

# The Small Business Banking Conference

Palm Beach Gardens, FL

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November 9<sup>th</sup>, 2016



H A R V A R D | B U S I N E S S | S C H O O L

# WHAT WILL BE THE IMPACT OF THE PRESIDENTIAL ELECTION?

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## *Donald Trump Won. Now What?*



### **Bank Investors Brace For Volatility, But Trump Victory Holds Benefits**

Banks will likely face fewer regulations, but could be harmed by protectionist policies

*Wall Street Journal*

### **Trump Elected: Favors Repeal of Much of Dodd-Frank**

*Credit Union Times*

### **Trump's Surprise Victory Changes the Game for Financial Services**

*American Banker*

### **Donald Trump Election Upset Could Undo Regulation on Commerce**

New administration could target Dodd-Frank, Obama's executive orders

*Wall Street Journal*

# WHAT IS CHANGING IN THE SMALL BUSINESS LENDING LANDSCAPE?

## REGULATORS



Federal Reserve



Federal Deposit Insurance Corporation



Department of the Treasury



Office of the Comptroller of the Currency



Consumer Financial Protection Bureau

## SMALL BUSINESS LENDING

### TRADITIONAL



Banks  
Credit Unions

### ONLINE



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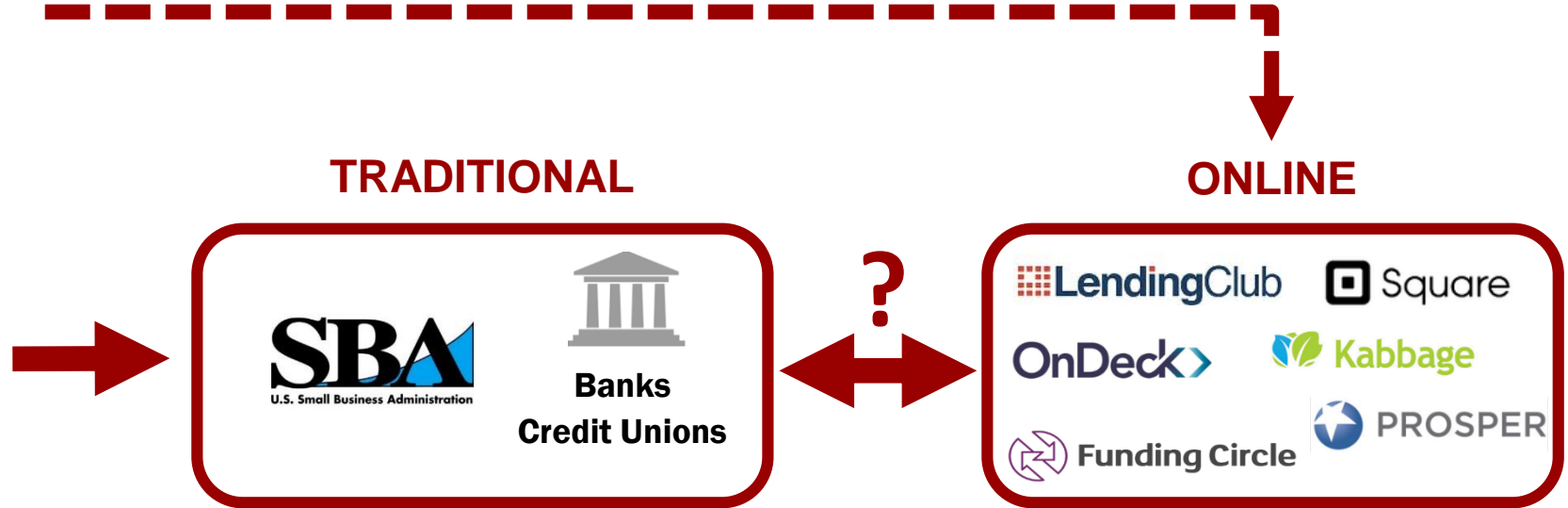


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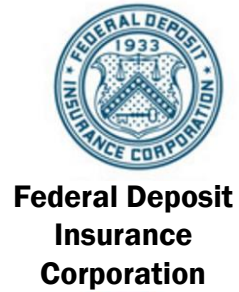


Consumer Financial Protection Bureau

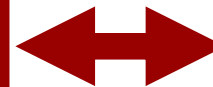
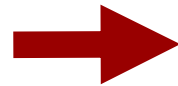
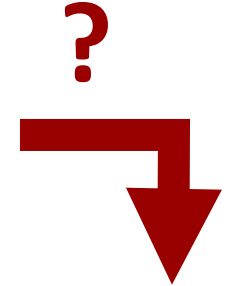
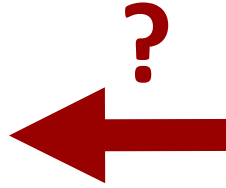
## SMALL BUSINESS LENDING



