

January 22, 2019

VIA ELECTRONIC SUBMISSION

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Comments on Request for Information Regarding Small-Dollar Lending, Docket No. RIN 3064-ZA04

The Electronic Transactions Association (“ETA”) submits these comments in response to the Federal Deposit Insurance Corporation’s (“FDIC”) request for information regarding small dollar lending. Small dollar lending to small businesses help to drive America’s economic competitiveness and ETA supports the FDIC’s efforts to provide additional access to capital for small businesses.

ETA is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services and service all parts of the payments ecosystem. ETA’s members include non-bank online lenders that make commercial loans primarily to small businesses, FDIC-insured financial institutions, financial technology (“FinTech”) companies, mobile payment service providers, and mobile wallet providers. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient and rewarding payment solutions and lending alternatives.

GENERAL COMMENTS

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, expand their marketing, physical space, and hire employees. Small businesses are the backbone of the economy and providing them with that financing enables them to continue to grow. Small business lenders have developed credit products specifically designed to answer those needs and objectives.

Small business lending helps to drive America’s economic competitiveness. Small businesses employ half of the nation’s private sector workforce – about 62 million people – and since 1995 they 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.¹

¹ International Labour Office, *Small and Medium Sized-Enterprises and Decent and productive Employment Creation*, Report IV, 2015; WEF, *What Companies Want from the World Trading System*, 2015.

The credit gap is one of the top challenges for small businesses, especially those with less than \$1 million in annual revenue. While large business lending is growing, small business loans have been declining since 1995, when such loans made up nearly half of all bank loans.² The ability to obtain loans becomes tougher during periods of economic downturn, which is when external funding is often needed most. The costs to search for funding from traditional lenders can be high for small businesses and according to the Federal Reserve Bank of New York, small businesses spend an average of 26 hours to search and apply for credit.³

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. Online small business lending complements, rather than replaces, traditional funding sources such as banks or credit unions. 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. 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.

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 small businesses 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 FDIC to create a positive regulatory environment for small business lenders and their borrowers.

ETA and its members support an inclusive financial system that provides high quality, secure, and affordable financial services for the broadest possible set of small businesses. ETA member companies touch, enrich, and improve the lives of underserved communities while making the global flow of commerce possible. ETA member companies continually enhance the electronic payments and financial ecosystem so that it is accessible for all small businesses, while ensuring their transactions can be completed securely, efficiently, and ubiquitously. A key driver to achieving such an ecosystem is the development of new technologies that allow the underserved to access financial products and services. ETA encourages policymakers to support these goals through policies that support innovation and the use of technology in financial products and services.

The Economic Benefits of Online Small Business Lending

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

² Mills, Karen Gordon and Brayden McCarthy. 2014. *The State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game*. Working Paper 15-004. Harvard Business School.

³ Federal Reserve Bank of New York. 2014. *Small Business Credit Survey, Fall 2013*.

borrower, but those who work and engage with that business. According to a recent study by NDP Analytics entitled: *The Economic Benefits of Online Lending to Small Businesses and the U.S. Economy*,⁴ some of the nation's largest FinTech small business lending platforms funded nearly \$10 billion in online loans from 2015 to 2017, generating \$37.7 billion in gross output, creating 358,911 jobs and \$12.6 billion in wages in U.S. communities. The upsurge in lending from online small business lenders is filling a critical financing gap for small businesses across industries.

According to the study by NDP Analytics:

- The dollar amount of loans provided by just five leading online small business lenders increased by 50 percent in three years, from \$2.6 billion in 2015 to \$3.9 billion in 2017.
- Nearly one-third of online small business borrowers are in lower-income communities.
- About 24 percent of these borrowers are microbusinesses with less than \$100,000 in annual sales and two-thirds have less than \$500,000 in annual sales.
- About 42 percent of small businesses borrowed between \$10,000 and \$50,000 from the five online small business lenders with the average amount being \$55,498.

Online lending to small businesses provides substantial economic benefits. The research showed that, on average, for every \$1 lent to small businesses, sales of small business borrowers increased by \$2.31, creating \$3.79 in gross output in local communities across the country. 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.

