SECTION 6
Lending Practices and Competitive Advantages

Recent advances in technology have made it possible for customers to complete many financial tasks without visiting a bank branch or interacting with bank personnel. These advances have occurred alongside the growth of credit unions and other nonbanks as sources of credit for small businesses (see Section 5.4). But whether changes in technology and competition have affected how banks conduct their small business lending is unclear.

Academic research presents a mixed picture of how recent technological advances may have affected the practices or locations that banks use to compete for small business loan customers. FDIC (2018), the report on the 2016 SBLS, finds that banks emphasize a relationship-oriented approach to small business lending that relies on high-touch and staff-intensive practices in their interactions with small business borrowers and that a local presence forms a key foundation of that relationship-oriented model. Evidence of the positive role branches play in extending small business loans is also found in a recent academic study showing that local lending to small businesses decreases in areas where branches are closed.[68] The importance of branches may reflect the value of soft information when underwriting small business loans because the information is more difficult to collect and process from a distance.[69] This view is supported by evidence that the average distance between most banks and their small business borrowers has not changed.[70] Still, other research suggests that technological change is eroding the relevance of physical locations for lending through innovations that compensate for the lack of soft information.[71]

Evidence on how competition has affected bank small business lending practices is similarly inconclusive. While recent academic research suggests that credit from nonbanks is an imperfect substitute for credit from banks, nonbanks seem more likely to lend to new and relatively underserved markets, possibly by leveraging the use of alternative data or innovative products.[72] Further evidence suggests that the competitive forces of technological change may affect banks differently, depending on their banking model. Both nonbanks and certain types of banks are quicker to exploit technological improvements to compete more effectively.[73]

To advance the discussion of the effects of these recent trends on bank small business lending, this section examines the practices banks use in small business lending and how these practices relate to their competitive advantages over other lenders. The analysis explores ways customers can apply for loans, practices banks use to establish or maintain relationships with small business customers, and banks' views of their competitive advantages over both their general field of competitors and specific nonbank institutions. Understanding the practices banks use to compete will inform how evolution in the market for small business loans, whether through consolidation among banks or entry by nonbanks, could change the market's character.

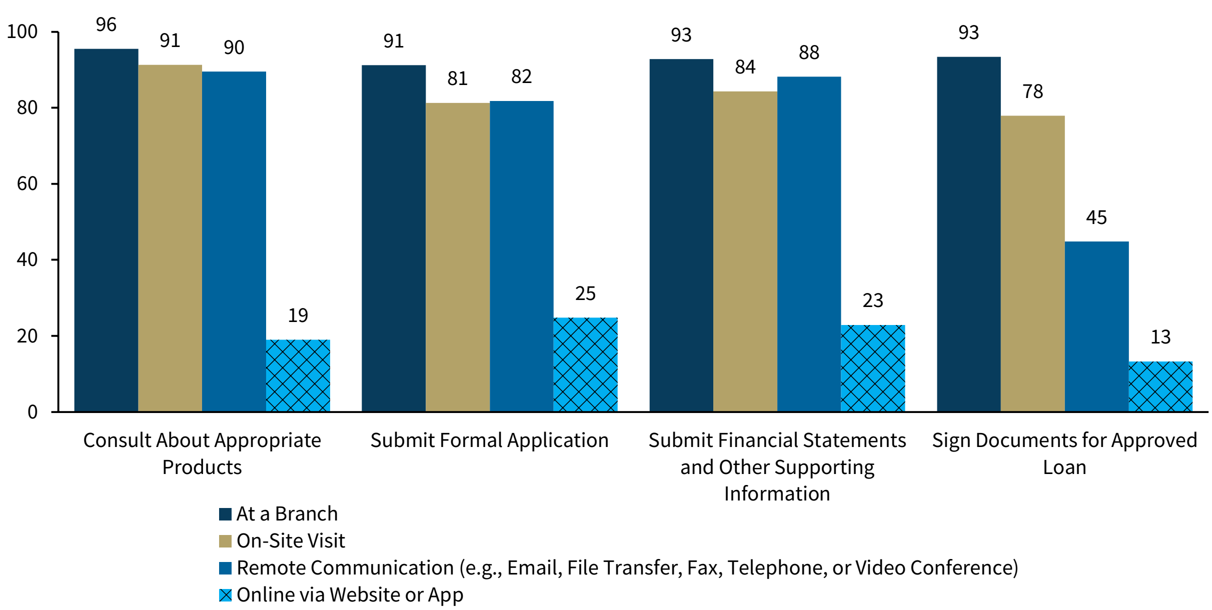
68 Nguyen (2019).
69 See "Relationship and Transactional Lending" in Section 1; see also Section 3.
70 Adams, Brevoort, and Driscoll (2023).
71 Keil and Ongena (2024).
72 Balyuk, Prabhala, and Puri (2020); Nitani and Legendre (2021); Erel and Liebersohn (2022); and Gopal and Schnabl (2022).
73 Haendler (2022); Cornelli, Frost, Gambacorta, and Jagtiani (2022); and Bickmore, MacKinlay, and Tellez (2023).

6.1 Ways to Apply for a Small Business Loan

To explore how developments in communication technology have changed the process of applying for small business loans, the survey asked banks about ways customers can apply for loans at their bank and how valuable these options are from the bank's perspective. The questions divided the loan application process into four steps: consulting about appropriate products, submitting an application, providing supporting information, and signing the closing documents. Banks were asked to indicate whether each step can be completed at a branch, through an on-site visit to the small business, through remote communication (e.g., email or video conference), or through an online portal. The responses allow for an industry-level measure of how commonly an application for small business credit can be completed in person and remotely.

The findings show that branches and on-site visits remain key conduits for extending small business credit, remote communication often supplements the in-person approach, and online methods are still relatively rare. As shown in Figure 6.1, virtually all banks (more than 90 percent) permit customers to perform each step of the loan application process at a branch. On-site visits by bank staff and remote communication are nearly as common for consulting about appropriate products (91 percent for on-site visits and 90 percent for remote communication), submitting an application (81 percent for on-site visits and 82 percent for remote communication), and providing supporting documentation (84 percent for on-site visits and 88 percent for remote communication). However, there are large differences between the share of banks that allow closing documents to be signed during on-site visits (78 percent) and the share that allow closing documents to be signed using remote communication (45 percent), suggesting that remote communication cannot fully substitute for in-person interaction. Taking loan applications through an online portal remains relatively rare. About a quarter of banks accept a formal application (25 percent) or supporting documentation (23 percent) via an online portal. Even smaller shares of banks are capable of consulting about products online (19 percent) or signing documents online for an approved loan (13 percent).