# WILL THE ELECTION CHANGE THE SMALL BUSINESS LENDING LANDSCAPE?



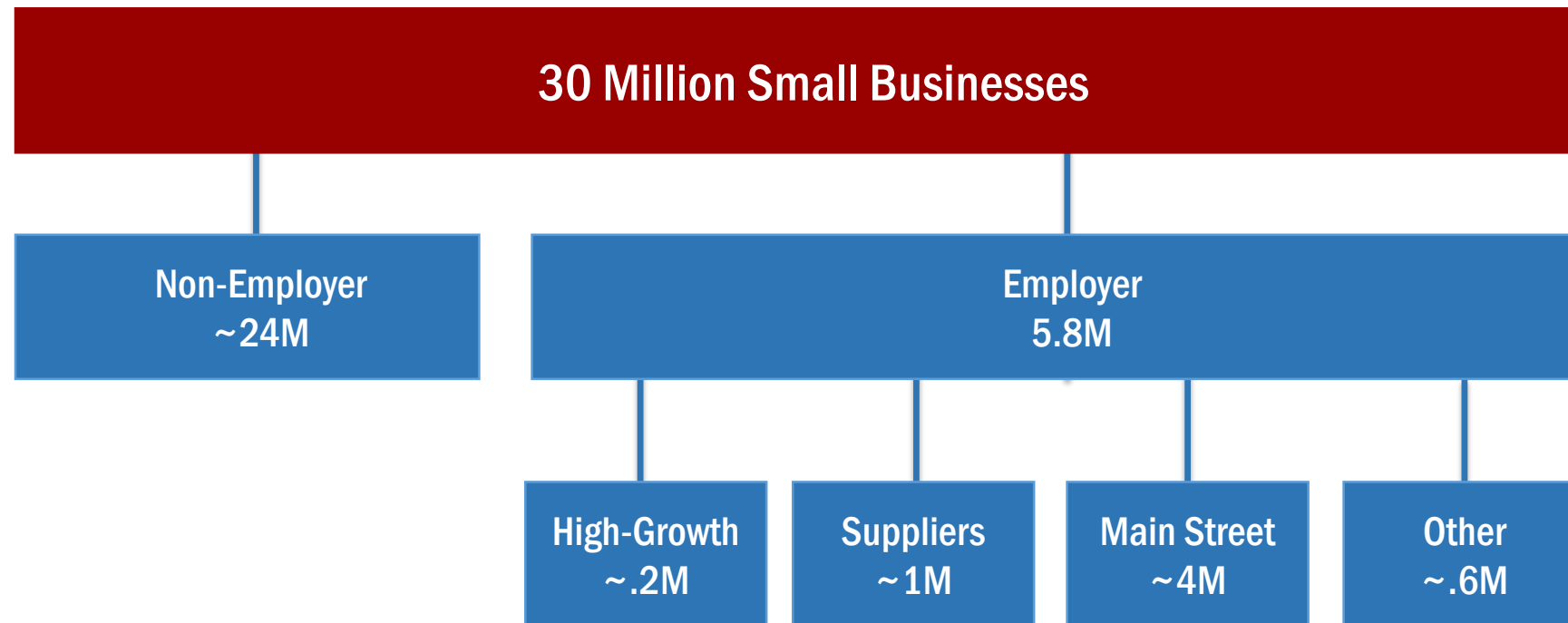
Consumer Financial Protection Bureau



# WHY WORRY ABOUT ACCESS TO CREDIT FOR SMALL BUSINESSES?

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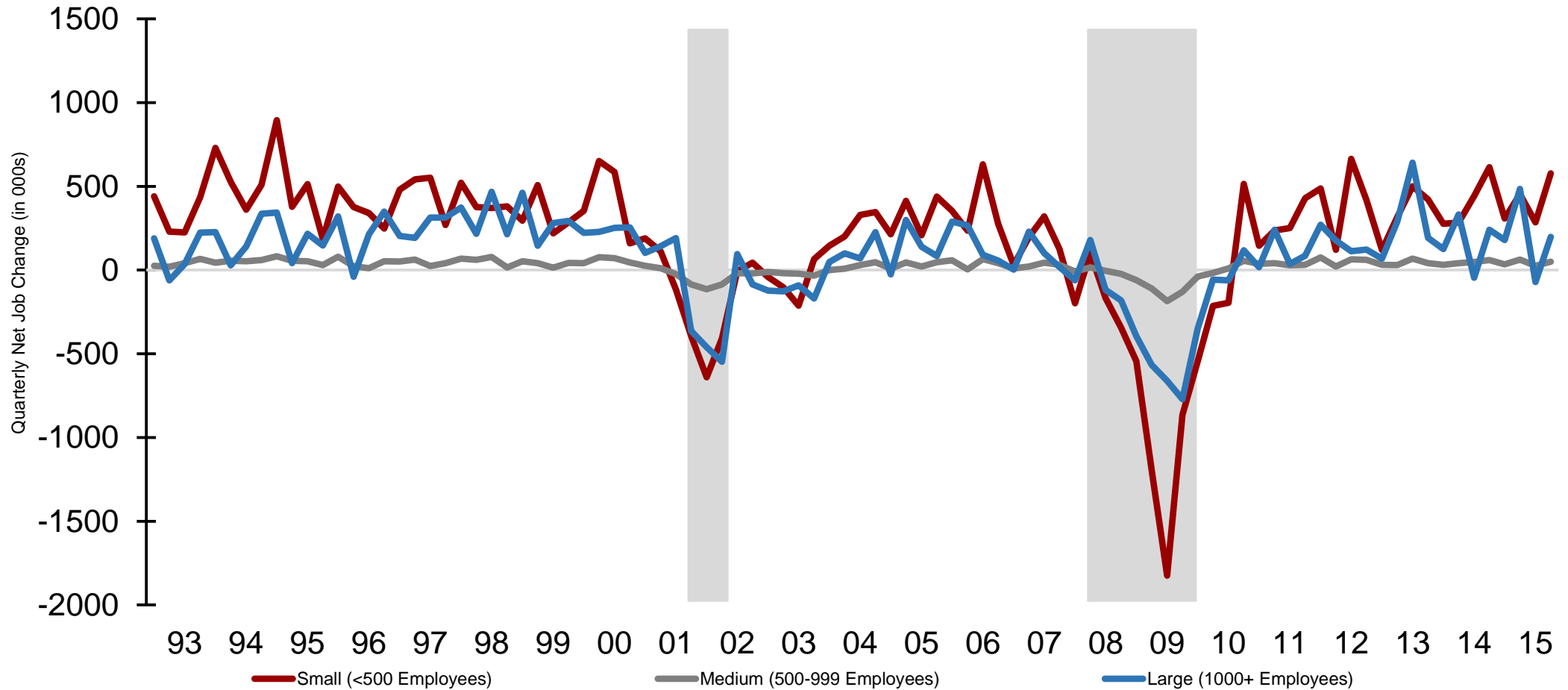
Small businesses account for half of U.S. jobs



Source: Author's analysis of data from the U.S. Census Bureau.

# SMALL FIRMS HIT HARDER IN THE CRISIS

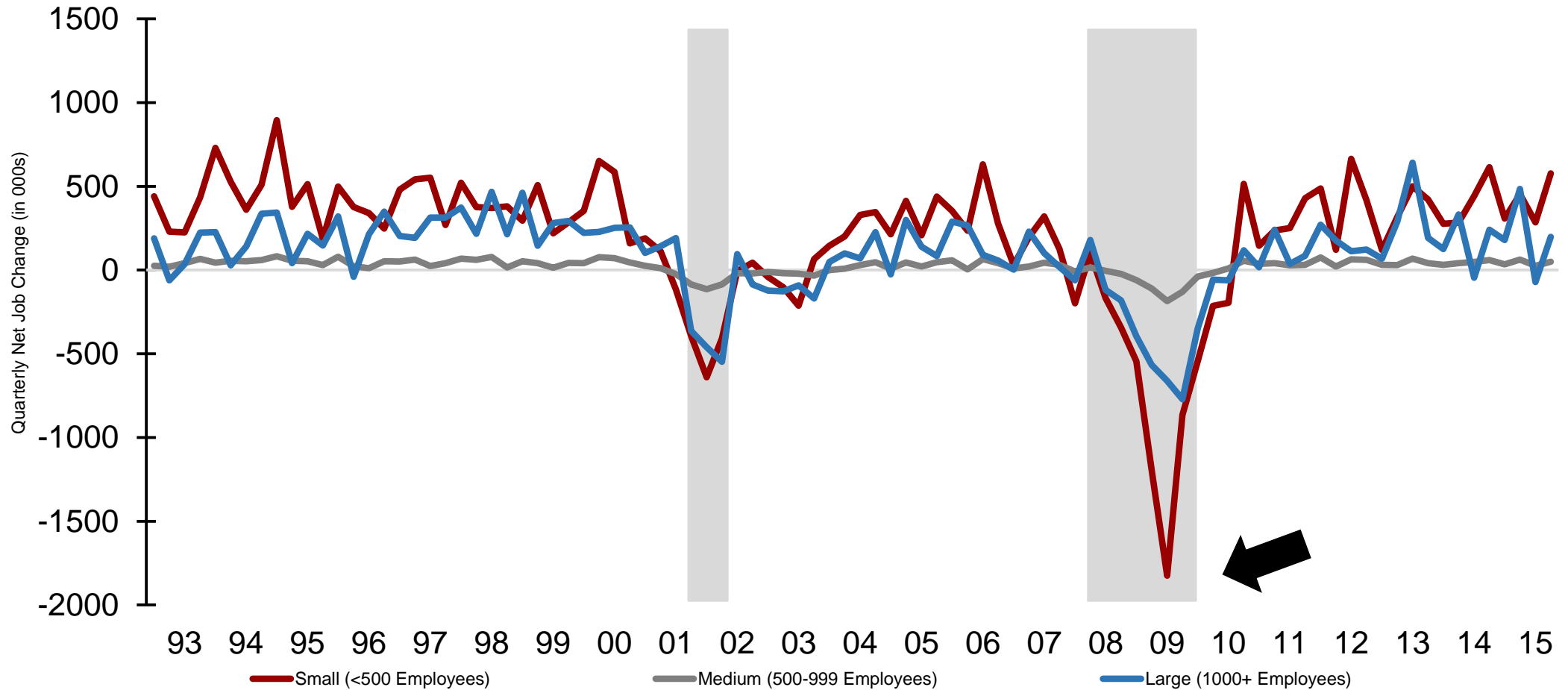
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Source: Bureau of Labor Statistics, Business Dynamics Statistics (latest as of 2Q15).

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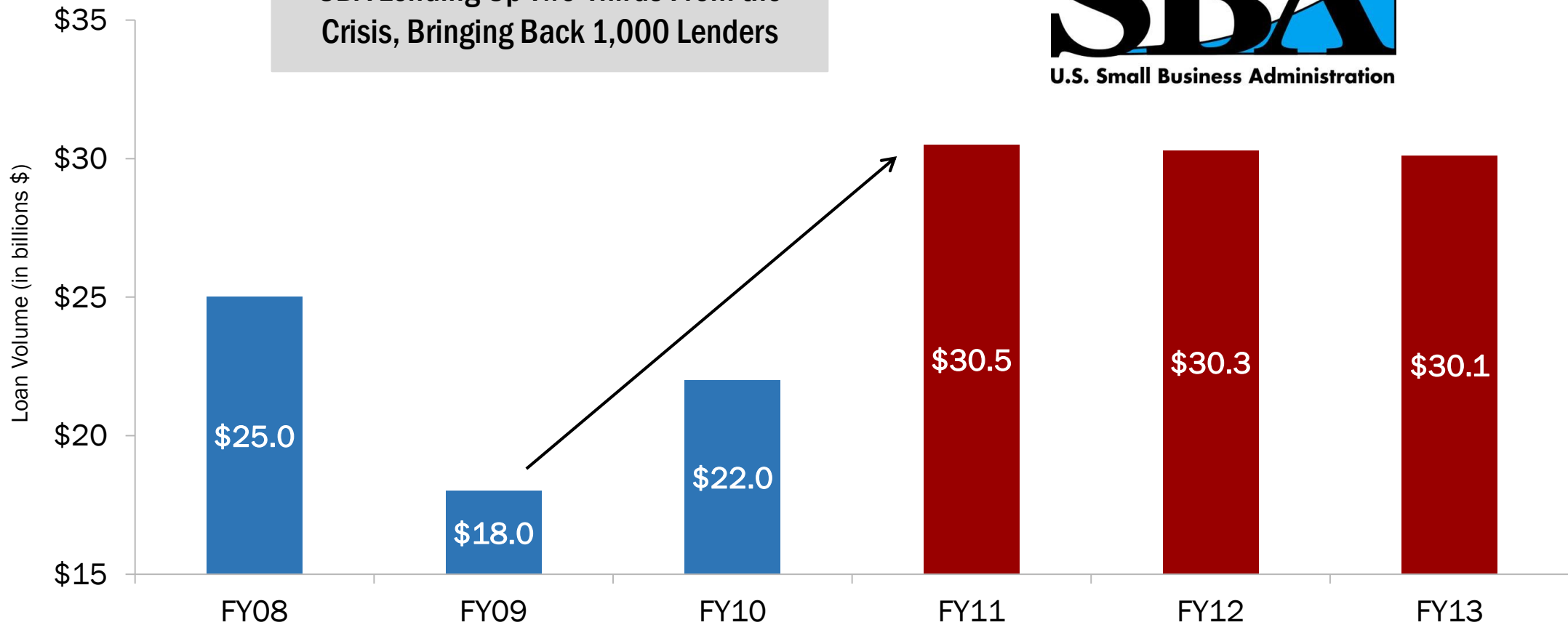