Online Small Business Lending Addresses the Needs of the Underserved

FinTech companies are regularly addressing the financial needs of the underserved.⁵ Online small business lending products have the potential to boost economic activity in the U.S. by approximately \$698 billion or 3.98 percent of the country's GDP.⁶ Small businesses are the backbone of the American economy, creating more than 60 percent of net new jobs and employing approximately half of the workforce in the private sector.⁷ Unfortunately, many small businesses are unable to access traditional credit for purposes of growing their businesses due, in part, to high search, transaction, and underwriting costs.⁸ Fortunately, for small businesses, ETA's members

⁴ Nam D. Pham, Alex J. Triantis, Mary Donovan, NDP Analytics, *The Economic Benefits of Online Lending to Small Businesses and the U.S. Economy*, May 2018. Available at <https://www.electran.org/osbl/wp-content/uploads/2018-0522-NDP-Online-Small-Business-Lending-Economic-Benefits.pdf>.

⁵ Electronic Transactions Association, *How FinTech is Addressing the Financial Needs of the Underserved*, September 2017. Available at <https://www.electran.org/wp-content/uploads/2017-ETA-Whitepaper-on-the-Underserved-2.0.pdf>. This white paper is updated annually by ETA.

⁶ Filling the Gap, Usman Ahmed, Thorsten Beck, Christine McDaniel, Simon Schropp, *Innovations*, Volume 10, number 3/4, p. 36 (2016).

⁷ Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia, *Joint Small Business Credit Survey Report*, 2014 at p. 4 (released February 2015); Karen Gordon Mills, Brayden McCarthy, *The State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game*, Harvard Business School Working Paper 15-004 (July 22, 2014) at p. 3.

⁸ 80 Fed. Reg. 42866, 42867 (July 20, 2015).

and other innovative FinTech companies are expanding access to credit using both traditional data sources and non-traditional data sources such as past transactions and back-end financial data (taxes, receivables, etc.). Modern modeling techniques enable lenders to better understand the credit risk of an individual small business and provide it with targeted funding in a timely manner with a flexible repayment schedule, and often without requiring collateral.

Online small business lenders are willing to provide small businesses with small loans (typically less than \$250,000 – and in fact, often less than \$30,000) and short terms that are well suited for their day-to-day operating needs or short-term use cases. Using sophisticated, data-driven algorithms to assess the creditworthiness of potential borrowers, lenders are able to reach funding decisions quickly and efficiently and provide access to capital to approved borrowers expeditiously.⁹

These data-based processes are creating new opportunities for borrowers and lenders. The platforms used by ETA members are agile, nimble, scalable, and can work in tandem with related financial service offerings. For example, online small business lending programs can be synced with payment platforms to assist in underwriting decisions in nearly real-time and provide convenient repayment options for small businesses. FinTech platforms have also been used by Community Development Financial Institutions (“CDFIs”) and other non-profit community lenders and development organizations to help increase efficiency in the lending process and identify creditworthy small businesses.

In addition to partnerships with CDFIs, online small business lenders are collaborating with financial institutions to provide small business loans. Because online platforms and systems provide a very efficient and cost-effective mechanism for underwriting smaller commercial loans, FinTech companies can provide a valuable service to traditional financial institutions to expand market reach either by partnerships or white labeling products for traditional financial institutions. For example, some FDIC issued-banks use the FinTech digital platforms to service their small business customers. The loans are bank-branded, held on the bank’s balance sheet, and made using the bank’s underwriting criteria,¹⁰ and FinTech companies provide technology enablement to support the delivery of the bank’s product. What was once a process that could take up to one month for approval now is digital and the bank’s small business clients can now apply in minutes, decisioning occurs in seconds, and funds are received the same or next-day. This reduction in processing time is a valuable benefit for customers who need quick and affordable access to capital to grow their small businesses.

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⁹ State of Small Business Lending at p. 6-7; Scott Shane, *Why Small Businesses Are Turning To Online Lenders* (April 15, 2015), available at <http://www.entrepreneur.com/article/245075>.

¹⁰ Kevin Wack, *Chase Quietly Launches Its Online Small-Business Loan Platform*, American Banker, (April 12, 2016), <http://www.americanbanker.com/news/marketplace-lending/chase-quietly-launches-its-online-small-business-loan-platform-1080382-1.html>.

We appreciate you taking the time to consider these important issues. If you have any questions or wish to discuss any issues, please contact me or ETA Senior Vice President, Scott Talbott at Stalbott@electran.org.

Respectfully submitted,



PJ Hoffman,
Director of Regulatory Affairs
Electronic Transactions Association
(202) 677-7417
PJHoffman@electran.org