

- Most credit unions can never win a race war — and the most successful ones find ways to avoid entering them all together, employing better and different ways to satisfy the business lending needs of their members.



## How to Overcome Cut-Throat Rates in Business Lending

Rate wars are typically something credit unions do not want to involve themselves in, whether it be with other credit unions or banks.

In today's lending environment it is becoming increasingly difficult to grab borrowers' attention — even when the rate is "great." Modern technology has also contributed to the difficulty of attracting borrowers, as they are constantly bombarded by rate advertisements on emails, social media, and more traditional advertising mediums such as radio and television. Given this hyper-competitive environment, it is truly difficult for credit unions to compete.

When business lending borrowers start to play the rate game with your credit union, it is critical you remind them rates are already very competitive and that occasionally competitors may lump in additional fees or pre-payment penalties that lock a borrower down for an extended period of time. In such cases, the initially attractive "great rate" actually ends up costing the borrower more money over time.

However, rate shopping remains a preferred activity amongst many borrowers. Given today's competitive environment, borrowers also typically lack a sense of loyalty to any one lender — including your credit union. The question then becomes: do you want to give something away to a borrower that may only use one of your services, one time? Not many credit unions will survive doing business this way.

However, not all members are driven solely by interest rates. It is therefore important to know exactly what does motivate your business borrowers and focus on those factors. The entire concept of relationship lending revolves around knowing that your borrower will come back to your credit union when he or she has a need for additional future financing. They will also look to you as their financial advisor, at least as far as all things business lending go. These types of borrowers, carefully cultivated by relationship lending practices, are the long-term members to help your credit union build invaluable referrals for its reputation, as well as market and wallet share.

Keep in mind — when a borrower shows you a rate offered from a competing lender that seems too good to be true, it usually is. Don't got-check react and tell them that you will match the rate. First, consider the cost to your credit union. Ask yourself the following question: is this a rate you would give your best borrower? If not, why are you matching rates, in essence entering into a rate war, with a competitor?

The most important key to overcoming rate matching and avoiding the cut-throat rate wars so common in business lending is to be proactive and in front of your borrowers often. It is also critical to build good relationships with your business lending members so that your credit union is top of mind of borrowers when their business lending needs arise.

- Suncoast Credit Union is the largest credit union in the state of Florida, the ninth largest in the United States based on membership and the ninth largest in the United States based on its \$6 billion in assets.

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## Suncoast Credit Union sets goal to become one of TOP 10 Lenders in South Florida

**Situation:** Suncoast Credit Union earned a designated "preferred lender" status with the SBA as of January 1, 2015. In order to capitalize on this, the credit union set an internal goal of becoming a member of the top ten lenders for their SBA service area. This includes a large portion of the Gulf Coast of Florida.

**Actions:** Suncoast Credit Union entered into a relationship with MBL in order to help them accomplish this goal.

**Results:** "As we work towards our goal of becoming a top ten SBA lender in our area, our relationship with MBL is instrumental," said Larry Rupp, VP of Business Services with Suncoast Credit Union. "Our credit union has no in-house underwriting experience — therefore we rely on MBL for their expertise in that area. We will continue to build our relationship with MBL in the coming months in order to help us reach and exceed our goal with SBA lending."

Rupp went on to say that the guarantees on loans from the SBA mitigates risk to the credit union — therefore helping them provide better loan-to-rate value and longer payoffs on loans. This empowers members seeking business loans and increases their chances of success.

He also added that SBA loans allow the credit union to offer loan packages with little to no collateral, thus freeing them from loans with real estate as collateral. This can be especially helpful for business members seeking funds for start-up businesses, such as franchises.

The assistance from MBL is critical in helping make all these action items and goals attainable.