# TURNAROUND IN SBA LENDING

Swift action to spur SBA lending, resulted in record year in '11, '12, and '13



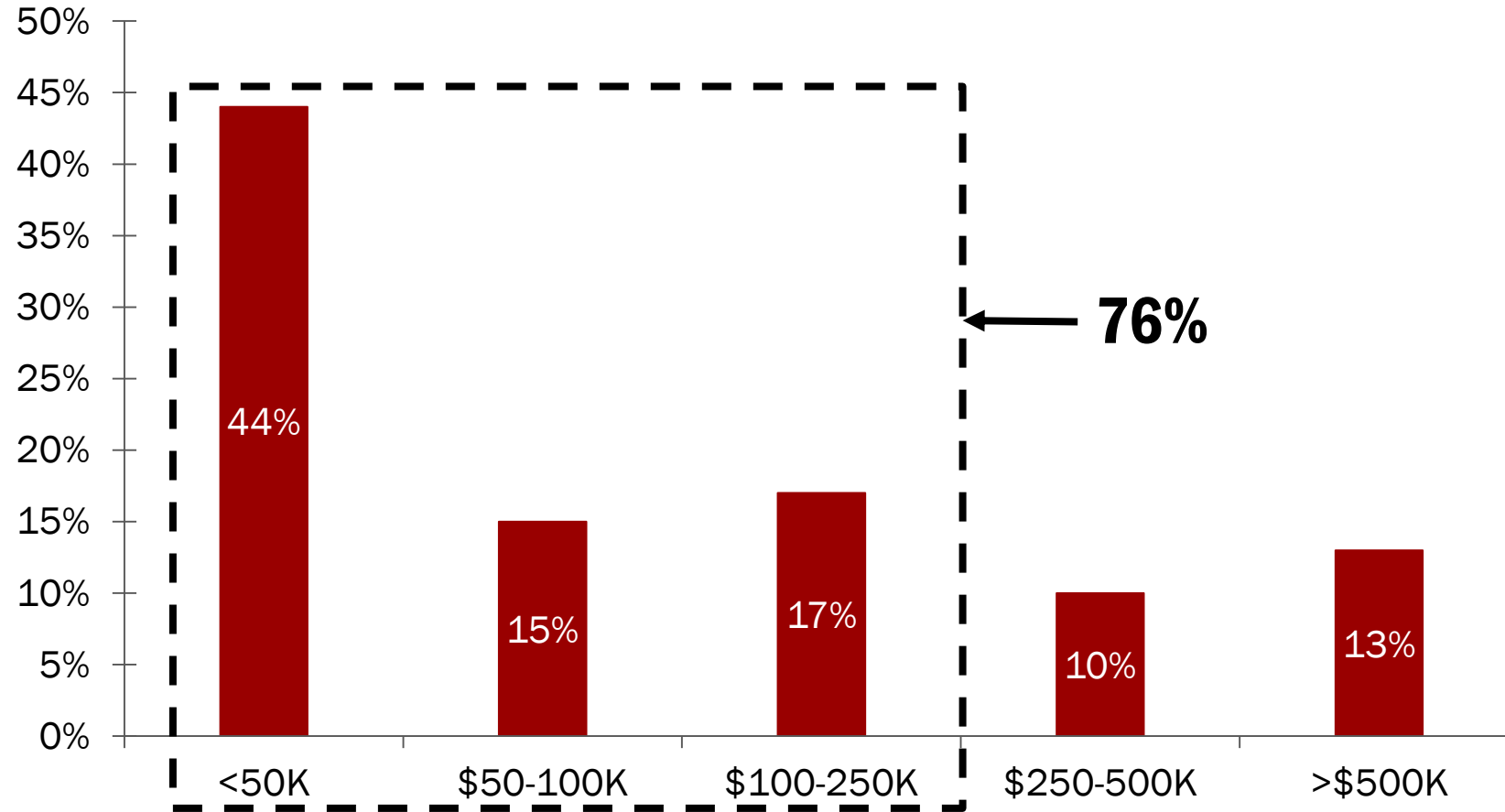
SBA Lending Up Two-Thirds From the Crisis, Bringing Back 1,000 Lenders



Source: Small Business Administration. 7(a) and 504 loan volume since Fiscal Year 2008. As of May 2014

# CURRENT GAP IN SMALL BUSINESS LENDING: SMALL DOLLAR LOANS

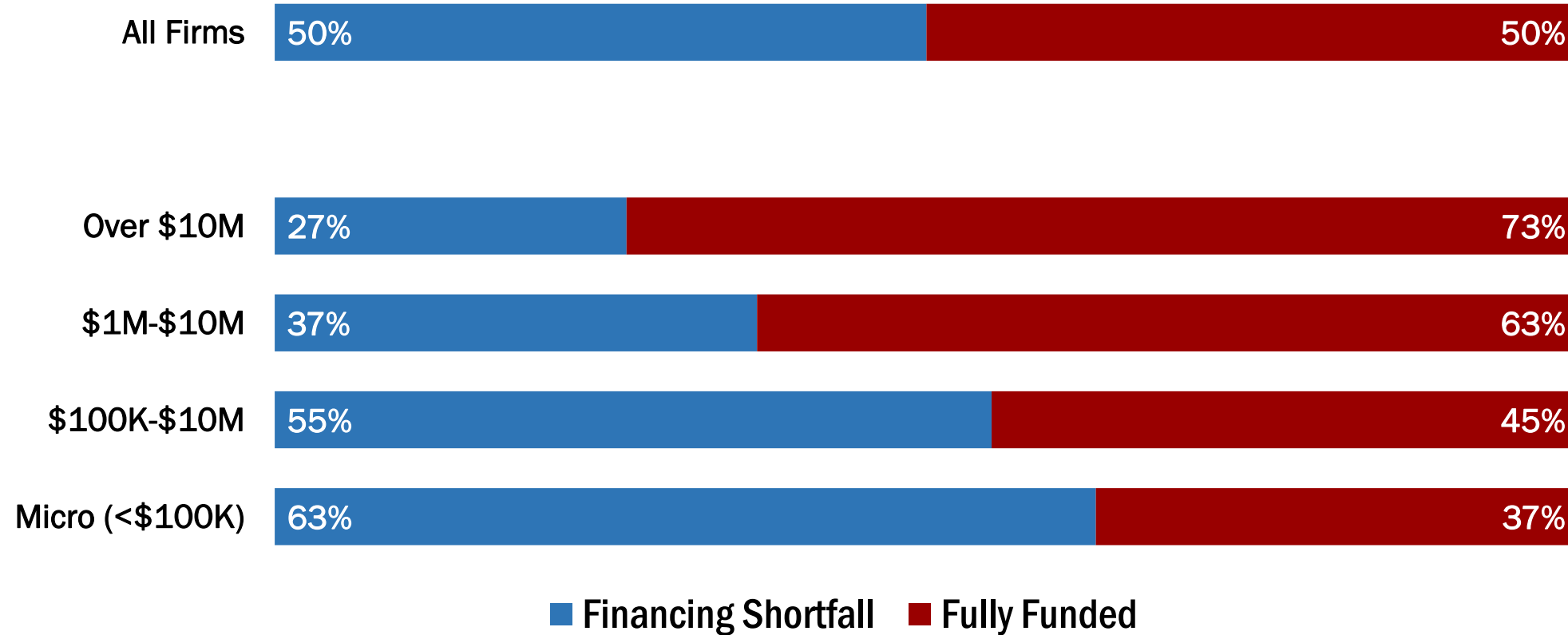
About 75% of small businesses want loans below \$250K



Source: Federal Reserve (New York), "Small Business Credit Survey", Fall 2013

# SMALL FIRMS HAVE MORE TROUBLE GETTING LOANS

Loan applicants receiving full funding versus those funded partially or not at all



Source: "2015 Small Business Credit Survey," Federal Reserve, March 2016.