FIGURE 6.1
Percentage of Banks Offering Each Method for Completing Loan Applications

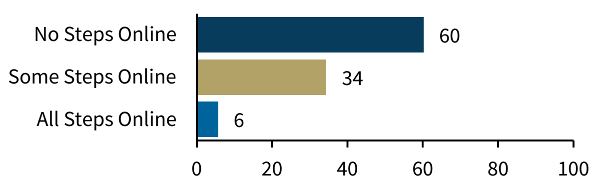


Source: SBLS 2022 Question II.A3.
Note: Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

These results qualitatively reflect those from the 2016 SBLS. FDIC (2018) shows that the branch is the most common place for small businesses to submit loan applications and that in-person visits and remote communication are also commonly used. However, the share of banks that accept loan applications through an online portal significantly increased between the 2016 and 2022 survey periods. Only 11 percent of banks accepted applications online in 2016, compared with 25 percent in 2022.[74]

FIGURE 6.2

Percentage of Banks Accepting Loan Applications Through an Online Portal



Source: SBLS 2022 Question II.A3.
Note: The four loan application steps are "consult about appropriate products," "submit formal application," "submit financial statements and other supporting information," and "sign documents for approved loan." Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

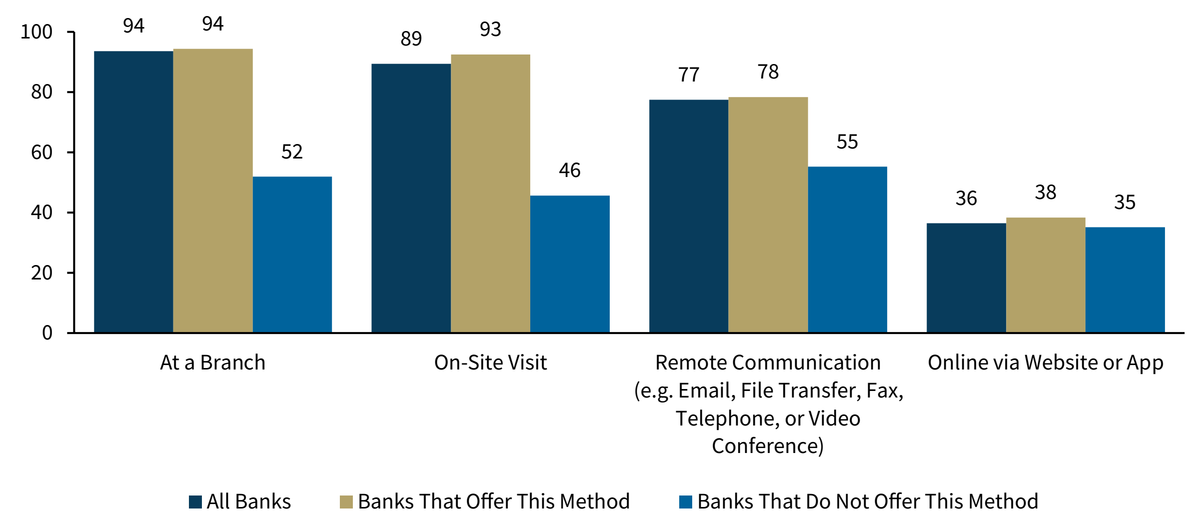
Another way the survey gauged the extent of use of online application methods was by asking banks how often they allow *all* steps of an application to be completed online. Figure 6.2 shows that while 40 percent of banks permit some steps to be completed online, only 6 percent of banks have a fully online application process.

A separate consideration is the importance banks place on each application method. To evaluate their importance, the survey asked banks to assess the value of each method regardless of whether they use it, which enabled an analysis of the perceived value for all methods, including online, even though relatively few banks use this method. For example, small banks may highly value the reach that an online application process provides but consider implementation cost-prohibitive; or small banks may think an online portal does not complement their underwriting process or is irrelevant to their target market.

On the whole, banks view branches, on-site visits, and remote communication as important to their loan application process, as shown in Figure 6.3. The figure shows the percentage of banks that view each application method as "very valuable" or "extremely

FIGURE 6.3

Percentage of Banks Valuing Each Method for Completing Loan Applications



Source: SBLS 2022 Question II.A4.
Note: For this figure "valuing a method" means the bank marked the method as "very" or "extremely" valuable. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

[74] FDIC (2018) separately reports the share of small and large banks that accept small business loan applications through an online portal and does not give a percentage for all banks. The following are provided for a direct comparison to the results from FDIC (2018): in 2022, 24 percent of small banks and 42 percent of large banks accepted an application online, compared with 11 percent of small banks and 23 percent of large banks in 2016. A direct comparison of the 2016 and 2022 survey results on the use of remote communication is not possible due to a widening of the definition in 2022 to include emails, file transfers, fax, and video conferences.

valuable," overall and by whether the bank uses the method. Almost all banks view branches (94 percent) and on-site visits (89 percent) valuable for interacting with customers. A majority of banks (77 percent) find remote communication valuable, while a relatively smaller share of banks (36 percent) find online portals valuable.

The vast majority of banks that use branches, on-site visits, or remote communication for the application process also tend to highly value them. More than 90 percent of banks that use branches and on-site visits and nearly 80 percent of banks that use remote communication in the application process consider these three methods very valuable or extremely valuable. Further, about half of banks that do *not* use these three methods also consider them highly valuable. In contrast, 38 percent of banks that offer online portals and 35 percent of banks that do not offer online portals describe them as very or extremely valuable. These findings suggest that the majority of banks perceive online portals as less valuable in cultivating small business lending relationships than either an in-person process or remote communication. Accordingly, this evidence suggests that banks that do not offer an online portal are not at a significant disadvantage to those that do.

