

Research [in] Brief

Fintech Lending Expands Small Businesses' Options



Primary issue

Online lending through fintech firms, which provide alternatives to traditional lending, has substantially expanded the finance market. These firms are now a significant source of financing for small businesses and businesses denied credit from traditional lenders, resulting in a larger range of businesses able to obtain financing.



Key findings

- Nearly half of all fintech borrowers are unlikely to have received credit from banks, and most are younger, smaller, and less-profitable businesses than those that obtain funding through traditional lending options.
- Fintech firms are able to eliminate some of the roadblocks in bank financing, such as long wait times for decisions and difficult applications.
- Small businesses that borrow from fintech lenders are much more likely to report encountering high interest rates or less favorable repayment terms than at banks. For those businesses that have other financing options, fintech lenders are unlikely to fully compete with banks without first increasing customer satisfaction levels.



The bottom line

Financial innovation has expanded small-business borrowing options, particularly when combined with the greater inclusion shown by fintech lenders. The emergence of fintech lending has made funding more available for businesses that don't qualify for traditional funding opportunities.

However, a lack of industry regulation and gaps in borrowers' comprehension of loan terms remain problematic. One solution lies in potential regulatory policies and firm business strategies that aim to narrow the gap between clarity of loan terms and borrower satisfaction while still allowing a broader set of small businesses to be financed.

