

# HOW CREDIT UNIONS CAN THRIVE WITH THE 'RIGHT DEPOSITS'

STRATEGIC SMALL  
BUSINESS LENDING  
FOR THE MODERN  
CREDIT UNION



**WHITE PAPER**

# Introduction

In today's competitive banking landscape, credit unions are constantly seeking strategies to attract new members and expand their deposit base with stable funding. By putting a strategic focus on small business lending, credit unions can achieve these goals. When credit unions nurture a robust small business lending program they not only empower local entrepreneurs but also unlock opportunities for themselves.

Attracting and retaining the "right deposits" from small business customers is a key driver for credit union financial success. Additionally, since credit unions' mission extends beyond financial gain, by funding small businesses they are able to support their local communities and enterprises, reinforcing a mutually beneficial relationship that fosters growth and stability.

Credit union leaders identified their top priorities for 2024 as improving operational efficiency, growing deposits, and increasing loans, and by leveraging technology to expand a small business lending program they can accomplish all three of these goals. In fact, 65% of this same group of leaders also identified small businesses as a key growth area for 2024. Small business lending growth not only nurtures connections with valued members but also enriches the credit union's portfolio with robust and comparatively low-risk investments. Let's dig into how this works and why your credit union should expand into small business lending, and how technology can help you make it easy and profitable.



# The Power of the "Right Deposits"

Credit unions rely on consumer member deposits, which can be susceptible to economic fluctuations. When expanding to attract small businesses deposits, they benefit from several crucial advantages that address this volatility:



**Stability** Small businesses tend to maintain consistent banking relationships, proving to be a more reliable source of funds compared to individual accounts, which can be more susceptible to economic downturns.

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**Increased Loan Potential** A strong small business deposit allows credit unions to offer more loans, further strengthening financial health. Studies show that credit unions with robust small business lending programs experience higher loan growth compared to those without.

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**Growing Members** By catering to small businesses, credit unions attract members beyond consumer, allowing them to foster a more diverse and resilient member base. Also, these new small business deposits are larger than consumer deposits on average.

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**Relationship-Biased** Small businesses value the traits that make credit unions vital - relationships. Bankers become trusted advisors and crucial for a business' stability, which reduces their churn rates. Practically speaking, changing will disrupt their cash flow and financial operations.

<sup>1</sup> Lim, S., & Jang, H. S. (2018). The Impact of Small Business Lending on Credit Union Performance. Journal of Financial Services Research.

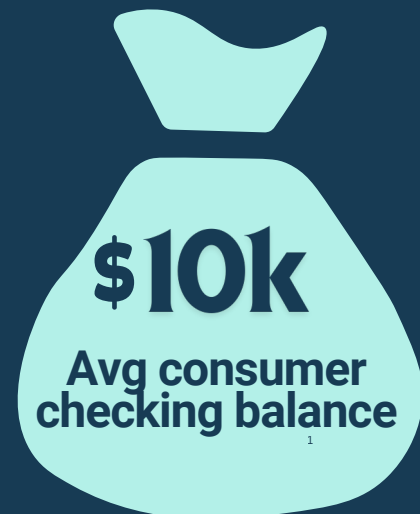
<sup>2</sup> Cornerstone Advisors: <https://www.cornerstone.com/contact-us>

# Proven Deposit Size Drives Growth

By offering lending products tailored to small businesses, credit unions can build strong relationships with these customers. This often leads the business to open checking accounts as well - with small businesses favoring the unparalleled customer service that sets credit unions apart. This focus on small business lending presents a profitable and rewarding strategy for credit unions.



Bankers believe any decline will only impact **14%** of SMB deposits.<sup>2</sup>



Bankers believe any decline will impact **86%** of consumer deposits.<sup>2</sup>

Bankers know where their growth will come from - 60% of them are focusing on SMB customers to expand deposit growth<sup>2</sup>

<sup>1</sup> Bankers Association of Institute (BAI). (2023, September 27). U.S. consumer and small business deposit trends.

<sup>2</sup> StrategyCorps. (2023, March 9). How are Bankers Planning for This Year's Revenue Challenges?

# LOS Tech: A Catalyst for Credit Union Growth through Small Business Lending

Starting or expanding a small business lending program can seem daunting for credit unions. However, digital loan origination systems (LOS) can integrate directly into a credit union's existing platform and offer the following benefits:

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## Improved Security & Compliance

Equipped with robust security, these systems safeguard financial data and ensure compliance. This commitment to security offers assurance to both credit unions and SMB customers.

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## Enhanced Data Analytics & Reduced Fraud

LOS leverage advanced data analytics to assess creditworthiness and detect fraud, improving decision accuracy as SMB KYB relies on different data sources than consumer lending.

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## Faster Lending Decisions

Streamlined processes like rules-based automation equal faster loan decisions. This enhances the overall customer experience for small businesses, and streamlines internal resources

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## Reduced Costs

Automated workflows, rules-based decisioning and electronic document management within embedded LOS reduce manual tasks and increase operational efficiency.

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## Small Businesses Like Digital

Making lending easy for SMBs is critical. 69% of them prefer robust digital capabilities when choosing a financial services provider, making a LOS the best way to deliver this experience.<sup>1</sup>

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## Simplified Loan Applications

LOS platforms provide user-friendly interfaces for both credit unions and small businesses, streamlining the application and approval process. This can significantly reduce processing times and close loans faster.<sup>2</sup>

# The Recap

By strategically focusing on small business lending, credit unions can attract the "right deposits" from new customers who are seeking these loans. This allows credit unions to build a stronger member base. Small business clients are less likely than consumer clients to churn and, by serving small business client lending needs, credit unions are more likely to benefit from their business checking account business as well.

Leveraging LOS solutions can significantly streamline this small business lending process, making it easier and more cost-effective to serve this vital market segment.

By implementing these strategies, credit unions can position themselves as trusted partners for small businesses, while simultaneously guaranteeing their own financial future.





## ABOUT US

Rapid Finance has provided financing to small businesses for over 20 years and also offers innovative small business lending software for financial institutions. Our Lynx platform supports AI-powered fraud detection across the lending lifecycle, while Decisioneer enables referral pathways through the Funding Network. Together, these solutions empower lenders to grow smarter and faster.