6.2 How Banks Create and Maintain Customer Relationships

The results of the 2016 survey show that banks almost universally rely on high-touch and staff-intensive practices to generate and maintain relationships with small business customers. This reliance is likely influenced by the preferences of firms; recent research finds that an existing relationship with a bank is the most important reason a small business selects a bank as the place to apply for a loan.[75] However, advances in technology may have compelled some banks to adjust their focus from high-touch practices to online interaction. Further, banks used remote communication more frequently in their small business lending during the COVID-19 pandemic and may have not returned to their pre-pandemic approach. This subsection explores how banks interact with small businesses given the technological and societal changes since 2016.

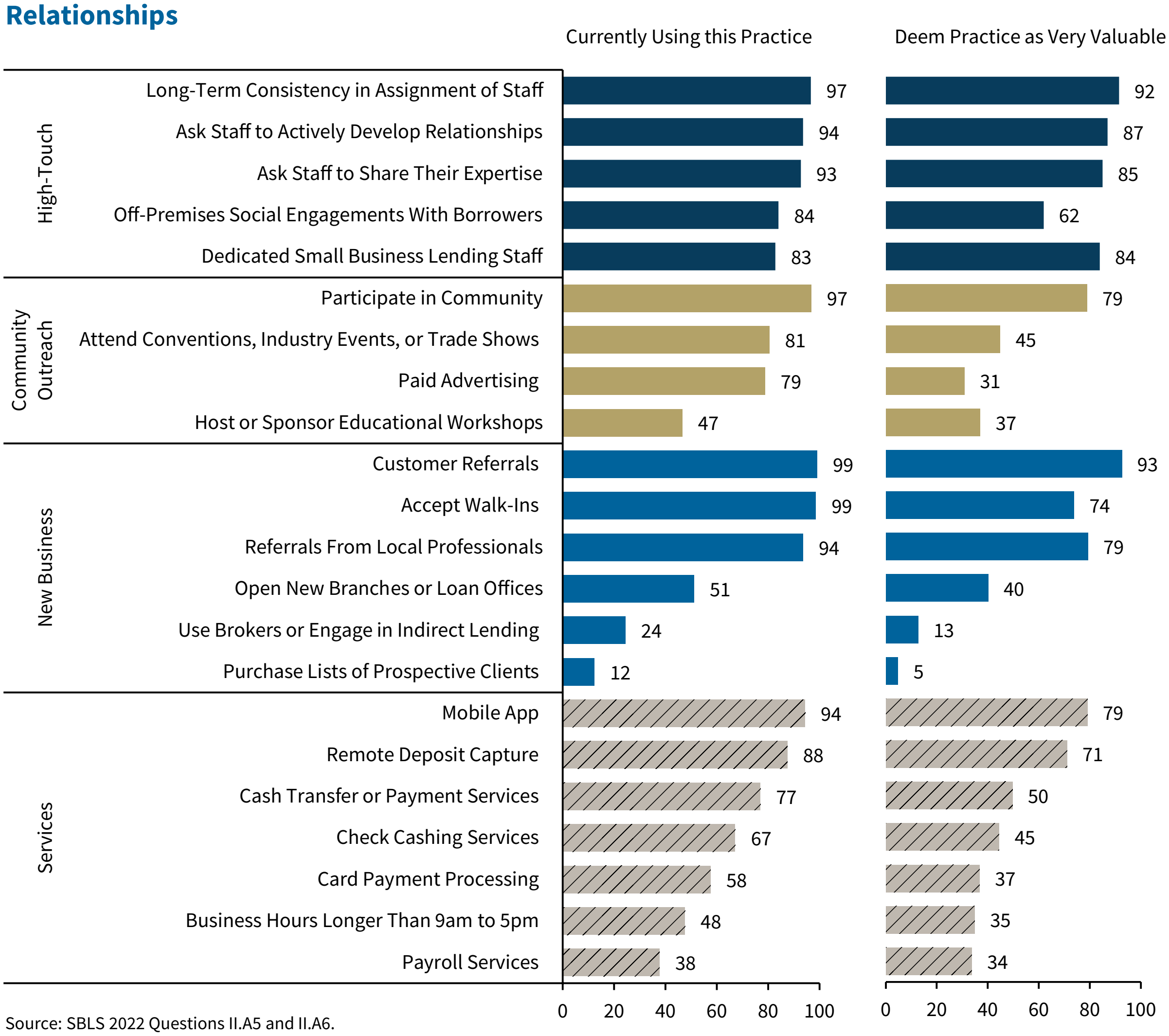
The 2022 survey contained questions about the interactions between banks and their existing and potential customers. Banks were asked to indicate whether they used a particular interactive practice and, regardless of whether they used the practice, how valuable they thought the practice was for their lending relationship. The responses on perceived value allows for a comparison of the relative prevalence of practices and their value, even for practices that might be cost-prohibitive for some banks. Comparing a practice's level of use to its perceived value allows for the identification of constraints that may prevent some banks from implementing practices they consider valuable. It also allows for the identification of practices that are common but do not seem to provide much overall value. The practices fit into four broad categories: high-touch practices, community outreach, ways to generate new business, and services to small businesses.[76]

The results, presented in Figure 6.4, show that high-touch practices remain key for maintaining relationships with small business customers. The first column of the figure reports the percentage of banks that use each practice within each of the four categories. The second column presents the percentage of banks that consider the practice very valuable. At least 83 percent of banks use each of the high-touch practices, and at least 84 percent of banks consider nearly all of those practices very valuable. At least 93 percent of banks encourage staff to develop relationships, share expertise, and maintain long-term consistency in their customer assignments. Slightly smaller shares of banks use dedicated small business lending staff (83 percent) or hold off-premises social events with customers

[75] Federal Reserve Banks (2023).

[76] The five high-touch practices relate to how banks instruct staff to interact with customers in ways not directly related to completing a loan application. The practices connected to community outreach and generating new business relate to the way the bank interacts with those outside of its customer base. The services to small businesses category relates to services other than lending that banks may provide to their small business customers.

FIGURE 6.4
Percentage of Banks Using Selected Practices to Generate and Maintain Lending Relationships



Source: SBLS 2022 Questions II.A5 and II.A6.
Note: For this figure "very valuable" means the bank marked the practice as "very" or "extremely" valuable. Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).

