any credit card with an annual fee.

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### Find the Right Partner

Community banks have the option of meeting this need on a direct basis through their own resources, or they can partner with an experienced provider who can supply a comprehensive, competitive, and compelling credit card solution. This credit card partner should stand ready to work with you and never compete for your customers while offering superior service and competitive pricing. Community banks should question the logic of having a credit card “partner” whose primary profit source comes from selling deposit and loan products on a direct basis to customers just like yours.

Regardless of whether your bank supports its own internal credit card program or your bank selects a partner/correspondent solution, the program must offer consumer credit cards to help launch start-up enterprises. These consumer cards should feature options for low rates as well as rewards. At the same time, the program should also have true business credit cards with a full feature product suite that includes cards with and without rewards.

By offering both, your bank will be better prepared to match the diverse needs of small business owners. For example, Visa indicates that reward programs with a per-

ACB members a turnkey, risk-free credit card solution. This advantageous offering provides you with new income opportunities, while enhancing your visibility through cards featuring your bank's name. Key member benefits include competitive consumer card products, exceptional service levels 24 hours a day for cardholders, robust business card offerings, and a generous rewards program.

In this program, TIB funds the loans and assumes the liability. Your bank can participate in the approval process, and TIB provides advance notification of applications not initially approved. Revenue sharing is available from both referrals and cardholder activity. In addition, TIB can partner with your bank to purchase an existing credit card portfolio, enabling you to reallocate resources, eliminate credit and fraud risk, and provide a meaningful revenue stream.

One final statistic: According to BAI Small Business Payments in 2006, small businesses have indicated a willingness to switch banks for better payment services. In fact, the likelihood for businesses to switch for better payment services is 50 percent. Will your bank be ready to meet their needs and provide a competitive solution? **15**

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