

**Q2**

## **Fighting Fire with Fire**

Win back the SMB market with  
a digital, convenient lending  
experience

**May 2021**

# Introduction

The spread of COVID-19 unleashed a small business crisis across the U.S., as firms sought funding amid cash flow emergencies. Through 2021 and beyond, their credit needs will continue to be significant. To help themselves, small businesses are turning away from fintechs to financial institutions (FIs)—in particular, they are moving to those FIs offering not only better rates, but the speed and convenience of digital lending.

## Context

The pandemic has changed a 10-year trend in which traditional banks and credit unions were losing market share in small business lending to fintechs. In 2020, the swing back to financial institutions (FIs) began in large part when the SBA Payroll Protection Program (PPP) led to the adoption of faster, data-intensive technology that met the sought-after financial experiences of stressed businesses. There's little doubt commercial borrowers will continue to prefer digital lending experiences.



# Key Takeaways

## Obstacles to small business lending success

A FI's brand reputation in its community increasingly depends on positive digital banking experiences. As Javelin points out in its "2021 Small Business Digital Banking & Payments Trends," in 2020 "millions of business owners" tried digital banking and payments for the first time. And there is a widening realization by small businesses that digital banking and other financial services can be easy, convenient, and quick. The digital choice also is increasingly expected from firms when it comes to lending.

Unfortunately, time works against most traditional FIs in the area of loan origination speed. When compared to the mere handful of days it takes fintechs to complete the lending process, the added duration of FIs' traditional lending approach has a very real impact on cash-strapped businesses. Now that they've experienced a digital option, businesses want their FI to offer it or they will go elsewhere to get it.

**Technology producing faster decisioning will be critical to business lending in post-COVID commerce.**



Various sources.

# FIs: rethink and then retake the lending market

The Federal Reserve Banks' "2021 Report on Employer Firms" based on the "Small Business Credit Survey" found that in 2019, 33% of small businesses turned to online/fintech lenders for their credit needs. At the same time, many of these borrowers were dissatisfied with online lenders/fintechs' high interest rates. In seeking PPP assistance, however, lending through fintechs dropped off as small businesses turned to FIs for help. Small firms seeking PPP funds most frequently submitted their applications through small banks at 48% and large ones at 43%. At the same time, online lenders/fintechs saw only 9% of respondents turning to them.

A market growth opportunity is being signaled. Today, upwards of 26% of FIs now offer digital lending, but the uptick in its adoption during PPP is a strong indication of what's to come for lending as a whole. As Q2's Taylor Adkins, vice president of product development, has pointed out, "PPP can be interpreted as a digital dress rehearsal for the next act in FI lending."

PPP presented a case for faster, data-intensive technology, and based on Q2's and other lending experts' observations, all indications are that many FIs will continue to incorporate automated compliance and decisioning to deliver loan approvals faster and more securely. Taylor also believes that PPP proved something else about FIs—they are adaptable and can swiftly deliver on small businesses' expectations.

And now these FIs have the "digital muscle memory" in place to go further in meeting the needs of small businesses in the online and mobile channels.

# 26%

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# Forging ahead with strong post-COVID relationships

Despite the competition, FIs realize that they can learn from the fintech formula to drive speed and convenience. With the right technology they also realize they are in an advantageous position to not only compete against fintechs in a variety of lending areas but to retake the market.

Aligning digital attributes like flexibility, speed, and convenience – together with better lending rates and relationship building – is a powerful draw for businesses in the post-COVID economy. Besides commercial lending, banks and credit unions engaged in retail banking also see great possibilities for this technology in consumer lending.


## Q2 on the battle for small business lending

A small business, Taylor Adkins says, doesn't have the time to wait around today for a lending decision to be made. They have two questions when it comes to lending:

- Am I approved?
- When do I get my money?

FIs adopting cloud-based, API-driven, and seamlessly integrated lending will be able to answer these questions to a firm's satisfaction. From an FI's perspective, this lending model will deliver faster time to market and consequently, rapidly realized ROI.

Describing Q2's approach to small business lending, Taylor emphasizes the importance of an out-of-the-box solution with seamless integration in winning more lending business. He also points out that Q2's solution brings end-to-end lending in the omnichannel and that "our FI customers know the effort Q2 has put into commercial banking innovation is paying off for them, from lending to treasury onboarding and more."



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— Taylor Adkins  
VP of Product, Q2



# Is your FI ready to fight fire with fire?

We hope you take some time and learn more about your digital lending options. One way to get a deeper understanding of what you can do to maximize small business lending at your FI is to listen to [Q2's "Fight Fire with Fire" webinar recording](#).

Traditional lending is losing ground in the battle for small businesses. Why?

Get more insights into why traditional lending is no longer a viable lending option for digitally experienced businesses and [put the steps in place for your FI to take back the market](#) from fintechs and other competitors.

For more information, go to [Q2.com](https://www.q2.com)

# End-to-end small business origination

## Application

OOTB omni-channel digital application intake (online and branch)

## Underwriting

Automated underwriting using third-party data and digital collaboration

## Approval

Auto-decision based on credit analysis, eligibility, and satisfaction of due diligence exceptions

## Closing

Closing document generation and electronic signature

## Booking

Integration to core for automated booking (if available) and boarding data for manual booking