(84 percent). The comparison of the use with the value of each practice reveals that the most-used practices are also the most valued, though off-premise social events may be a common practice that holds relatively less value. Overall, the results show that the vast majority of banks not only engage in high-touch practices but believe the practices are crucial for developing relationships.

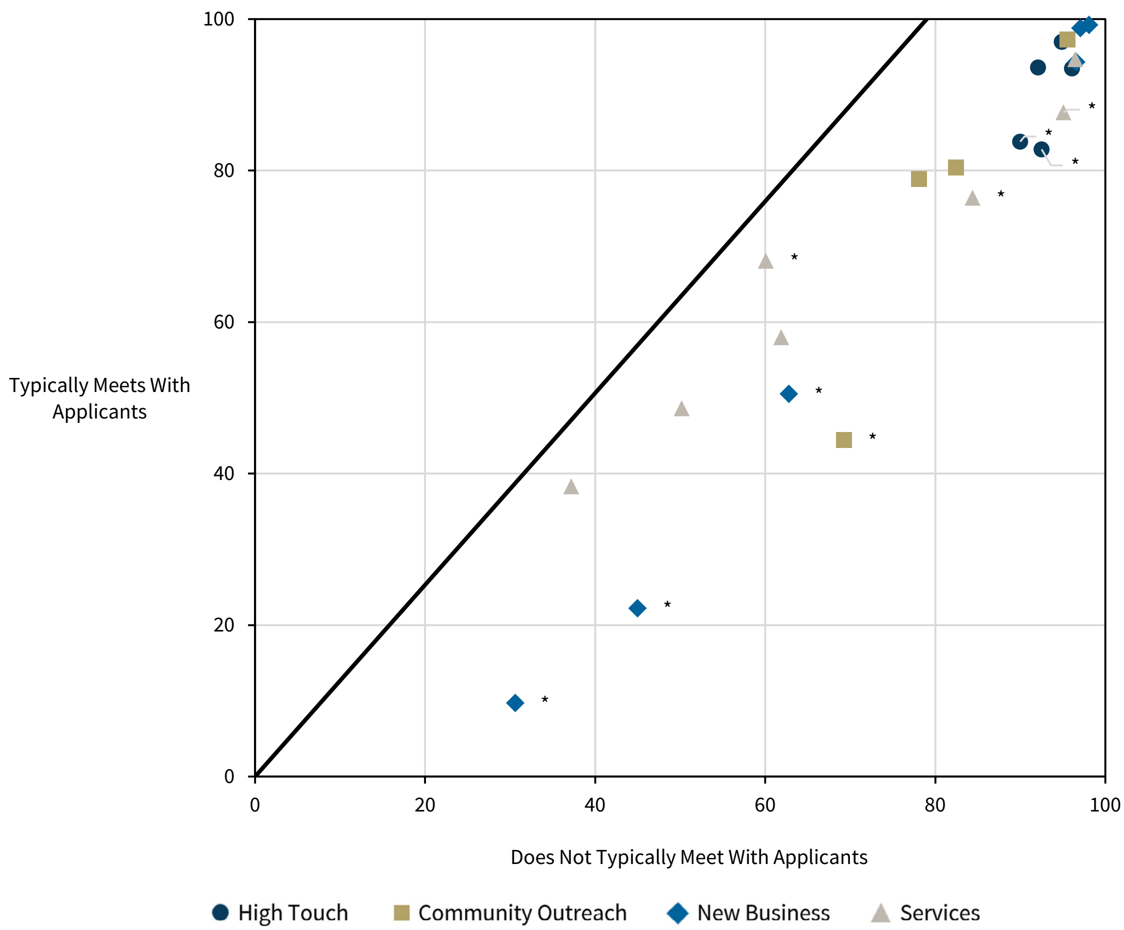
Echoing the importance of high-touch practices for maintaining relationships, the most common and valued practices for community outreach and generating new businesses tend to involve direct rather than passive action and in-person rather than remote interaction. Almost all banks (97 percent) participate in the community through activities such as serving on a board and taking part in networking events or sponsorships, and most banks (79 percent) view these efforts as very valuable. While about 80 percent of banks attend industry events or pay for advertising, fewer than half cite them as very valuable practices. Finally, 47 percent of banks host or sponsor workshops, though 37 percent perceive them as very valuable.

For practices that generate new business, almost all banks take referrals from existing customers (99 percent) or from local professionals (94 percent) and accept walk-ins to branch locations (99 percent). Most banks also view these methods as very valuable for generating new relationships, highlighting the importance of direct and in-person actions. About half of banks report a willingness to open a new branch, but relatively few banks use brokers or purchase lists of prospective clients. These low figures may reflect the relatively high cost of these actions or their low perceived value.

Banks consider only certain services valuable to facilitating small business customer relationships. For example, large shares of banks provide mobile apps (94 percent) and remote deposit capture (88 percent), paralleling the prevalence of these services in consumer banking, and consider these services very valuable to customer relationships (79 percent for mobile apps and 71 percent for remote deposit capture). Between 58 and 77 percent of banks offer small businesses traditional financial services like cash transfer and other payment systems, check cashing, and card payment processing, but no more than half of banks consider these services highly valuable to relationships. Extended business hours and payroll services are even less common, with less than half of banks offering these services and even fewer considering them very valuable.

FIGURE 6.5

Percentage of Banks Using Selected Practices to Generate and Maintain Lending Relationships, by Whether a Decision-Maker Typically Meets With Applicants



Source: SBLS 2022 Question II.A5.
Note: This figure shows how banks that do and do not typically meet with applicants vary in their use of the four categories of small business lending practices. Typically Meets With Applicants refers to whether a decision-maker typically meets with an applicant during the approval process (see Section 3.3). Question is keyed to the bank's highest-volume small business lending product, excluding credit cards and government-guaranteed products (see Appendix A for more information).
* Denotes a statistically significant difference between banks that do and do not typically meet with applicants at the 10 percent level.

