ELECTRONIC TRANSACTIONS ASSOCIATION
1620 L Street NW, Suite 1020
Washington, DC 20036
202.828.2635
electran.org

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The Honorable Ann Wagner Chair Subcommittee on Capital Markets House Committee on Financial Services Washington, DC 20515	The Honorable Brad Sherman Ranking Member Subcommittee on Capital Markets House Committee on Financial Services Washington, DC 20515

Dear Chair Wagner and Ranking Member Sherman:

On behalf of the Electronic Transactions Association (ETA), I appreciate the opportunity to submit this statement for the record before the Subcommittee's hearing, "Empowering Entrepreneurs: Removing Barriers to Capital Access for Small Businesses." A series of the concepts being discussed may affect innovation and the use of technology in financial products and services for consumers and small businesses.

ETA is the world's leading advocacy and trade association for the payments industry. Our members span the breadth of significant payments and fintech companies, from the largest incumbent players to the emerging disruptors in the U.S and in more than a dozen countries around the world. ETA members make commerce possible by processing approximately $44 trillion annually in purchases worldwide and deploying payments innovation to merchants and consumers.

Responsible innovation in financial services holds tremendous potential to expand access to fair and affordable credit, particularly for underserved consumers. When community banks, minority depository institutions, community development financial institutions and midsize, regional, and large institutions partner with technology firms, they can efficiently and conveniently deliver services that customers demand. Innovation promotes financial inclusion, making it possible for institutions to extend credit to many more borrowers through the development of affordable, accessible and relevant financial products that had previously not been available to those consumers.

Online Lenders and Providing Capital to Small Businesses

Small businesses are vital for America; however, these businesses routinely lack access to necessary capital to maintain and expand operations. According to the Federal Reserve's 2022 Small Business Credit Survey[1], 59% of American small businesses have unmet funding needs. Such access is particularly important as these small businesses across the country work to recover from effects of the pandemic.

Fortunately for small businesses, ETA's members are providing flexible and affordable access to capital that can help small businesses expand payrolls, pivot business models, navigate inflation, and supply chain disruptions. As evident of their participation in the Paycheck Protection Program[2] (PPP) regulated online lenders used sophisticated, data-driven processes to reach funding decisions quickly and efficiently. This expeditious process allowed the small businesses to cover operational costs during a time it was needed the most.

The pandemic not only increased the need for capital among small businesses but also exposed the gaps in the credit markets. According to the Federal Reserve Bank of New York[3]:

[1] https://www.fedsmallbusiness.org/survey/2022/report-on-employer-firms
[2] As of April 2021, ETA members have helped the SBA process and disburse more than $145 billion in PPP loans to nearly 2.5 million small businesses.
[3] https://libertystreeteconomics.newyorkfed.org/2021/05/who-received-ppp-loans-by-fintech-lenders/

- Online lenders were critical to delivering PPP loans to underrepresented populations including Black-owned businesses during the pandemic. The research indicates that about 1 in 4 Black-owned companies applied with online lenders.

- 95% of traditional financial institution applicants showed that applicants had prior relationships. Online lenders were able bridge the gap and provide financial support to most applicants, even those without a direct relationship to a financial institution.

- Online lender's loan sizes were smaller, and the number of loans increased five times from Round 1 (where online lenders were not initially included) to Round 2, while traditional financial institution loan sizes and amount remained relatively the same. The smaller loan sizes and larger quantity of loans facilitated by online lenders highlights how crucial they were in getting these financial lifelines to more and more small businesses with fewer employees that were most in need.

The PPP demonstrated that online lenders are able to provide capital to small businesses not usually reached by traditional institutions and the impact to those businesses was substantial.

To broaden this reach, ETA recommends policymakers support ways to expand the base of the lender participation in the SBA 7(a) program, such as enacting the *Expanding Access to Affordable Credit for Small Businesses Act*. This bill introduced in the 117th Congress, would lift the existing cap on Small Business Lending Company licenses and permit online lenders to participate in 7(a). The SBA should also continue to work with existing guaranteed lenders to adopt technological tools that will allow them to reach all types of small businesses.

Applying the Truth in Lending Act to Small Business Lending
America's small businesses are the engine of our economy and should have transparent and competitive options available to them for growth. ETA believes that small businesses deserve common sense disclosures for financing products that allow owners to understand and acknowledge the cost of credit and other terms and agreements so they can better understand and easily compare commercial financing. ETA believes in disclosure policies that increase transparency for borrowers as well as reducing regulatory burdens and hurdles that increase costs on small businesses.

However, it is imperative that policymakers do not conflate consumer lending with small business lending. Commercial and consumer credit are distinctly different types of credit. Small business borrowers have different needs and objectives in obtaining credit than consumers – often relying on financing to buy inventory, smooth cashflow, and expand their marketing.

ETA cautions that an approach that would simply apply existing requirements, such as TILA, for consumer lending to small business loans would have detrimental effects for both online small business lenders and the small business community.

Providing an Annual Percentage Rate (APR) or estimated APR disclosure includes a number of challenges for both small business financing companies and small businesses themselves when they seek to compare financing costs across products – especially for loans with terms less than one year. While APR may be well suited to gauge the cost of a mortgage or auto loan, APR is a poor measure of the cost of a small business loan and other innovative lending products created by fintechs.

Rather Total Cost of Capital (TCC) is more useful for comparing the absolute cost of commercial financing with a small business's expected return from investing the financing proceeds. A business that expects a short-term return on its investment would likely choose a financing product with a shorter term

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and higher daily, weekly or monthly payments to minimize TCC, even though that financing product is likely to have a higher APR or estimated APR.

The clearest cost disclosure is the TCC, which is what matters to small business owners, and what most of the industry is already providing and what the industry should be providing across all products. TCC is readily calculable and provides the clearest basis for comparison among commercial finance options, no matter how they are denominated (loan, purchasing of future receivables, factoring, equipment lease).

ETA and its members provide transparent disclosures to small businesses to help borrowers understand the true cost of a loan. In passing TILA, Congress intended that nothing be hidden and that the most important disclosures be highlighted. For long-term loans, such as mortgages and auto credit, APR seems like the correct choice. But for loans to businesses with terms of a year or less, APR is not the correct metric to supply to borrowers.

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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 all consumers to access and benefit from 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 the Subcommittee and other interested parties to refine these proposals and to create a positive legislative environment.

If you have any questions, please contact me or ETA's Senior Vice President of Government Affairs, Scott Talbott, at stalbott@electran.org

Sincerely,

Jeff Patchen
Director of Government Affairs
Electronic Transactions Association