North Bay small business bankers reveal what’s ahead in lending and finance in 2025

North Bay Business Journal talks with local small business commercial banking executives on trends, the inflation and the No. 1 concern for financial institutions.

January 27, 2025, 8:27AM | UPDATED 2 HOURS AGO
7 minute read

These six experts answered our questions about trends and how the uncertainty that surrounded the election might play out in the new year.

What are the biggest banking trends you have already seen in the last quarter or that you are expecting in the coming year?

Randall Behrens, senior vice president, Live Oak Bank (Courtesy photo)

Randall Behrens: We're encouraged by the recent changes the SBA has made to the program. These changes, outlined in procedural notices from Q4 2024 and into 2025, demonstrate the Administration's recognition of the struggles that Small Business Owners are currently facing and their continued commitment to provide solutions. This increased flexibility allows lenders like Live Oak Bank to streamline our loan programs and get capital into the hands of small business owners more efficiently.

Jeff Clark: It appears banks are tightening credit policy. Higher interest rates and stubborn inflation are negatively impacting the economy, making it more difficult to make loans. Raising equity has become more challenging.

Eric

Eric Johnson, executive leasing manager, Hansel Leasing Inc. (Courtesy photo)

Jeff Clark, vice president, Live Oak Bank (Courtesy photo)

Johnson: A lot of traditional banks and lenders are tightening their credit standards as businesses look to streamline cost and operations due to a competitive landscape and tightening economy. This is where we can step in and help local businesses with common sense financing solutions to help improve cash flow and profitability.

Brian Kilkenny, vice president of business lending, Redwood Credit Union (Courtesy photo)

Brian Kilkenny: The commercial banking trends we are seeing our members and communities most interested in are core functions of banking: information security, the financial health of the institutions they do business with, and the availability of quality physical and digital services.

With all that's happened in our world and in the banking industry over the past 5 years, we're seeing that business owners — and really all consumers — are looking for a healthy, stable, and present partner to help them navigate their financial needs and challenges. Businesses need to know their financial institution is vigilantly and aggressively protecting their cybersecurity — that has been and will continue to be a top priority.

The financial health of the institution has come more to the forefront as we saw some highly publicized challenges within the industry over the past couple of years. The desire for quality, personalized service has not gone away, and we remain committed to delivering exceptional service, both in-person and digitally.

Brandy Lee Seppi, executive vice president and chief lending officer, Summit State Bank (Courtesy photo)

Brandy Lee Seppi: With rates inching down, albeit much slower than they went up, we are seeing more demand from clients and prospects for new lending opportunities. This trend is expected to continue through the coming year.

Michael Stahl, Bay Area market leader, U.S. Bank (Courtesy photo)

Michael Stahl: We are seeing a lot of pent-up demand from our commercial clients. Throughout 2024, there was a tremendous amount of uncertainty for businesses, including the election, the pace of interest rate cuts, the trajectory of the U.S. economy. There is a little more clarity now and firms are looking for opportunities to go on offense. This should drive more activity for us across the bank.

With our acquisition of Union Bank, we have continued to deepen our relationships with businesses across the state. There's a lot of interest in growth projects like financing new equipment or buildings, but we're also spending a lot of time on helping businesses optimize working capital and add efficiencies in their operations with digital payment and treasury management solutions.

Aside from cybersecurity, what is the biggest concern for financial institutions right now?

Randall Behrens: The rapid rise of inflation and the corresponding rise of interest rates has put stress on our customers. The market was hoping to see rates come down faster than they have, and with recent headlines on the plans for new tariffs, there's concern that we may see a delay in any future rate decreases.

As we enter 2025, we at Live Oak acknowledge the potential challenges facing small businesses in this dynamic economic environment. However, we see this as an opportunity for innovation and resilience. At Live Oak, we are committed to providing flexible financing solutions, expert guidance, and tailored support to help our small business clients thrive.

Jeff Clark: Credit quality is always a concern for banks but especially with higher interest rates that negatively impact cash flow. Segments of commercial real estate continue to be challenged, especially office and retail space. The beverage space is experiencing lower growth amid negative press from neo-prohibitionist forces. In California, the impact of the fires will not help make lending any easier.

Eric Johnson: I'd say the debt bubble that most Americans are living under is becoming to great to bear and will eventually hit the banks' balance sheets. The better relationship that the lenders have with the clients will really be the primary factor in who the client decides to pay first.

Brian Kilkenny: At RCU, we believe it's important to be prepared for unknown challenges and uncertainty that may impact our economy and the members and communities we serve. We follow trends and continually forecast and stress-test various scenarios to ensure we are able to withstand fluctuations in the economy so we can support the financial well-being of our members and communities in good times and bad.

Brandy Lee Seppi: In my area of the bank — we are still very aware of credit quality. The higher rate environment puts pressure on the quality of company management and their ability to pivot to adjust product pricing to accommodate the pressures of higher wages, cost of goods sold and a variety of other escalating operating expenses, like insurance. These changes do not happen overnight, but the companies that excel in this economic environment will be the companies that can pivot and have a banking relationship that can support them along the way.

What do you think clients should be focused on as we enter 2025 and adjust to a new presidential

administration?

Randall Behrens: In today's economic climate, small businesses must prioritize resilience. Building strong and diverse supply chains is crucial to mitigate risks associated with disruptions. Focusing on cash flow management is always paramount, ensuring access to capital. We’ve found that our most successful small business customers are agile in adjusting their pricing strategies to account for inflation while focusing on expense managements and bottom line cash flow.

Jeff Clark: Financial fundamentals. Increasing cash flow, avoid becoming over leveraged and building a cash reserve in case problems or opportunities arise.

Eric Johnson: Cost cutting measures and tightening the outflows will be imperative for companies along with leveraging the power of AI, where applicable, will be fundamental in ensuring survival over the next three to five years.

Brian Kilkenny: I don’t think anyone can confidently say what changes and tangible differences we can expect in 2025. If the last few years has taught us anything, it is to expect the unexpected and align your business with partners you know and trust.

It is always a good time to look at the core components of your business and ask yourself: What is your value proposition and are you delivering that to your customers? Are you investing in the present and the future with people and technology? Do you have good strategic partners to help you navigate the unique aspects of your particular industry? Appropriate planning and organization, and doing business with people and companies you know and trust will provide your business with the structure and stability to give you peace of mind for long-term success.

Brandy Lee Seppi: A client’s focus should always be the same — no matter the administration: Your top line, your operating, core profit — excluding onetime expenses — and your bottom line. Administrations will change over time. The key to a company’s sustainability through different economic cycles is the ability to correct negative trends in your core operating profit.

Michael Stahl: With a defensive focus the last few years, companies have gotten much better at controlling costs. Firms should continue on their digital transformation paths to realize more value. In addition to more digital payments, they can automate more of their operations like accounts receivable and accounts payable to drive efficiencies.

Risk management should also be a priority as companies look to take more control in 2025. For example, firms that import products and/or have operations should consider currency hedging to manage fluctuations in exchange rates. Companies should also review the interest rate profiles of their various liabilities and consider various rate hedging product to improve risk management.