The relationship-oriented and staff intensive way in which banks create and maintain customer relationships may not directly correlate with how they evaluate loan applications. Banks are often classified as relationship or transactional lenders based on the types of information they use to underwrite loans, with transactional lenders de-emphasizing the soft or non-quantitative information gathered about the applicant (see “Relationship and Transactional Lending” in Section 1). Less clear is the extent to which transactional lenders also de-emphasize relationship-oriented and staff-intensive practices in their day-to-day interactions with their small business customers. This proposition can be tested by analyzing how the practices discussed above vary across banks that do and do not typically meet with applicants during the loan approval process (see Section 3.3 and Section 7.2). Figure 6.5 presents the results of such a test. Each point in the figure represents the percentage of banks reporting that they use a practice; points farther to the left of the diagonal are more likely among banks that meet with applicants, and points farther to the right of the diagonal are more likely among banks that do not meet with applicants.

Figure 6.5 shows two salient findings. First, a large majority of banks use many of the same loan practices, shown in the cluster in the upper right corner of the figure. At least 80 percent of banks use 12 of the same loan practices, regardless of whether they meet with applicants. Second, relationship-oriented high-touch practices are among these ubiquitous practices, suggesting that de-emphasizing soft information when underwriting loans does not correlate with de-emphasizing high-touch practices when interacting with customers. The only statistically significant difference in the use of a high-touch practice is that banks that do not meet with applicants are about 10 percentage points more likely to use dedicated small business lending staff. The largest differences between banks that do and do not typically meet with applicants occur among practices generally viewed as less valuable for generating and maintaining relationships, such as purchasing lists of prospective clients, using brokers or lending through third parties, hosting workshops, and opening new branches to reach customers.

These findings suggest that, despite differences in other parts of their lending process, bank interactions with their small business customers remain in-person and high-touch activities.

6.3 Competitive Advantages of Banks

How banks distinguish themselves from their competitors provides insight into the priorities of banks and the distinct value banks provide to their small business customers. To explore the competitive advantages in bank small business lending, the survey asked banks to evaluate whether they or the institutions they typically compete with have an advantage in general areas, such as convenience, customer-facing technology, and pricing, and specific areas, like credit products offered and flexibility in collateral requirements. Since banks were asked to compare themselves to their overall field of competitors, the results reflect what banks generally see as their competitive advantages within the small business lending market.

Banks report that staff is a key strength in the market for small business loans. As shown in Figure 6.6, the top two competitive advantages for banks are customer service (84 percent) and established relationships between borrowers and staff (81 percent). These findings reinforce the notion that maintaining relationships through high-touch practices is fundamental to bank small business lending.

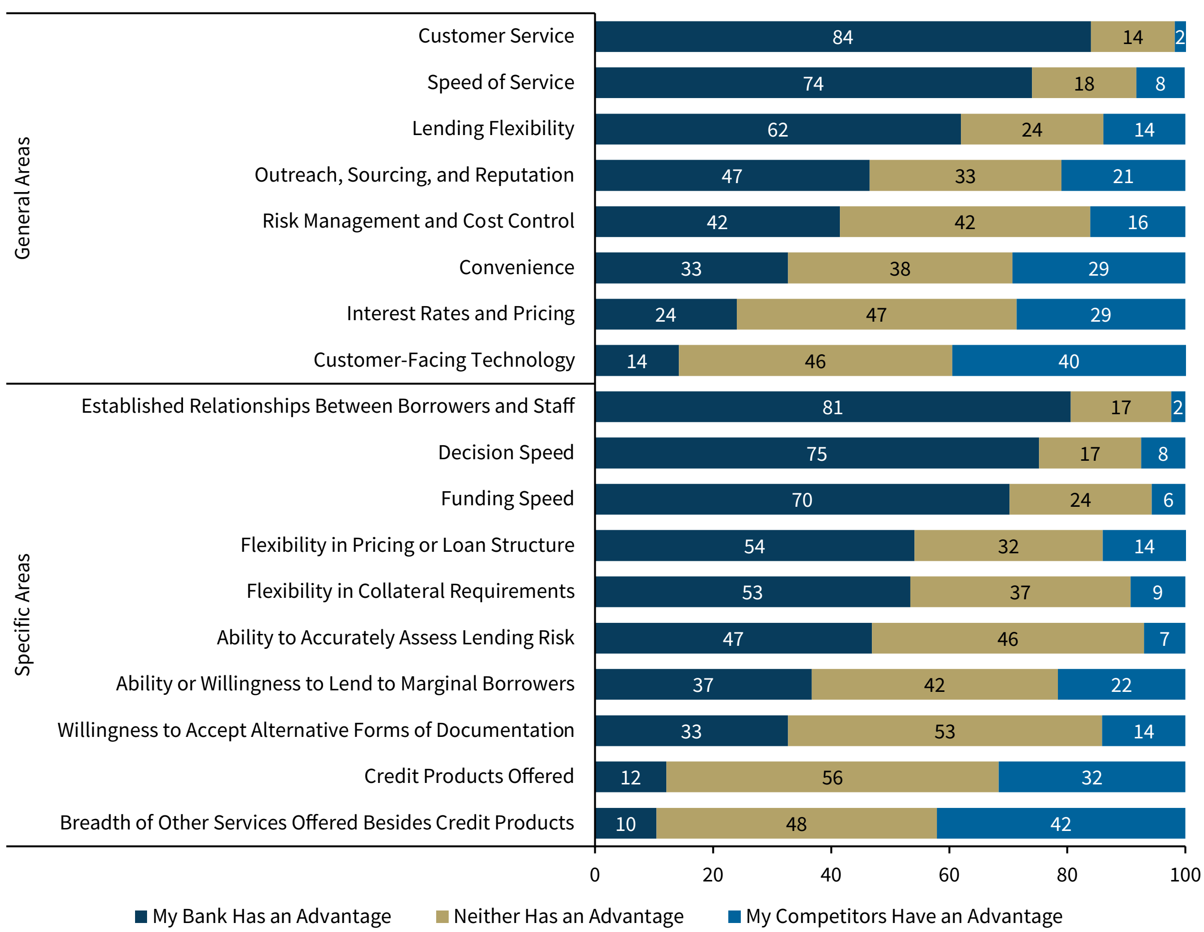
Speed is the second-most-common competitive advantage for banks in the small business loan market. Banks report that they distinguish themselves from their competitors in decision speed (75 percent), speed of service (74 percent), and funding speed (70 percent). In addition, more than half of banks claim an advantage in lending flexibility (62 percent), flexibility in pricing or loan structure (54 percent), and flexibility in collateral requirements (53 percent). Competitive advantages in speed and flexibility likely reflect a mix of human capital and operational structure that allows banks to meet the specific needs of their customers. For example, flexibility in lending may reflect an emphasis on soft information in underwriting (see Section 3.5) or a relatively flat loan approval structure (see Section 3.1). These results also point to a staff-intensive process for bank small business lending.

