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When a small business should work with a big bank

Many small to medium sized private business owners will tell you that working with a local, community bank is a better match for them, and we certainly understand their varying reasons as to why. You will hear things like:

- “Local banks take the time to know my business and me”;
- “Local banks are more responsive to my needs”;
- “I have personal access to the loan decision makers”
- “Small banks offer customized solutions and greater flexibility with loan structure”.

Despite these compelling reasons and others to stay local, you shouldn't write off using a big bank for your small to medium sized business loans.

Consider:

Large, national banks have significant pricing power over smaller banks. All lenders get their funding from a variety of sources, but none is more preferred, or lower in cost, than checking and depository accounts. Checking accounts pay no interest, so the lender starts with a short term funding cost near zero for certain loan types. Big banks have significantly more depository accounts than do small local banks, so their funding costs are lower before they put on a profit margin relative to your loan. The small banks have to rely more on certificates of deposit to raise funds, which are a more costly starting point as it relates to your loan.

Large banks have the ability and willingness to fix your rate for a longer duration than most small community banks will. While it is possible to get a fixed rate with a large bank for as long as 10 to 15 years (not common, but possible), the smaller banks struggle with fixing rates for 5 years, sometimes even 3-year rate fixes will require a premium to accomplish.

Large banks afford the business owner with a little more confidentiality, as their financials are reviewed by strangers in another town. Loans are usually approved in centralized locations, most often many states removed from yours, and while that reduces the impact your community standing has on the outcome, it also helps you maintain a little more anonymity.

Large banks give offer a broader range of services under one roof. Some businesses may need help with international markets, or have the desire to use interest rate swaps and collars to minimize interest rate risk. Sometimes its better to have fewer relationships to manage while accomplishing your banking and financial affairs.

Large banks can help with a vast reservoir of industry specific research and experience that it can share with clients.

Our Advice: Local community banks are usually more responsive and timely with their client's requests, and offer more flexibility with respect to loan structure. If your borrowing needs are short term, your banking needs are not complicated, and perhaps your request is not "cookie cutter", then going with a solid local bank is the better option.

Conversely, if you are very strong financially, have a desire for the best interest rates on short and long term needs, or need your bank to provide a broad range of services, then you may want to develop a relationship with a national bank.