

July 19, 2018

Chair Kenneth Zebrowski
House Committee on Banks
Legislative Office Building, Room 424
Albany, NY 12248

Chair Elaine Phillips
Senate Banks Committee
Legislative Office Building, Room 848
Albany, NY 12247

Re: Online Small Business Lending

Dear Chairs Zebrowski and Phillips:

The New York State Department of Financial Services (“DFS”) recently issued a report (“DFS Report”) on the topic of online lending in the state of New York. The Electronic Transactions Association (“ETA”) would welcome an opportunity to discuss our thoughts and issues regarding the substance of the report and process in which it was compiled.

ETA is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services, including financial institutions, transaction processors, payments networks, and others. ETA also has members that are engaged in online lending for commercial enterprises, primarily small businesses, either directly or in partnership with other lenders.

The recommendations in the DFS Report would impose unnecessary restrictions on online small business lending that would dry up access to credit for New York small businesses.

Small businesses are core to America’s economic competitiveness. Small businesses employ half of the nation’s private sector workforce – about 62 million people – and since 1995 have created approximately 60 percent of the net new jobs in our country. The number one barrier to growth faced by small businesses is access to financing.

The online small business lending industry is responding to the demand for access to credit by small businesses and filling a need for technology-based credit solutions. Small businesses that take advantage of these technology platforms can focus more of their time and effort on growing their businesses, hiring workers, and positively affecting the economy. The economic benefits of online lending are far reaching and extend beyond the funding used by small businesses to maintain or expand their operations. As these businesses succeed, so do the communities around them. Small businesses are increasingly turning to online lenders to help cover inventory, payroll for employees, and other expenses at critical junctures in their growth. The loan impacts not just the borrower, but those who work and engage with that business.

Considering the tangible benefits of such technological advancements, ETA urges policymakers to remain thoughtful and forward-thinking in how to best support industry's on-going efforts to provide opportunities for small businesses to access innovative financial products and services. Efforts by policymakers to regulate financial products and services should be done collaboratively with industry participants and with careful consideration of the many types of business models and products in the marketplace. ETA stands willing to work with your offices to create a positive regulatory environment for small business lenders and their borrowers, however, the recommendations from the DFS Report are not the answer.

ETA and its members support an inclusive financial system that provides high quality, secure, and affordable financial services for the broadest possible set of consumers and small businesses. ETA member companies touch, enrich, and improve the lives of underserved communities while making the global flow of commerce possible. Online small business lending allows the underserved to access financial products and services. ETA encourages policymakers to make policy that supports innovation and the use of technology in financial products and services. However, the recommendations in the DFS Report would harm innovation and disproportionately affect women and minority owned businesses who count on online small business lenders to provide access to capital.

Online Lending Fills the Financing Gap for Small Businesses

Small businesses, from local restaurants to small manufacturers, home builders and doctors, provide everyday goods and services and employ over half of the private-sector workers in the United States. Small businesses rely heavily on access to capital, with nearly three-quarters of small business owners seeking small loans to start, operate, or expand their businesses. Online lending complements, rather than replaces, traditional funding sources. Advanced technology enables online small business lenders to gather information and assess credit risks quickly to provide critical funding for small businesses. Online small business lenders provide key options and benefits to American small business owners in the highly competitive lending marketplace.

Snapshot of Online Small Business Lending in New York

According to a recent study by NDP Analytics, a Washington, D.C.-based economic research firm entitled: "The Economic Benefits of Online Lending to Small Businesses and the U.S. Economy," which studied loans made by five major online lenders from 2015-2017, in New York State alone, the online small business lenders who participated in the study funded over \$758 million to 11,490 New York small businesses from 2015 to 2017. On average, for every \$1 in online lending in New York State, sales of small business borrowers increased by \$2.38, creating \$3.34 in gross output in their local communities. New York's online small business borrowers are located across the state, covering over half of all zip codes, with about one-third of borrowers from areas below the national median income. Overall, the small business loans provided by online lenders generated

\$2.5 billion in gross output and created 20,154 jobs with over \$795 million in wages in local communities in New York State.

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Thank you for the opportunity to meet to discuss this important issue. If you have any additional questions, you can contact me or ETA Senior Vice President, Scott Talbott at stalbott@electran.org.

Sincerely,



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