How To Better Leverage Merchant Lending

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By Trina Larson

Even in an uncertain economy with rising and falling stock prices, unemployment rates and consumer confidence, consumers still spend at both the local and national level.

Whether it's a home repair they need or a swimming pool they want, those larger local purchases often require financing, and they're often made by folks who are either current members of your credit union or eligible for membership.

Merchant lending is the practice of local lenders connecting with local merchants to provide local consumers the financing they need when they need it. Finance companies have historically been the dominant players in this arena, but in the wake of the worst financial crisis since the Great Depression, many finance companies have packed up and cleared out of small to medium retail markets. This has left many local retailers without a source of funding to offer their customers, limiting their ability to sell large-ticket items and often resulting in lost sales to large retailers that offer same-as-cash financing options.

By not only helping community retailers retain customers, but also by providing more financing options to consumers, credit unions can step up and serve their communities in a whole new way-while also capitalizing on a great opportunity for the institution.

You Look Great, They Look Great

Credit unions are well-equipped to take advantage of merchant lending opportunities because not only can you provide financing, you can provide financing at very reasonable rates. In an informal survey of merchants in one local market, interest rates from banks and finance companies ranged from 19% to 27.9%-a rate range that's fairly typical across the country among these types of institutions. By offering better rates, your credit union makes retailers look great to their customers and saves customers money, which is never bad for anyone's business.

In some cases, with the new interchange laws, customers paying with credit cards-especially rewards cards-have become a pricey proposition to merchants. So, offering credit union financing to their customers also saves the merchant money. Merchant lending is truly a win-win-win situation, and when properly executed and managed, it can deliver big benefits to your credit union, including:

* Growing net income. Providing point of sale financing gives your credit union a brand new loan portfolio as a source of income. And one of the biggest benefits of providing this financing is that the average yield on merchant lending loans is about 13%. In addition, if you stick with strong retail segments, delinquency is very minimal.

* Building business relationships. Business lending can be a boon for credit unions. Point-of-sale financing gives you a great way to build your small business loan portfolio by helping you create deeper ties to local businesses. Offering incentives like discounted interest rates for active merchants in your program is just one of the great ways you can leverage a merchant lending program to boost your business lending volume and success.

* Acquiring new members. By giving you the ability to fulfill a need for members of your community, merchant lending is a perfect opportunity to get new members in the door and build lasting relationships with them. It's also an excellent way to provide new services and additional convenience to your existing members, thus deepening those relationships.

* Gaining new marketing opportunities. Brand exposure abounds with merchant lending. Using website ads or signage in teller windows, for example, you can advertise to your existing members that point-of-sale financing is available at your partnering retailers. You can also collaborate with your merchant partners on marketing campaigns like e-mail blasts and, to maximize exposure of the program, have large banners and promotional materials on-site at every location where you offer point of sale financing. In many cases, these businesses are so eager and excited to spread the word about offering affordable financing that they are often willing to spend money to advertise the program on your credit union's behalf.

How To Get Started

Despite the many benefits of a merchant lending program, some institutions can find it difficult to know how and where to get started. Here's a simplified program framework you can follow to ramp up your merchant lending program and enjoy success from the very start:

* Determine internal management basics. Decide which internal department will manage the merchant lending program and which employees would be the best merchant lending team members. For the greatest program success, select individuals that truly buy into the program and are excited about the possibilities. In this phase of program development, you'll also need to determine workflow, fees and your decisioning strategies, along with establishing an internal project plan for ongoing program management.

* Reach out to targeted merchants. From bridal boutiques to farm equipment retailers, point-of-sale financing appeals to a wide variety of merchants. Assign merchant reps within your credit union and have them make appointments with the merchants your team identifies as targets. Based on the program details your merchant lending team has outlined, develop a merchant qualification checklist to use on these visits so you can ensure that each merchant is a good fit with your program.

* Manage your merchants. To maintain successful and productive relationships with the merchants in your program, hold regular status meetings or calls. When these relationships are in their early stages, it may be helpful to have these status meetings on a monthly basis to make sure everyone is on the same page, followed by quarterly updates when the relationship is more established. To ensure continued success of your merchant lending program, review contracts and re-qualify merchants on an annual basis.

And just remember to keep your eye on the prize. The bottom line when it comes to merchant lending is that it's all about serving your community and seizing the day for your credit union by seizing the sale.

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