

Do you really need your bank?

By: Samantha Stainburn July 16, 2007

Banking may not be the world's oldest profession, but it's close. The earliest banking records stretch back to the 18th-century B.C. in Babylon, where temple priests made loans. Greek bankers in the fourth century B.C. perfected sophisticated financial transactions such as taking deposits and exchanging currencies. Two hundred years later, Roman administrators created public notaries to discharge debts.

Plenty has changed over the past few millennia — particularly in recent years. There's the advent of ATMs and electronic banking. Globalization has sparked a host of new services in the areas of international finance and risk management. Toss in revolving lines of credit, "lifecycle leases" for equipment financing and other new financial service products and businesses are faced with a bewildering array of choices.

But are these new services meeting all the demands of small and mid-sized businesses? Put another way: Do businesses still need a traditional bank for all their financial needs?

Increasingly, the answer is no.

According to the Federal Reserve, small-business use of non-depository institutions for financial services jumped 29% between 1987 and 2003. While commercial banks are still the dominant supplier of checking accounts, credit lines, loans, capital leases and financial management services like credit card processing, 54% of small firms now obtain some of these products from non-bank entities.

The beneficiaries of the trend include companies such as American Express Co., Merrill Lynch & Co. and GE Corporate Lending, as well as smaller, more specialized commercial lenders around the country. In 2003, a quarter of small businesses in the United States had credit lines, loans or leases with finance and leasing companies instead of traditional banks.

"When you go below \$50 million (in annual revenue) you get no respect from a bank," says Gary Marcus, managing director of New York-based Ecoban Finance Ltd. LLC. "There's a gap, and we non-bank financial institutions fill that gap."

THE ALTERNATIVE

Take, for example, Amelia Case, owner of a Chicago chiropractic clinic. When she applied for start-up capital for her company, Universal Health Institute, the first 46 banks she visited turned her down, put off by her student loans and lack of collateral.

To meet her financing needs, Ms. Case got a \$45,000 line of credit from American Express and arranged a five-year, \$35,000 loan at 8% interest from a trader who works with her husband. "I don't consider banks particularly helpful to my business or to helping me grow, so it's made me seek out alternative financing," she says.

Ms. Case's business today employs seven clinicians and this year is on track to bill \$1.8 million in services. But she says her dealings with traditional banks have not improved. The bank has told her her credit score is not high enough to qualify her for the \$100,000 credit line she needs to increase her staff and handle emergencies. "I make a point to visit my banker regularly," she says. "But even though she believes in this business and she knows me, she still has to sit there and say, 'We can't do anything for you.'"



"I don't consider banks particularly helpful to my business or to helping me grow, so it's made me seek out alternative financing," says Amelia Case, owner of Universal Health Institute chiropractic clinic. Photo: Andreas Larsson