

June 5, 2019

Governor Steve Sisolak  
State Capitol Building  
101 N. Carson Street  
Carson City, NV 89701

**RE: ETA Supports S 161 – Internet Lender License**

Dear Governor Sisolak:

On behalf of the Electronic Transactions Association (“ETA”), we support S 161 which would remove the brick and mortar requirements for internet lenders helping small businesses. This bill would help to provide access to capital for small businesses in Nevada while promoting innovation in the small business lending space.

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, licensed money transmitters, 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.

**Online Small Business Lending Overview**

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.<sup>1</sup>

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.<sup>2</sup> 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.<sup>3</sup>

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. Advanced technology enables online small business lenders to gather information and assess credit risks quickly to

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<sup>1</sup> 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.

<sup>2</sup> 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.

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

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.

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. This bill would help 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 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*,<sup>4</sup> 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

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<sup>4</sup> 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>.

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.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup> Fortunately, for small businesses, ETA's members 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 \$25,000) 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.

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.

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<sup>5</sup> Electronic Transactions Association, *How FinTech is Addressing the Financial Needs of the Underserved*, January 2019. Available at <https://www.electran.org/wp-content/uploads/2019-ETA-Whitepaper-on-the-Underserved.pdf>.

This white paper is updated annually by ETA.

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

<sup>7</sup> 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.

<sup>8</sup> 80 Fed. Reg. 42866, 42867 (July 20, 2015).

Thank you for the opportunity to participate in the discussion on this important issue. If you have any additional questions, you can contact me at the email or phone below.

Sincerely,



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Electronic Transactions Association  
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Cc: Senator Ben Kieckhefer