# ONLINE LENDERS OFFER MANY SMALL BUSINESS PRODUCTS

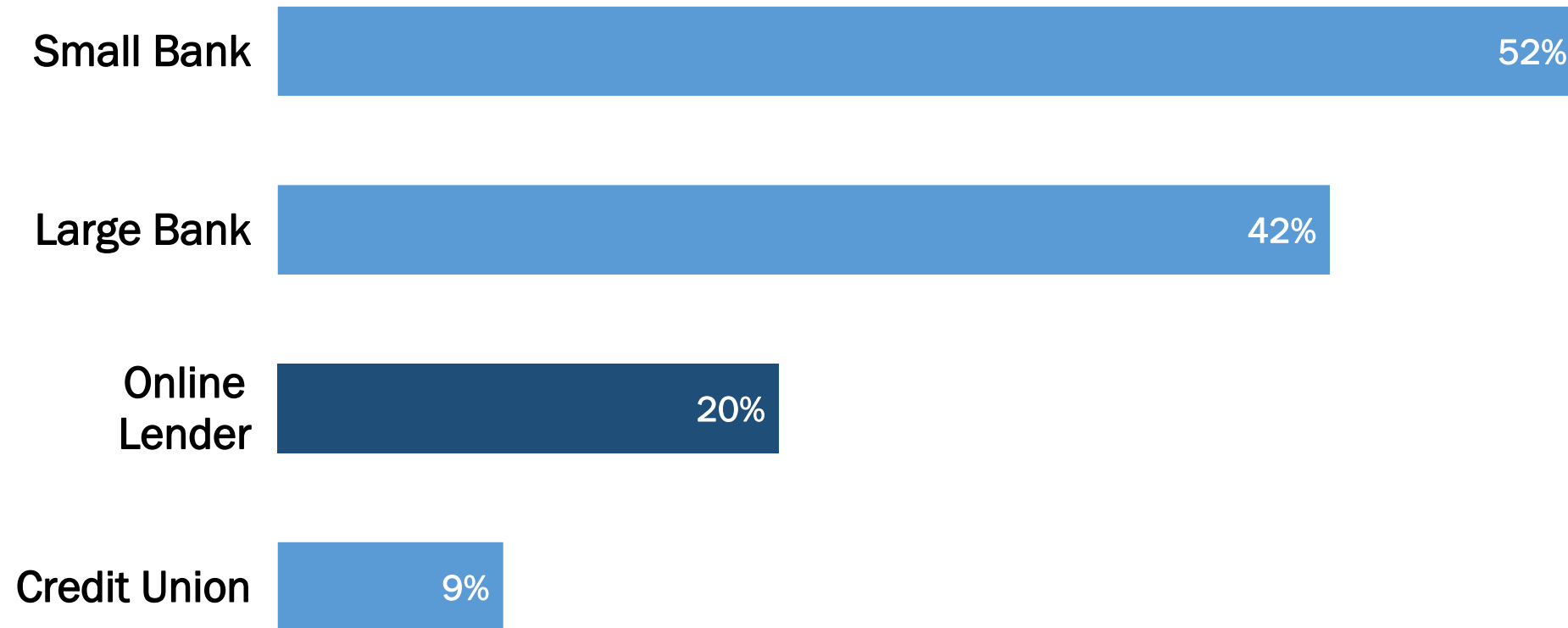
|                            |                |                     |                          |                 |               |               |
|----------------------------|----------------|---------------------|--------------------------|-----------------|---------------|---------------|
| Short-Term Loan            | CAN CAPITAL    | quarterspot         | OnDeck                   | DIRECTCAPITAL   | bizfi         | RAPID ADVANCE |
| Medium-Term Loan           | Funding Circle | LendingClub         | BOND STREET              | Dealstruck      | FUNDATION     | STREET SHARES |
| SBA Loan                   | smartbiz       | CELTICBANK          | LIVE OAK BANK            |                 |               |               |
| Short-Term Line of Credit  | OnDeck         | Kabbage             | BlueVine                 | HEADWAY CAPITAL |               |               |
| Medium-Term Line of Credit | Dealstruck     | The Credit Junction | LendingClub              |                 |               |               |
| Invoice Financing          | BlueVine       | FUNDBOX             | TRIUMPH BUSINESS CAPITAL |                 |               |               |
| Personal Loan for Business | AVANT          | Upstart             | Pave                     |                 |               |               |
| Equipment Loan             | eLease         | BALBOA CAPITAL      | Funding Circle           | bsb LEASING     | DIRECTCAPITAL |               |

Source: Fundera Presentation. September 2016.

# STRONG EARLY RESULTS: 20% OF APPLICANTS APPLY TO ONLINE LENDERS

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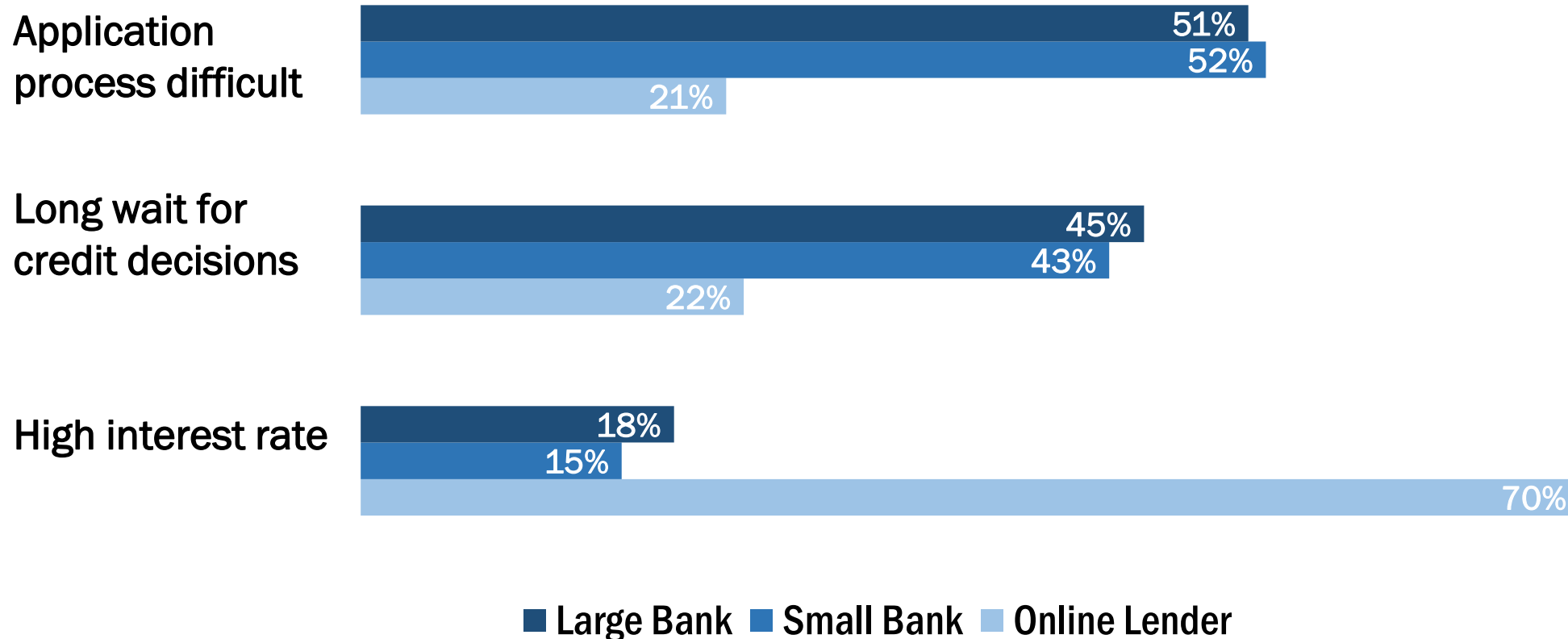
Percent of small businesses applying



Source: "2015 Small Business Credit Survey," Federal Reserve, March 2016.

