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Embracing a Growth Mindset – and New Partnerships – During a Volatile Market

The state of lending for financial institutions has changed, causing many banks in West Virginia to shift their priorities – but at what cost? Brian Mullett, Senior Vice President of Bank Relationships at Bankers Healthcare Group, offers a fresh perspective on how to embrace a growth mindset to build and diversify your portfolio during a volatile market, and what characteristics to look for in a financial partner to reach your goals.

In the months since the COVID-19 outbreak erupted in the United States, businesses, the economy, and society as a whole have been turned upside down. The lending market is no exception to this level of disruption, and the tremendous uncertainty of the pandemic has put significant pressure on banks, borrowers, and the financial decisions they're making.

When the SBA announced the Economic Injury Disaster Loan (EIDL) Program and the Paycheck Protection Program, small business owners moved quickly to secure financing to assist with payroll and other business expenses. Other borrowers opted for working capital loans for a fast injection of cash to cover what the government funding couldn't. And in April, the U.S. Bureau of Economic Analysis announced that the personal savings rate hit a historic 33%, highlighting the fact that instead of spending or borrowing money, some consumers were saving more than ever before.

Market Volatility Continues

The severity of the economic impact has caused a number of issues for traditional banks. Stories of banks working around the clock – putting all their resources toward helping the business owners in their communities get government funding–are not uncommon. And as we enter into PPP loan forgiveness territory, equipped with its own set of challenges, a new hurdle has emerged: mortgage rates have reached a record low, causing many lenders to reconsider the return on their investment for originating or purchasing these types of loans. At a time when banks would have been focused on loan volume and building their income streams instead of reacting to market volatility, it begs the question: how can banks grow for the future?

Embracing a Growth Mindset

This question holds substantial weight for banks. Now is the time to put growth plans into action, and consider new partnerships to build, strengthen, and diversify your loan portfolio. Many have seen the value technology has brought during the pandemic: to communicate with one another, to engage customers, to streamline operations, and more. Historically, community banks have considered FinTechs or alternative lenders as competition, but now they're looking at these partnerships as a way to strengthen their bottom line.

While partnering with nontraditional lenders has its benefits, it's important to note that not all lenders who claim the "FinTech" title have the same impact financially. These companies can originate loans with ease, but their true differentiator – and the ROI for your bank – is in their historical data.

Not only does this offer insight into borrower characteristics and performance, it can also help determine performance potential, and even the credibility of the lender in the industry it serves. This is valuable information when determining who to partner with and the impact it will have on your business, but

it's just one of a few key characteristics to consider:

1. Track record of success

You want a financial partner who can endure changes in the market, and can originate quality loans for your portfolio at any time. Early on in the pandemic, some of the biggest names in FinTech weren't actively lending, and struggled to keep their doors open. Put your mind at ease by partnering with an alternative lender who has a track record of successfully navigating economic downturns, and is agile enough to adjust its business model to continue to meet your needs year after year without fail.

2. Focus on quantitative analytics

Utilizing data to make lending decisions is common practice today, but not every FinTech or alternative lender has built proprietary quantitative analysis models to uncover variables to dictate risk. A partner who dives deep into the analytics can make better predictions when originating loans, resulting in a stronger return on your portfolio when purchasing them.

3. Origination expertise

Being well-known in the industry doesn't necessarily mean you'll attract the highest quality borrower, that is, unless you serve a niche industry and invest in marketing. Partners who execute innovative, highly-targeted campaigns across every channel, and are extremely selective in who they lend to, offers a unique advantage in the marketplace, and ultimately creating a better loan offering for your bank.

4. Streamlined process

Few things are as time consuming as evaluating credit files. Choose a financial partner who can offer consistent loan packages so you can quickly analyze files and make informed purchasing decisions with ease.

5. Innovative technology, concierge service

Banks are synonymous with customer service. You take great pride in the experience you offer, and go above and beyond to provide that personal touch you can't get working with a FinTech. Choose a partner who can bring innovative technology to your institution, but equally understands the importance of having live financing specialists available to help your borrowers.

There's no denying that the lending industry is changing – and banks will continue to be impacted for months to come. Those who see this as an opportunity for growth, and seek out the right partner today, will see greater success tomorrow.

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