

Fintech Lenders:

Their Potential to Reach Underserved Women- and Minority-Owned Small Businesses

Introduction to Panel Discussion

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Online alternative lenders have entered the small business credit market

Types of online alternative lenders (business models)

1. **Balance sheet lenders** – raise capital and retain loans



2. **Marketplace lenders** – do not lend directly; connect borrowers with investors



3. **Payment Processors** – offer working capital to their merchants



Types of products offered by alternative lenders

1. Cash Advances
2. (Often Short)-Term Loans

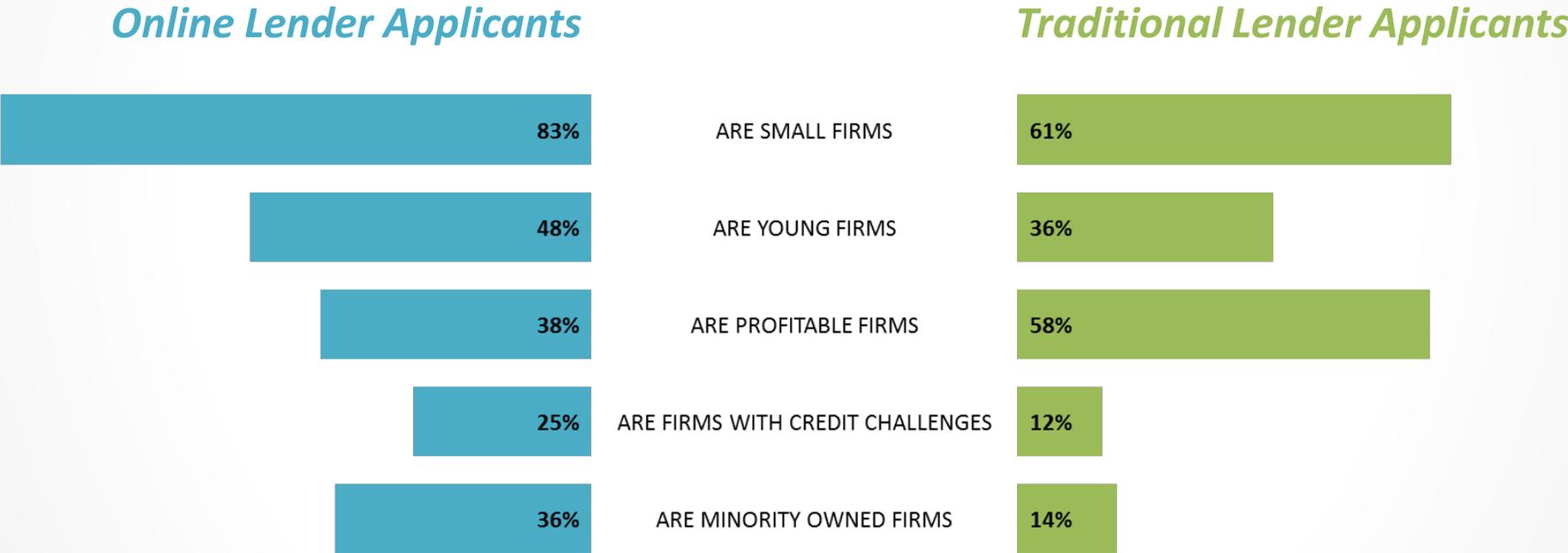
Online lenders' proprietary models utilize both standard and non-traditional small business data



Source: Adapted from Oliver Wyman (2014)

Online lender applicants are more likely to be smaller, younger, and minority-owned firms

Characteristics of Credit Applicants



Source: 2015 Small Business Credit Survey
Chart adapted from "Click, Submit: New Insights on Online Lender Applicants from the Small Business Credit Survey",
Wiersch, Lipman, Barkley (2016)

Focus group study revealed business owners' impressions of online lenders

- Initial impressions: many participants were skeptical about online lenders



Seems shady to me



High APRs



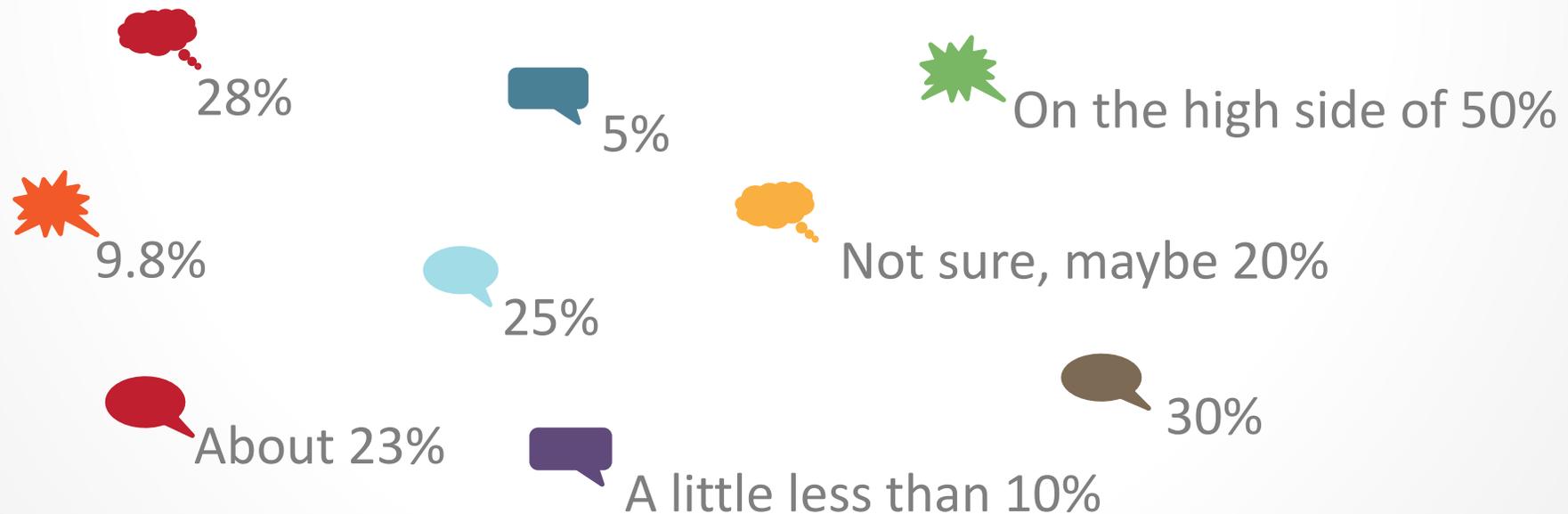
I do not trust them

- “Shopping” appears to change participants' impressions
 - Participants found websites to be appealing
 - Some participants that held unfavorable initial impressions shared very positive views after shopping
 - Others shared concerns about data security, high rates, and loss of control over their merchant accounts

Business owners in study were confused about product costs

Scenario: \$40K borrowed, \$52K repaid with 10% of sales receipts, assuming one-year repayment

What is your best guess of the interest rate?



ALTERNATIVE **LENDING**

through the Eyes of “Mom & Pop”

Small-Business Owners:

Findings from online focus groups



Please visit the Federal Reserve Bank of Cleveland website for the complete [report](#).

For a focus group “tour,” please contact Barbara.J.Lipman@frb.gov or AnnMarie.Wiersch@clev.frb.org