Small Business: Abandoned Again?
by Charles B. Wendel

Industry experts expect the Federal Reserve to raise interest rates by up to 75 basis points. A *Financial Times* survey of economists reveals that 70% predict a 2023 recession. Inflation remains high and maybe going higher. *Bloomberg* reports, "Small companies have shed jobs in three of the last four months, with some indication that this vital pillar of the US economy is feeling the pinch of higher borrowing costs…Firms with fewer than 50 employees have lost almost 300,000 jobs since February, data from the ADP Research Institute showed on Thursday. Some 91,000 of the losses came in May."

Not a happy business environment for any company, in particular for small businesses. Will banks support these businesses as they struggle to adapt or will they run away, taking a "duck and cover" approach? The current environment may provide community banks with a unique opportunity to cement relationships and take share from banks that are heading for the exits.

Right now, banks are stress testing portfolios to consider segments and businesses they should deemphasize as they circle the wagons to minimize losses. Unfortunately, small businesses often become the target of these initiatives. Each small business generates limited revenues, operates with limited capital, and appears subject to economic tsunamis. In addition, this segment often lacks strong support from a top management that can be wary about this group. Banks all say they love small businesses, but when push comes to shove, not so much. To this day small business remains a way station for many managers. They are passing through before they join other more mainstream bank groups.

One difference this time is that many banks, whether out of sense of social responsibility or a desire to quell local activists, have established programs to lend to segments within small business. For example, a recent *American Banker* article discusses Huntington Bank's Lift Local program. "Under its Lift Local program, part of a wider $40 billion community plan, Huntington has pledged $100 million for small-dollar loans, from $1,000 up to $150,000, in support of minority-, women- and veteran-owned businesses. Huntington offers the program in all 11 states in its Midwest footprint."

But what about companies run by old white guys? The New York Post just published an article that quotes the writer James Patterson suggesting that at least related to publishing this group is being ignored: "Speaking to the Sunday Times this weekend, the crime novelist said that 'white older male writers' aren't getting hired for 'writing gigs in film, theatre, TV or publishing' right now — claiming the phenomenon is 'just another form of racism.'"

Applying this comment to banking, a huge spotlight now shines on how banks treat specific "special interest" groups. That focus may be justified given how banks have previously avoided or underserved some needy segments. But, ironically, could this lead to a deemphasis on clients who have traditionally been the focus of a bank's small business effort, an unexpected offshoot of the ESG movement?

The small business owners I've known are good stewards, careful managers of cash flow and reticent to take on debt. A recent BAI survey of small businesses shows that over 60% of these businesses are increasing their deposit balances and working to build cash flow. But many will need to borrow or borrow more to sustain during this downturn, a role designed for a relationship-oriented community or regional bank. And circumstances are changing fast as inflation remains and small business customers feel stretched. I know companies that a few months ago had no need to borrow, but now see themselves in a different cash position.

Community and regional banks can lever several well-proven partners to lend to small businesses cost effectively. The vendors are out there; more solid customers need short-term help.

To the extent possible banks need to step up.