The results also provide insight into areas in which banks perceive a relative competitive weakness. Banks report being at a disadvantage in pricing, customer-facing technology, credit products offered, and breadth of non-credit services offered. Perceived weakness in these areas suggests that banks may feel relatively constrained in their ability to compete with other institutions that operate at a much larger scale, with institutions that have access to cheaper sources of funding, or both.

One way to explore how the scale of operations could change perceived advantages in the market is to compare the survey responses of small banks to those of large banks. This approach has some limitations because, as discussed in Section 5.3, large and small banks do not necessarily compete often and differences in their responses may reflect factors other than differences in scale. Figure 6.7 plots the percentage of large and small banks that evaluate each area as a competitive advantage, sorted by most common to least common for small banks. Areas in which a greater share of large banks claim an advantage may reflect the returns to greater scale.

The results suggest that the larger scale of operations of large banks does not necessarily translate into sizeable advantages over their competitors (see Section 5.3 for primary competitors of large banks). Despite significantly larger branch networks and access to diverse funding sources, fewer than half of large banks claim an advantage in pricing and convenience, and statistically are no more likely

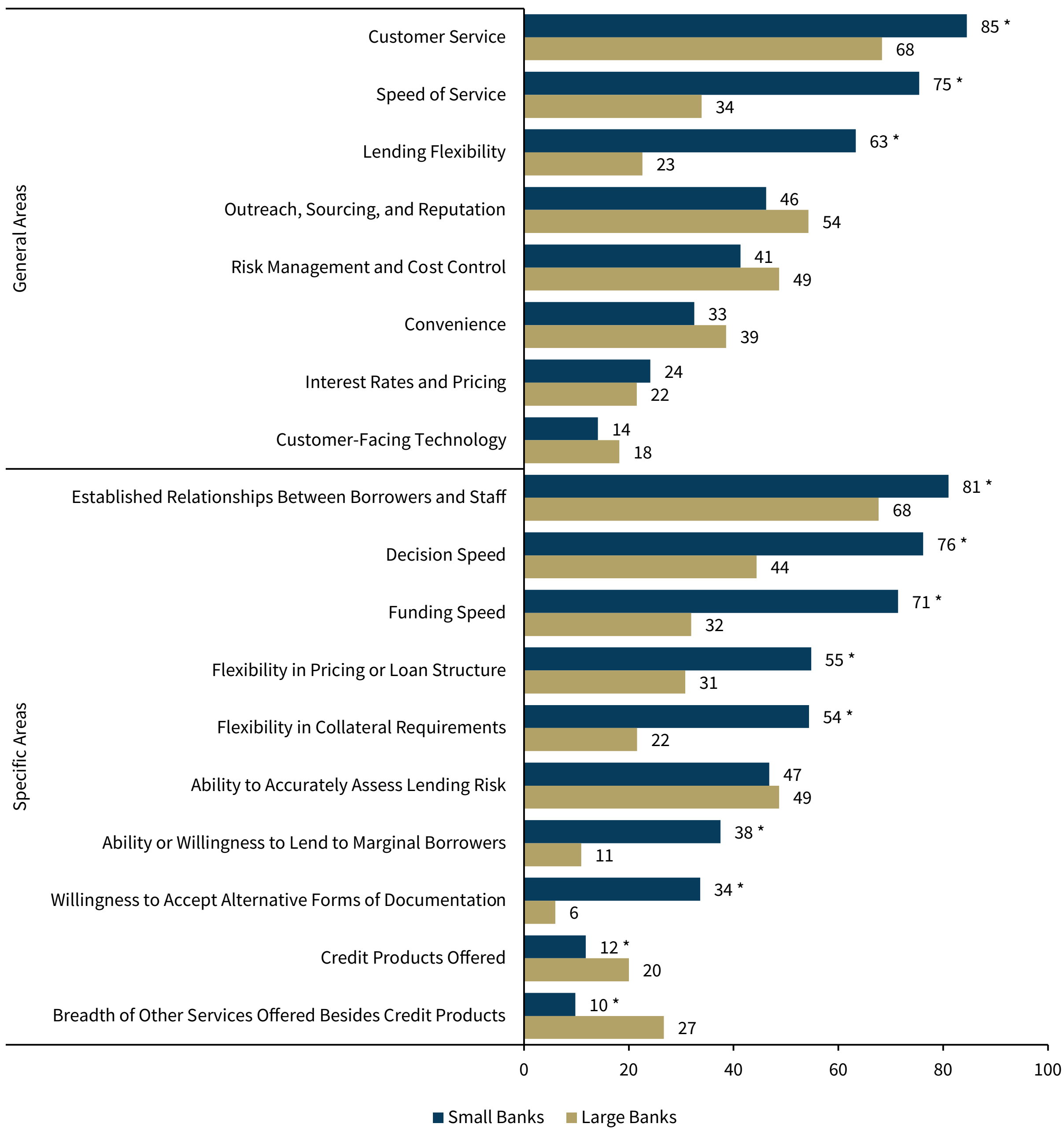
FIGURE 6.6
Percentage of Banks Reporting Selected Competitive Advantages



Source: SBLS 2022 Questions II.B2 and II.B3.
Note: The *My Bank Has an Advantage* and *My Competitors Have an Advantage* both combine "big advantage" and "advantage" responses. Results may not sum to 100 percent due to rounding.

to do so than small banks. Similarly, very few large and small banks view customer-facing technology as an area in which they have an advantage over competitors, suggesting that some nonbank competitors of small and large banks may have an edge in these areas. Large banks seem to have a competitive advantage in credit products offered and breadth of other services offered, consistent with returns to scale allowing large banks to offer a wider variety of products (see Section 2.2) and services to small business borrowers (see Figure 6.7).