# BORROWERS LOVE THE EASE OF THE APPLICATION, BUT NOT THE HIGH INTEREST RATES

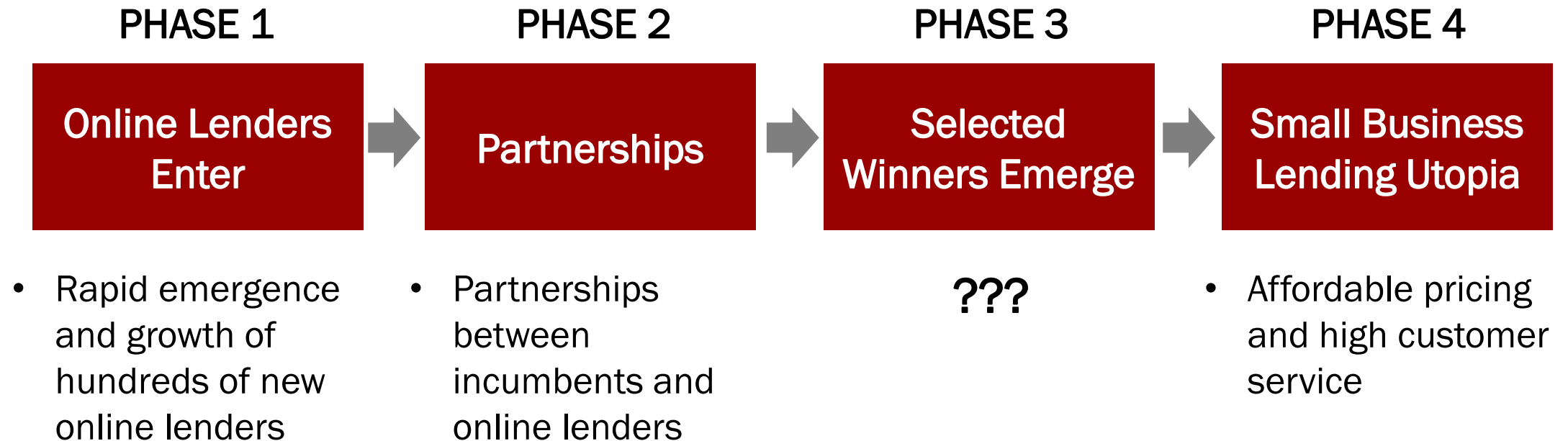
Percent of borrower firms dissatisfied



Source: "2015 Small Business Credit Survey," Federal Reserve, March 2016.

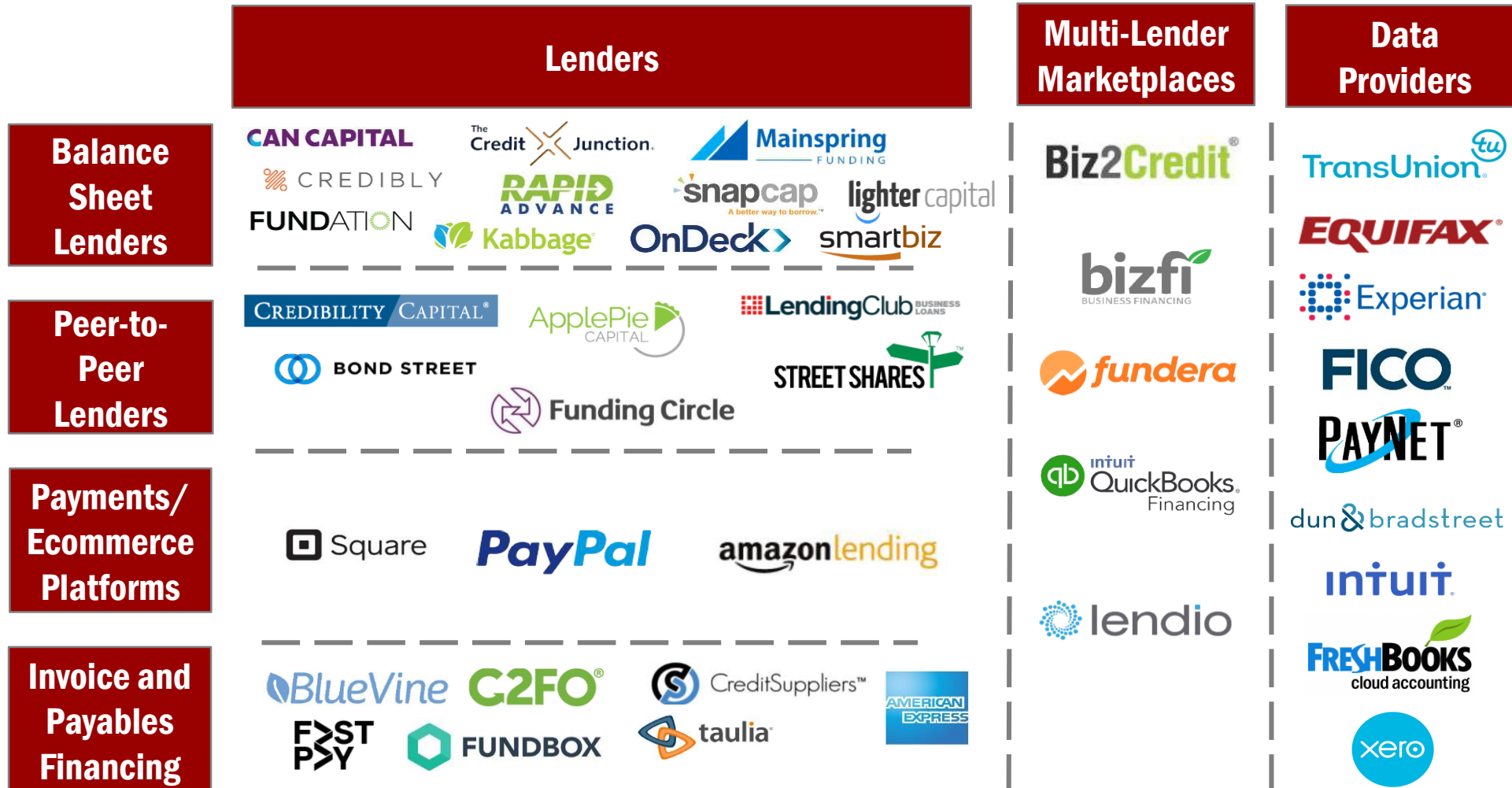
# ONLINE LENDING IS ENTERING PHASE 2 OF MARKET DEVELOPMENT

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# PHASE 1: THE WILD WEST – MANY PLAYERS; STRATEGIES ARE MERGING

Small business alternative lending ecosystem



Source: Author's analysis and Mueller, Jackson. "U.S. Online, Non-Bank Finance Landscape. Milken Institute Center for Financial Markets. 2016. <http://assets1b.milkeninstitute.org/assets/PDF/Online-Non-Bank-Finance-Landscape.pdf>



# DON'T COUNT OUT THE BANKS AND TRADITIONAL LENDERS

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**Borrower  
Acquisition**

**Borrower  
Experience &  
Satisfaction**

**Customer &  
Product Mix**

**Cost of Funds**

**Underwriting &  
Compliance  
Costs**

## INCUMBENTS

JPMorganChase 



WELLS FARGO

## COMMUNITY BANKS

## DISRUPTORS

OnDeck 

 Funding Circle

CAN CAPITAL

 FUNDBOX

 fundera







# DON'T COUNT OUT THE BANKS AND TRADITIONAL LENDERS

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Source: Author's analysis and "The Brave 100: The Battle of Supremacy in Small Business Lending." QED Investors and Oliver Wyman. 2015.

# DON'T COUNT OUT THE BANKS AND TRADITIONAL LENDERS

|  | Borrower Acquisition | Borrower Experience & Satisfaction | Customer & Product Mix | Cost of Funds | Underwriting & Compliance Costs |
|--|----------------------|------------------------------------|------------------------|---------------|---------------------------------|
| <b>INCUMBENTS</b><br>JPMorganChase <br><br>WELLS FARGO   | ✓                    | ✗                                  |                        |               |                                 |
| <b>COMMUNITY BANKS</b>   |                      |                                    |                        |               |                                 |
| <b>DISRUPTORS</b><br>OnDeck <br> Funding Circle<br>CAN CAPITAL<br> FUNDBOX<br> fundera | ✗                    | ✓                                  |                        |               |                                 |







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| <b>DISRUPTORS</b><br><br><br><b>CAN CAPITAL</b><br><br> | ✗                    | ✓                                  | ?                      |               |                                 |







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| <b>COMMUNITY BANKS</b>  |                      |                                    |                        |               |                                 |
| <b>DISRUPTORS</b><br><br><br><b>CAN CAPITAL</b><br><br><b>FUNDBOX</b><br><br><b>fundera</b> | ✗                    | ✓                                  | ?                      | ✗             |                                 |

