# Quinte Financial Technologies | FinTech Solutions

**Assignment on**

**SMALL BUSINESS BANKING AND LENDING**

**Under Supervision of:**

**Mr. Mohammad Mozammil**

**Given On:**

**10th July, 2024**

**Submitted By:**

**Archita Gupta**

# Small Business

A small business is typically defined as an independently owned and operated company that is limited in size and revenue, depending on the industry.

**Key Characteristics of Small Businesses:**

* **Ownership:** Usually privately owned, often by individuals or small groups.
* **Management:** Typically managed directly by the owners.
* **Revenue:** Generates relatively lower revenues compared to larger corporations.
* **Employees:** Employs a smaller workforce, often fewer than 500 employees in the U.S.

**Types of Small Businesses:**

1. **Sole Proprietorships:** Owned and operated by a single individual.
2. **Partnerships:** Owned by two or more individuals who share profits and responsibilities.
3. **Corporations:** Separate legal entities owned by shareholders.
4. **Limited Liability Companies (LLCs):** Provide limited liability to owners and are a hybrid of a corporation and partnership.

**Key Statistics:**

* **Number of Small Businesses:** According to the SBA, there are approximately 31.7 million small businesses in the U.S. as of 2020.
* **Employment:** Small businesses employ about 60.6 million people, or 47.1% of the U.S. workforce.
* **Survival Rates:** About 80% of small businesses survive their first year, 50% survive five years, and roughly 33% survive ten years or more.
* **Economic Contribution:** Small businesses account for 44% of U.S. economic activity.

## Small Business Banking

Small business banking refers to the suite of financial services and products that banks offer to small businesses to help them manage their finances, fund operations, and grow. These services include business checking and savings accounts, loans, credit cards, merchant services, and more.

**Key Components of Small Business Banking**

1. **Business Checking and Savings Accounts:**
   * **Checking Accounts:** Designed for day-to-day transactions, providing easy access to funds for paying bills, purchasing supplies, and managing cash flow.
   * **Savings Accounts:** Used to set aside funds for future needs, emergencies, or earning interest on surplus cash.
2. **Business Loans:**
   * **Term Loans:** Lump sum loans repaid over a fixed period, often used for major purchases, expansions, or refinancing debt.
   * **Lines of Credit:** Flexible borrowing options that allow businesses to draw funds up to a certain limit as needed, useful for managing cash flow or unexpected expenses.
   * **SBA Loans:** Loans guaranteed by the Small Business Administration, offering favorable terms for small businesses that might not qualify for conventional loans.
   * **Equipment Financing:** Loans specifically for purchasing business equipment, using the equipment as collateral.
3. **Business Credit Cards:** Provide a revolving line of credit that can be used for business expenses, offering benefits such as rewards, cashback, and tracking of expenses.
4. **Merchant Services:**
   * **Payment Processing:** Solutions for accepting and processing customer payments via credit cards, debit cards, and electronic transfers.
   * **Point-of-Sale (POS) Systems:** Hardware and software solutions for managing sales transactions, inventory, and customer data.
5. **Cash Management Services:**
   * **Payroll Services:** Solutions for managing employee payroll, tax withholdings, and direct deposits.
   * **Treasury Management:** Services that help businesses optimize their cash flow, manage liquidity, and reduce financial risks.
6. **Online and Mobile Banking:**
   * **Account Management:** Access to account information, transaction history, and funds transfer through online platforms and mobile apps.
   * **Mobile Deposits:** Ability to deposit checks using a mobile device.
7. **Financial Advice and Planning:**
   * **Advisory Services:** Access to financial advisors who can provide guidance on business planning, investment strategies, and growth opportunities.
   * **Workshops and Seminars:** Educational programs to help small business owners enhance their financial literacy and business skills.

**Key Statistics:**

* **Loan Approval Rates:** According to the Federal Reserve’s Small Business Credit Survey, about 57% of small businesses that applied for loans were approved in 2020.
* **SBA Lending:** In fiscal year 2020, the SBA approved more than $28 billion in 7(a) loans, the SBA’s primary program for providing financial assistance to small businesses.
* **Number of Banks Serving Small Businesses:** Over 5,000 banks in the U.S. offer small business banking services, including community banks, regional banks, and national institutions.
* **PPP Loans:** The Paycheck Protection Program (PPP) provided over $800 billion in forgivable loans to small businesses to help them maintain payroll and cover essential expenses during the pandemic.