FIGURE 6.7
Percentage of Banks Reporting Selected Competitive Advantages, by Bank Size



Source: SBLS 2022 Questions II.B2 and II.B3.
* Denotes a statistically significant difference between small and large banks at the 10 percent level.

One general area in which small banks are more likely to identify an advantage over their competitors is in the speed of their loan process. Small banks were more likely to report an advantage in overall speed of service (41 percentage points more likely), funding speed (39 percentage points), and decision speed (32 percentage points). Fewer than half of large banks consider speed an area in which they have an advantage, suggesting that they perceive it as a relative weakness. Interestingly, Section 3.4 suggests that large banks are much more likely to report the ability to make a loan in one business day or less, though small and large banks are about equally likely to approve a loan within five business days. The disconnect may reflect differences in the types of applications small and large banks receive, where the greater use of soft information by small banks means that large banks can be relatively faster at approving loan applications but only for a limited pool of applicants (see Section 3.5).

Small banks are more likely to identify an advantage in overall lending flexibility (40 percentage points more likely), flexibility in collateral requirements (32 percentage points more likely), and flexibility in pricing or loan structure (24 percentage points more likely). Small banks are also more likely to identify a competitive advantage in the ability or willingness to lend to marginal borrowers (27 percentage points more likely) and willingness to accept alternative documentation (28 percentage points more likely). These results likely reflect the value small banks place on soft information in small business lending (see Section 3.5).

Despite these differences, the great majority of small and large banks identify a competitive advantage in customer service and the ability to establish relationships between borrowers and staff. Thus, the comparison of differences in competitive advantages between small and large banks suggests that all banks emphasize the relationship with the customer but differ in their ability or willingness to use information gleaned from the relationship to make lending decisions (see Section 3).

6.4 Competition With Credit Unions and FinTech Lenders

Section 5 presents evidence that banks face increased competition from credit unions and FinTech lenders for small business loans. Thus, assessing how banks perceive their comparative advantages with respect to these nonbank competitors offers insight into the nature of this competition.

The survey asked banks to evaluate their competitive advantages compared to credit unions and FinTechs in several areas, including interest rates and pricing, lending flexibility, and speed of service. The results indicate that the primary competitive advantage of credit unions is in their pricing of small business loans. Figure 6.8 shows that the vast majority of banks (86 percent) indicate that credit unions have an advantage in pricing.[77] A smaller but still significant share of banks report that credit unions have an advantage in lending flexibility (28 percent). Banks otherwise consider themselves at least evenly matched with credit unions across the remaining areas.

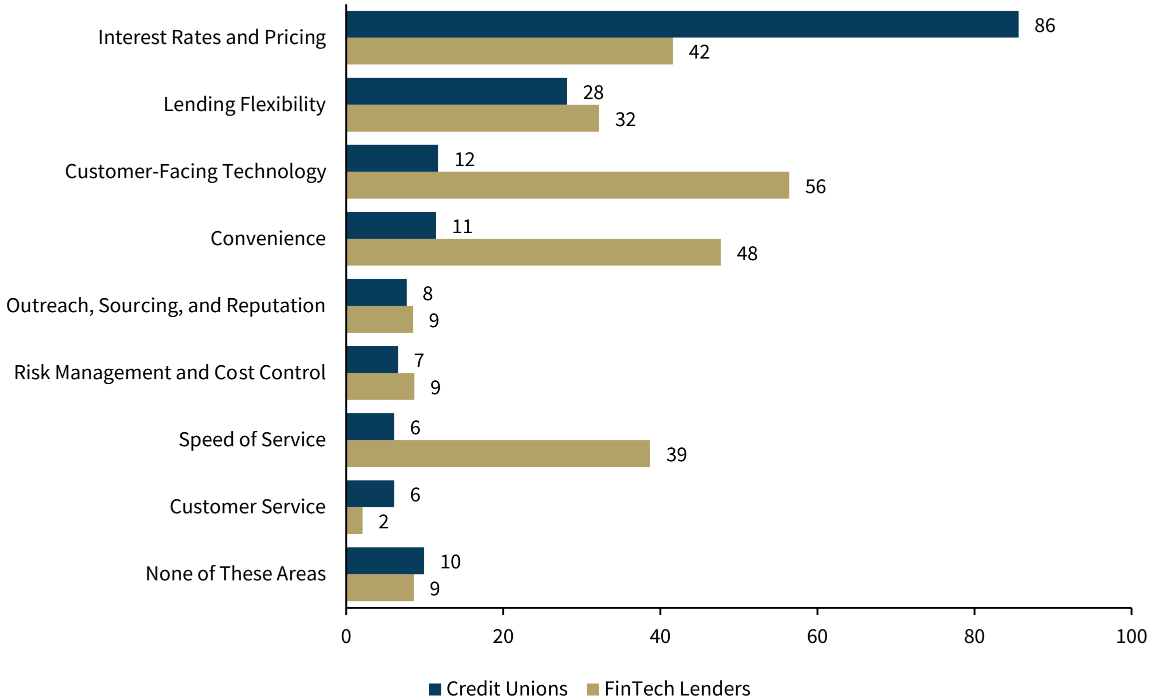
Banks perceive FinTechs to have a wider array of competitive advantages than credit unions. However, no more than 56 percent of banks believe FinTech lenders have an advantage in any one particular area. These results suggest more diversity in the FinTech competitors banks face compared with credit unions.

More than half of banks (56 percent) perceive that FinTechs have a competitive advantage in customer-facing technology. This technology supports FinTechs' online, available-anywhere business model, which also likely contributes to the 48 percent of banks that report convenience as another area in which FinTechs have an edge. Potentially for similar reasons, about 39 percent of banks report being at a disadvantage compared to FinTechs in speed of service. While relatively few banks claim a competitive advantage in convenience or customer-facing technology, speed is an area in which banks typically believe they excel (see Sections 3.4 and 6.3). However, except for customer-facing technology, at least half of banks do not perceive that FinTechs have

[77] Credit union revenues have historically been exempt from federal, state, and local taxes because credit unions are nonprofit organizations under Internal Revenue Code Section 501(c). This difference may be the source of the perceived advantage in pricing for credit unions.

FIGURE 6.8

Percentage of Banks Reporting Selected Competitive Advantages of Credit Unions and Other Nonbanks



Source: SBLS 2022 Questions II.B5 and II.B6.
Note: FinTech Lenders are nonbank online lenders. Statistical testing of the differences is not reported.