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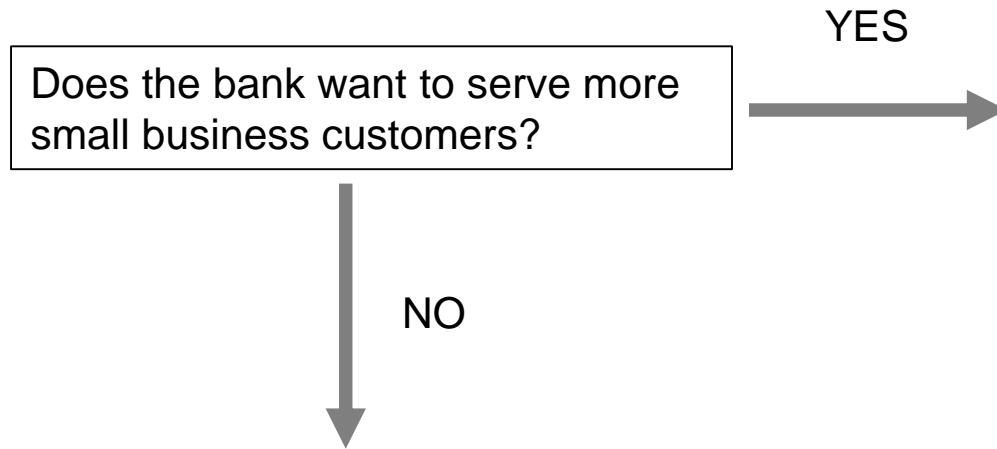
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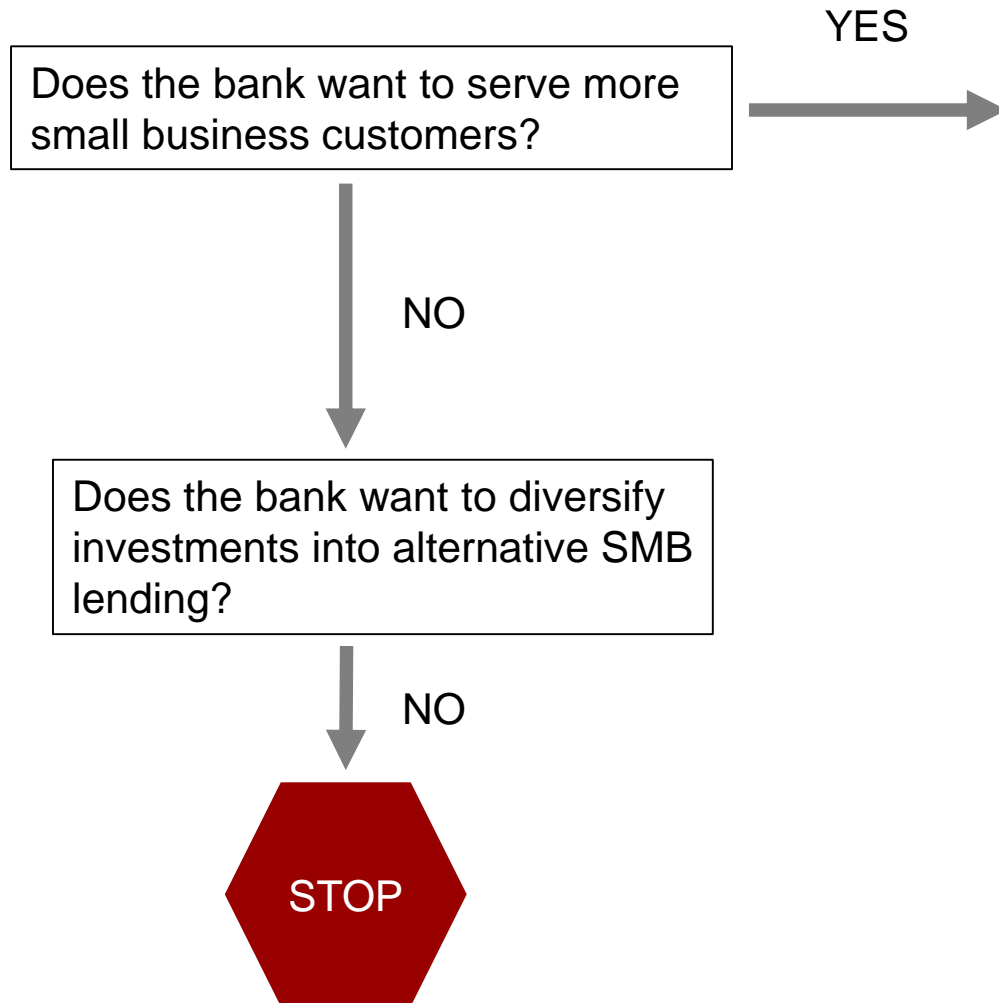
# AS A BANK, WHAT SHOULD YOU DO?

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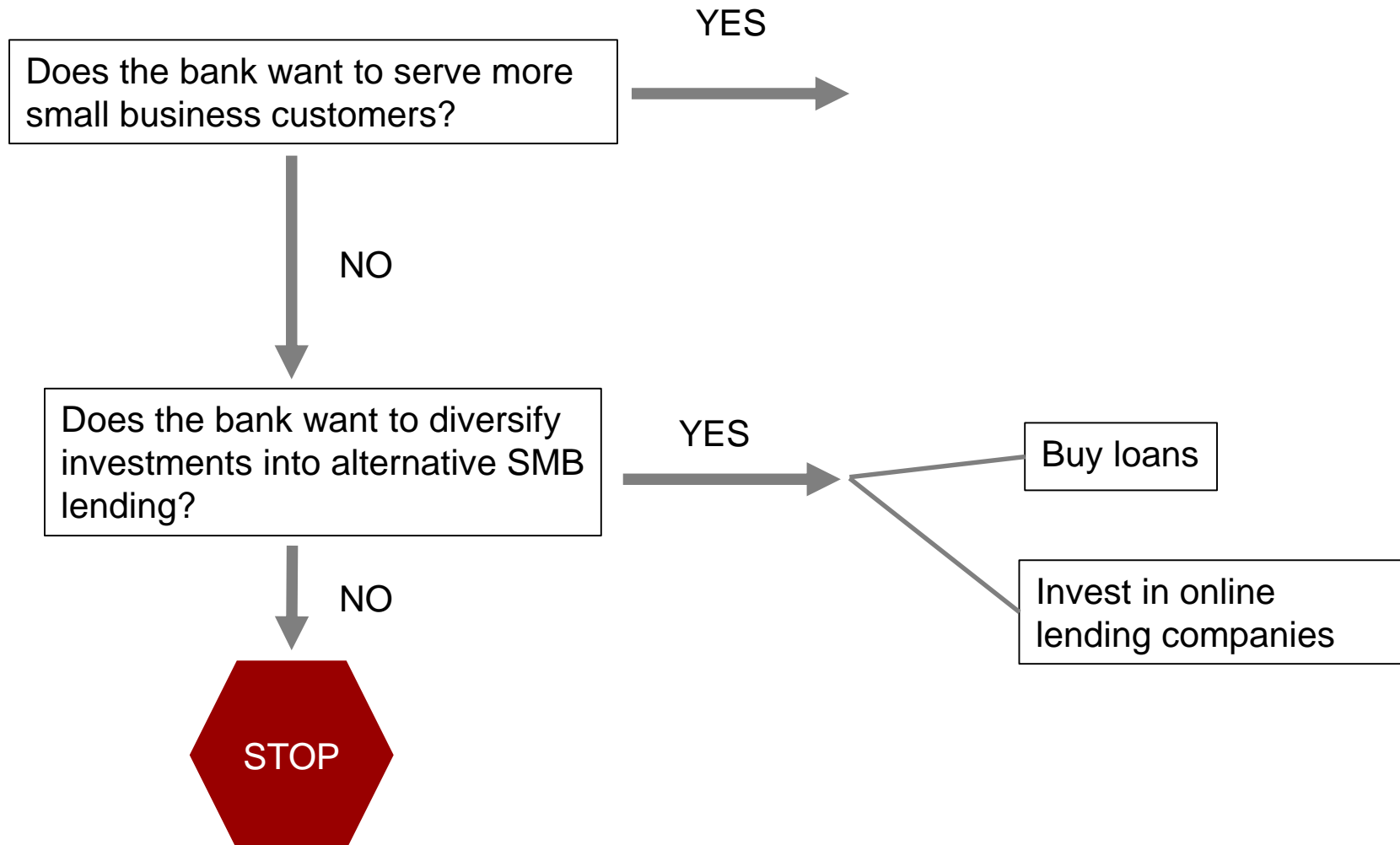
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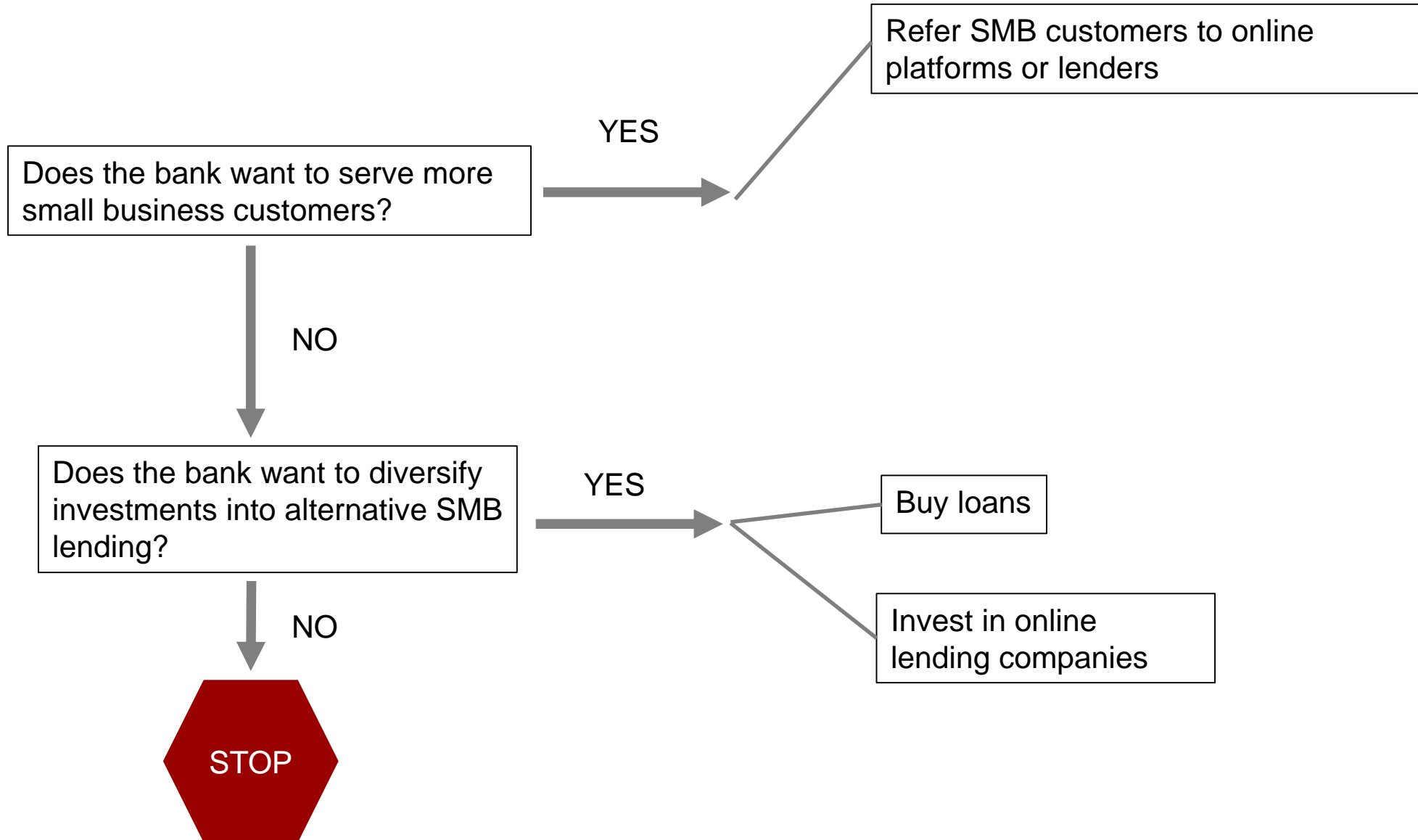