## Small Business Lending

**Small Business Lending**

Small business lending involves providing financial resources to small businesses to help them start, operate, and expand their operations. Various financial institutions, including banks, credit unions, online lenders, and government programs, offer different types of loans tailored to the needs of small businesses.

**Key Components of Small Business Lending**

1. **Types of Small Business Loans:**
   * **Term Loans:** Lump sum amounts that are repaid over a fixed period with regular payments of principal and interest. Typically used for major purchases, expansion, or working capital.
   * **Lines of Credit:** Flexible, revolving credit lines that allow businesses to draw funds up to a certain limit as needed, useful for managing cash flow or unexpected expenses.
   * **SBA Loans:** Loans partially guaranteed by the Small Business Administration, offering favorable terms to small businesses that might not qualify for conventional loans. Common SBA loan programs include 7(a) loans, 504 loans, and Microloans.
   * **Equipment Financing:** Loans or leases used to purchase business equipment, with the equipment itself serving as collateral.
   * **Invoice Financing:** Advances against outstanding invoices, helping businesses manage cash flow by getting funds upfront instead of waiting for customers to pay.
   * **Merchant Cash Advances:** Advances based on future credit card sales, providing quick access to capital but often with higher costs.
   * **Microloans:** Small loans, typically under $50,000, offered by non-profit organizations and community lenders to startups and small businesses.
2. **Loan Application Process:**
   * **Pre-Qualification:** Initial assessment where the lender evaluates basic financial information to determine loan eligibility.
   * **Documentation:** Detailed documentation required for the application, including financial statements, business plans, tax returns, bank statements, and legal documents.
   * **Credit Evaluation:** Lenders assess the creditworthiness of the business and the owner, including credit scores, credit history, and debt-to-income ratios.
   * **Collateral:** Evaluation of assets that can be used as collateral, such as real estate, equipment, or inventory.
   * **Approval and Terms:** If approved, the lender provides the loan terms, including interest rate, repayment schedule, and any covenants or conditions.
3. **Underwriting and Risk Assessment:**
   * **Financial Analysis:** Detailed analysis of the business’s financial health, including profitability, revenue trends, and cash flow.
   * **Business Plan Review:** Assessment of the business plan to understand growth potential and business strategy.
   * **Risk Assessment:** Evaluation of potential risks, such as market conditions, industry trends, and management experience.
4. **Disbursement and Repayment:**
   * **Disbursement:** Upon approval, funds are disbursed to the business’s bank account or directly to vendors in the case of equipment financing or similar loans.
   * **Repayment:** Regular payments of principal and interest according to the loan agreement, with options for early repayment in some cases.
5. **Loan Servicing:**
   * **Payment Processing:** Collection of regular payments and management of loan accounts.
   * **Customer Support:** Providing support and assistance to borrowers for any questions or issues related to their loans.
   * **Monitoring:** Regular monitoring of the borrower’s financial health and adherence to loan covenants.

**Key Statistics:**

* **Loan Approval Rates:** Traditional banks have a loan approval rate of around 25-30% for small businesses, according to the Biz2Credit Small Business Lending Index.
* **Credit Unions:** Credit unions approve about 40% of small business loan applications.
* **Alternative Lenders:** Online and alternative lenders have higher approval rates, around 60-70%, as they often take on more risk.
* **SBA Loan Data:**
* **7(a) Loans:** General-purpose loans used for working capital, expansion, equipment, or real estate. In fiscal year 2020, the SBA approved over 42,000 7(a) loans totaling more than $22 billion.
* **504 Loans:** Long-term, fixed-rate financing for major fixed assets such as real estate or equipment, involving a bank, a Certified Development Company (CDC), and the SBA. The SBA approved over 7,000 504 loans totaling more than $5.8 billion in fiscal year 2020.
* **Microloans:** Small loans up to $50,000 provided by the SBA through intermediary lenders to help small businesses with working capital or purchase of inventory, supplies, and equipment. The SBA approved approximately 5,800 microloans totaling $85 million in fiscal year 2020.

**Loan Purposes:**

* **Working Capital:** 40% of small business loans are used for working capital and cash flow management.
* **Equipment Purchase:** 30% are used for purchasing equipment or machinery.
* **Expansion:** 20% are used for business expansion or renovation.
* **Debt Refinancing:** 10% are used to refinance existing debt.

**Average Loan Amounts:**

* **Bank Loans:** Average loan amount is around $500,000.
* **SBA 7(a) Loans:** Average loan amount is around $350,000.
* **Microloans:** Average loan amount is around $14,000.

Thank You