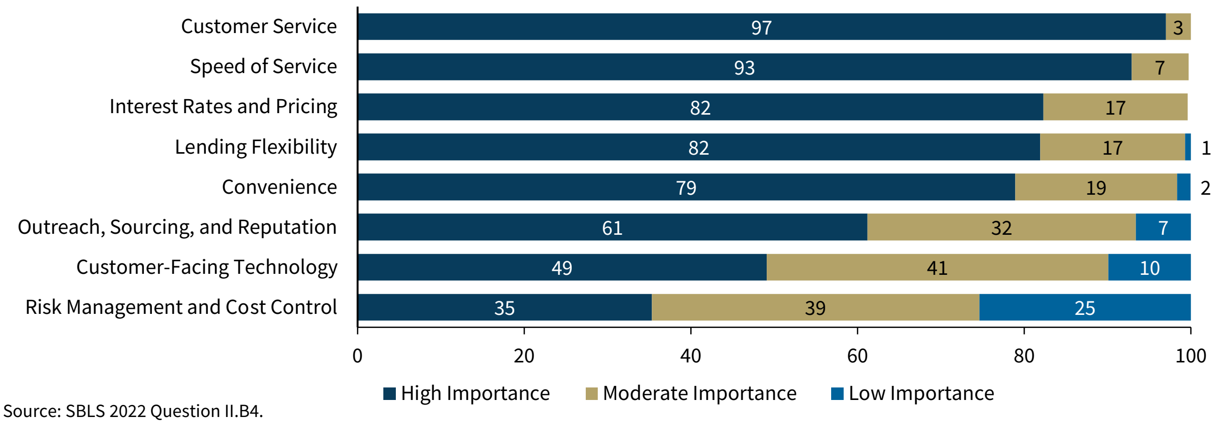
an advantage in any of the surveyed areas, which may reflect the low value banks tend to place on online portals for generating and maintaining small business customer relationships (see Section 6.1).

Somewhat surprisingly, about one-third of banks believe FinTechs have an advantage in lending flexibility, an area traditionally considered a relative strength of banks and small banks in particular. Assuming that FinTechs, as online lenders, would have difficulty collecting or using soft information about prospective borrowers as discussed in Section 3.5, their advantage in lending flexibility may reflect FinTechs' use of alternative data. Forty-two percent of banks report that FinTechs have an edge in interest rates and pricing. Explanations for these perceived advantages could include cost savings from FinTechs' lack of a physical branch footprint, their ability to differentiate risk and price accordingly, and their ability to reach certain types of customers and to market loan products to them.

6.5 Areas of Importance to Small Business Borrowers

Another way to evaluate the competitive landscape is to explore how banks evaluate the priorities of their small business customers. The survey asked banks to indicate whether a particular practice is of high, moderate, or low importance to their small business borrowers. One takeaway from these responses is the extent to which banks think their relative strengths match the areas that they think matter to applicants when deciding where to apply for credit. Banks identify customer service, speed of service, and lending flexibility as among the most important areas to their customers. As shown in Figure 6.9, nearly all banks indicate that small business borrowers assign a high importance to customer service and speed of service, and a large majority indicate that such borrowers assign a high importance to lending flexibility. Each of these areas

FIGURE 6.9
Percentage of Banks Reporting Selected Areas as Important to Borrowers



Source: SBLS 2022 Question II.B4.
Note: The *High Importance* category combines "high" and "very high" importance responses. The *Low Importance* category combines "low" and "very low" importance responses. Results may not sum to 100 percent due to rounding.

coincide with areas that banks view as among their advantages in the competition for small business loans (see Section 6.3).[78]

Interestingly, the other two areas among the top five of highest importance to the largest shares of banks—interest rates and pricing and convenience—are not areas that banks typically claim as competitive advantages. The large majority of banks believe that interest rates and pricing and convenience are of high importance to their current and potential customers. However, fewer than 40 percent of banks claim either area as a competitive advantage, with about 30 percent reporting each as something their competitors do better.

Banks report that their customers consider the remaining three areas—outreach, sourcing, and reputation; customer-facing technology; and risk management and cost control— relatively less important, although one-third to almost two-thirds of banks report that their customers assign high importance to these areas. Of these three, banks do not think that their competitors have an advantage in outreach, sourcing, and reputation or in risk management and cost control. However, 40 percent of banks think their competitors have a comparative advantage in customer-facing technology. Together, these findings suggest that banks have aligned their key strengths with the top concerns of small business customers but that banks may have difficulty competing in some important areas.

6.6 Conclusion

Banks rely on high-touch and staff-intensive practices to generate and maintain relationships with small business borrowers. Nearly all banks use practices such as encouraging staff to form long-term relationships with borrowers and to engage with the wider community. Further, banks consider these methods as some of the most important for their small business lending process, especially when compared to general paid advertising or most other services. In addition, branches and on-site visits remain foundational for completing a small business loan application. While remote communication is ubiquitous in the industry, it is often used to supplement in-person interaction. While a sizeable minority of banks allow some steps of the loan process to be completed online, very few banks allow the typical applicant to complete the loan process entirely online. High-touch and staff-intensive practices remain essential to the overall business model for small business lending, even for banks that do not meet with applicants.

[78] Small firms also identify these factors as important factors influencing their choice to apply for a loan at a bank. See Federal Reserve Banks (2023).

These core practices correspond to areas that banks identify as their comparative advantages over other types of small business lenders. Most banks view customer service and customer relationships as key strengths over competitors; they also claim speed and lending flexibility as advantages. Both small and large banks view the relationship-oriented approach as a comparative advantage, though small banks are more likely to claim advantages in speed and flexibility. Relatively few banks consider pricing, customer-facing technology, or the breadth of services and products offered as areas in which they excel in the market. When considering the strengths of nonbanks, banks cite pricing as the primary advantage of credit unions and consider FinTechs more competitive, though not dominant, in customer-facing technology, convenience, and speed of service.

Together, these results suggest that banks are not moving to a fully remote or online process for originating small business loans. Instead, the analysis suggests that interaction with skilled staff around branches will continue to be at the core of bank small business lending.