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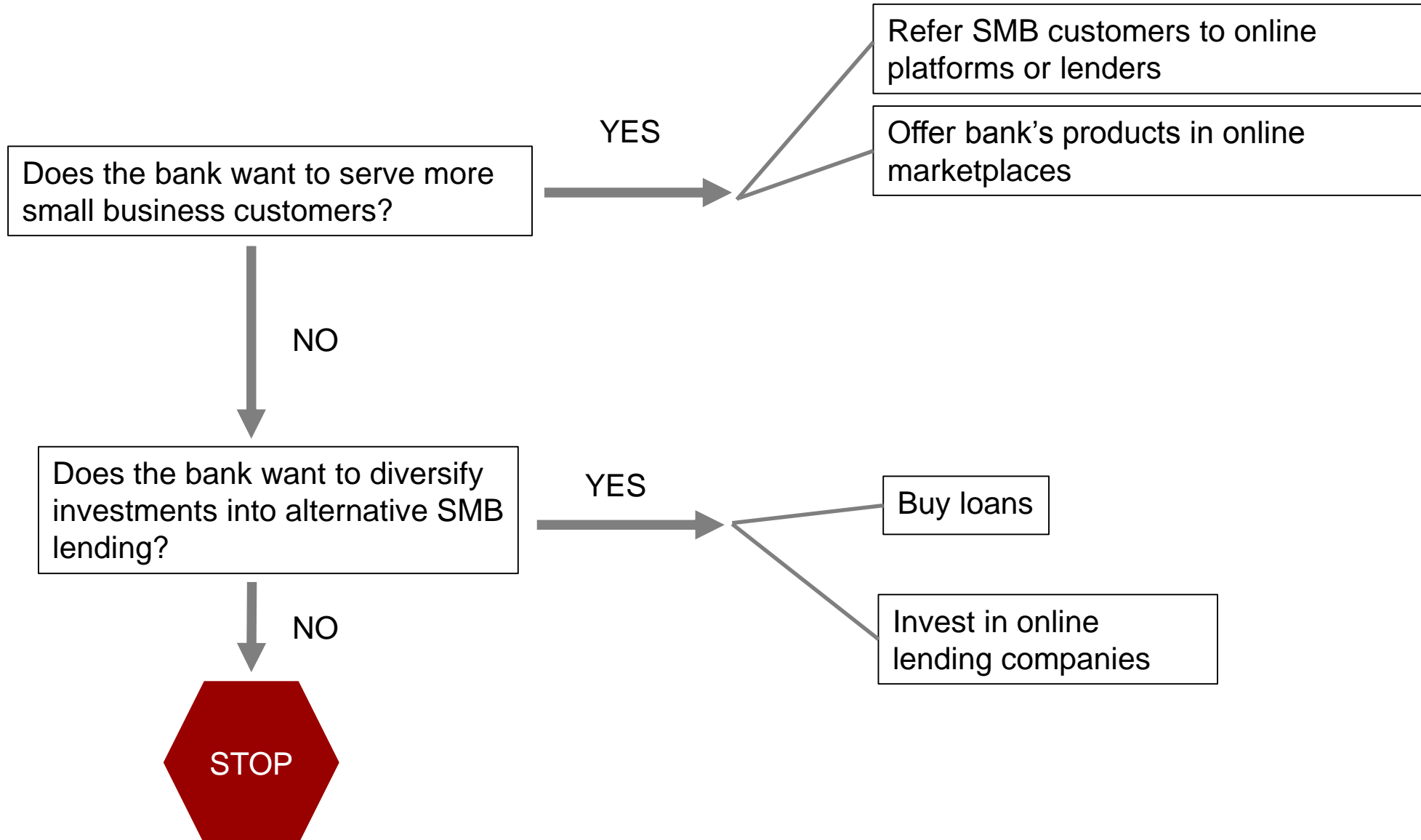
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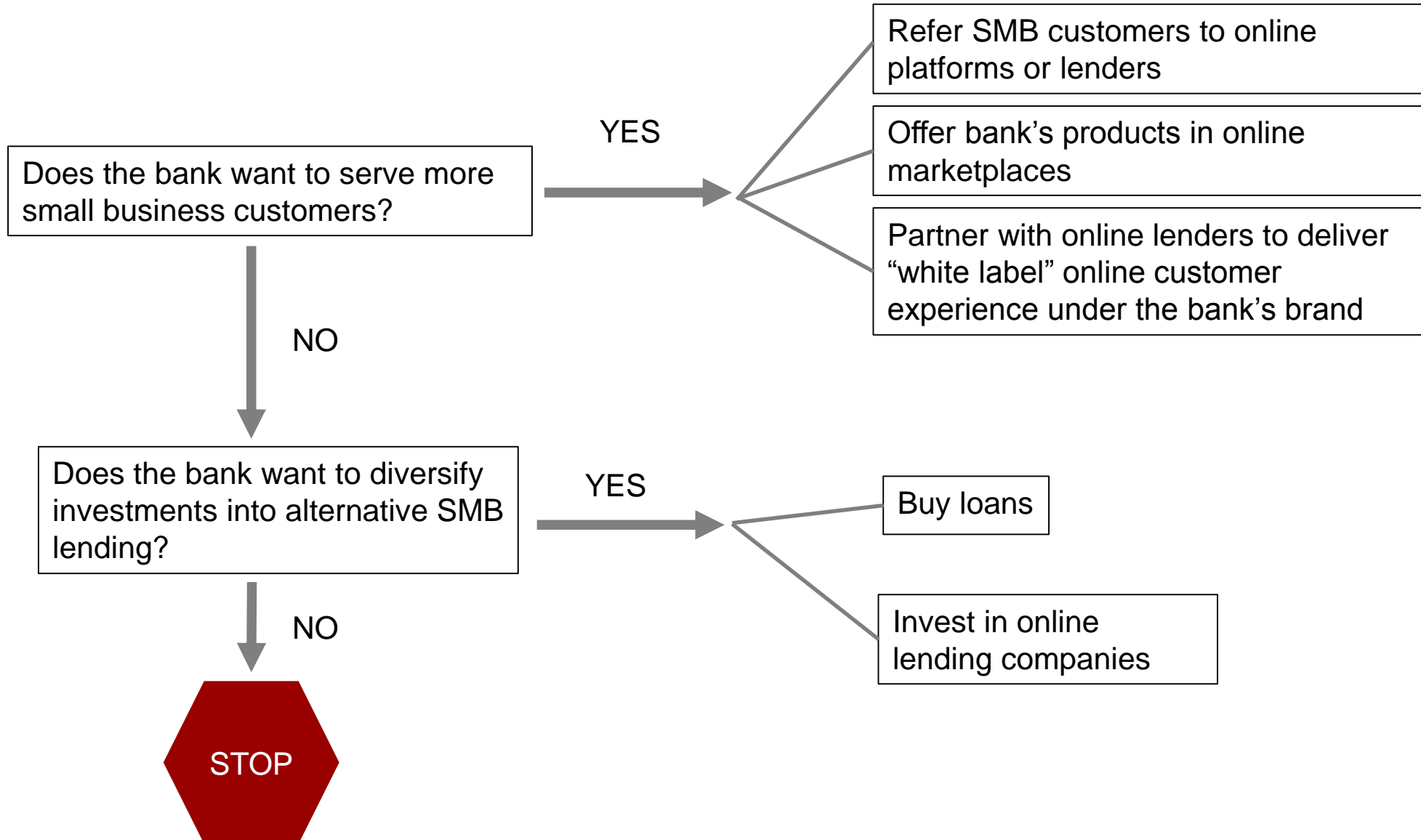
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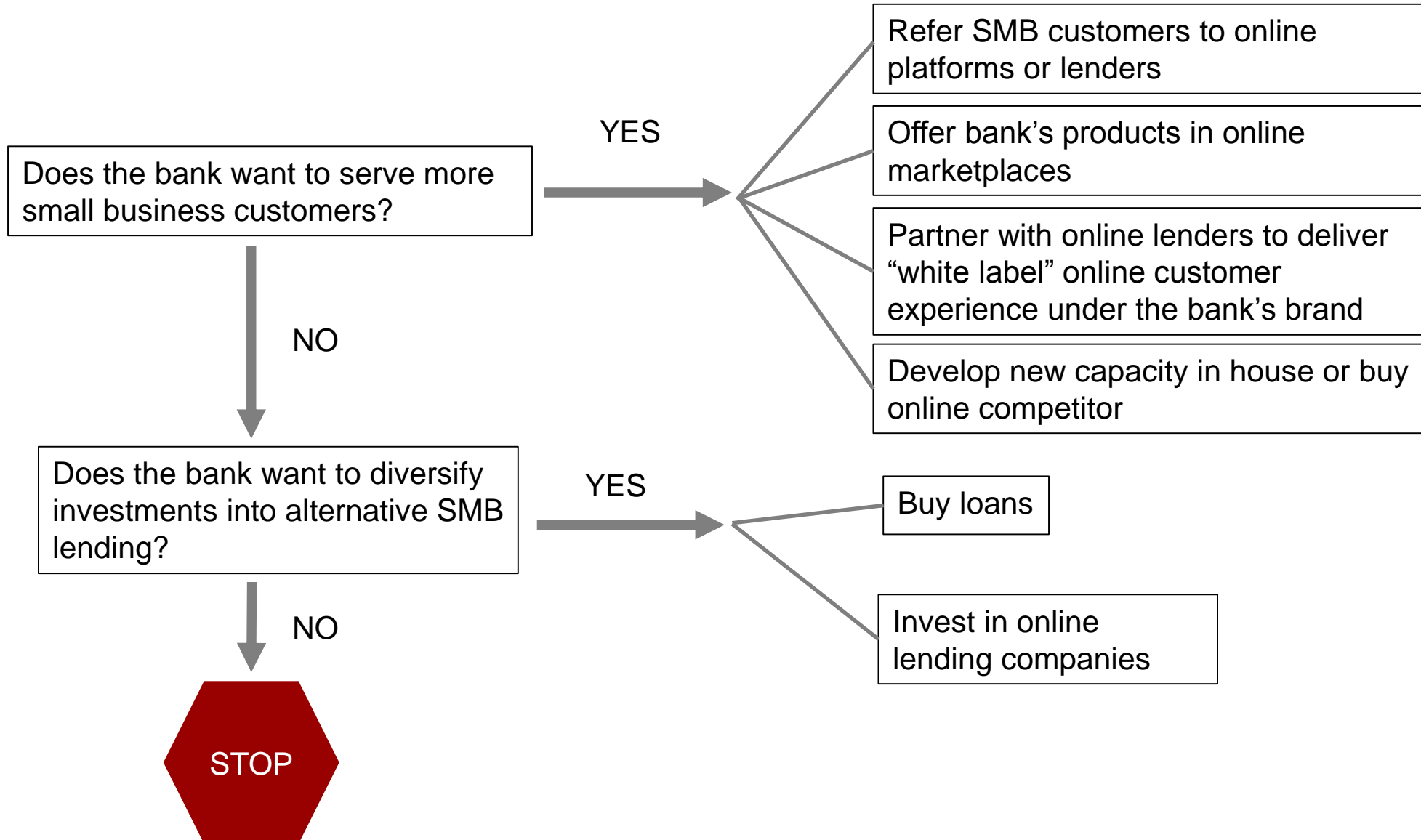
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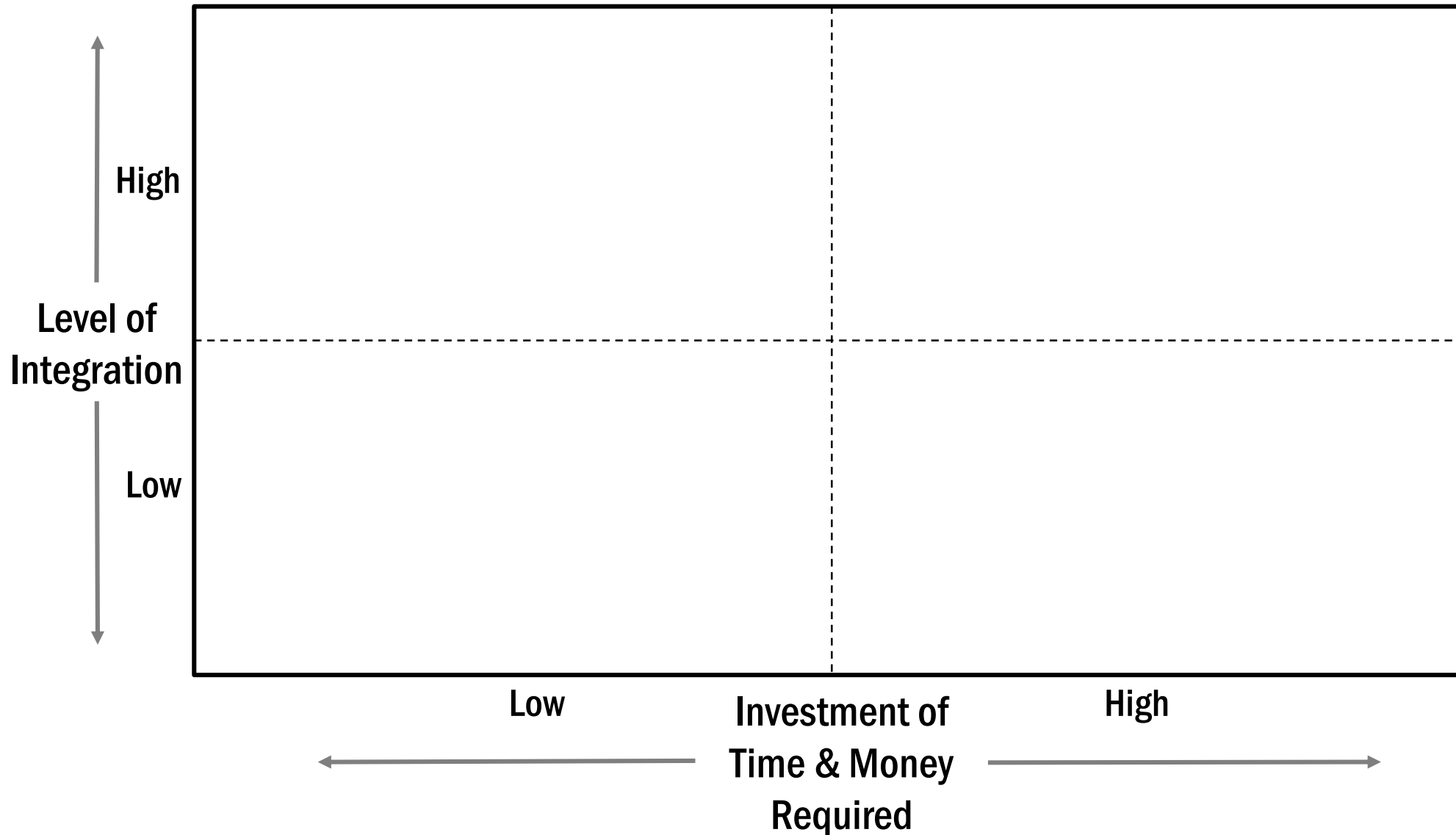
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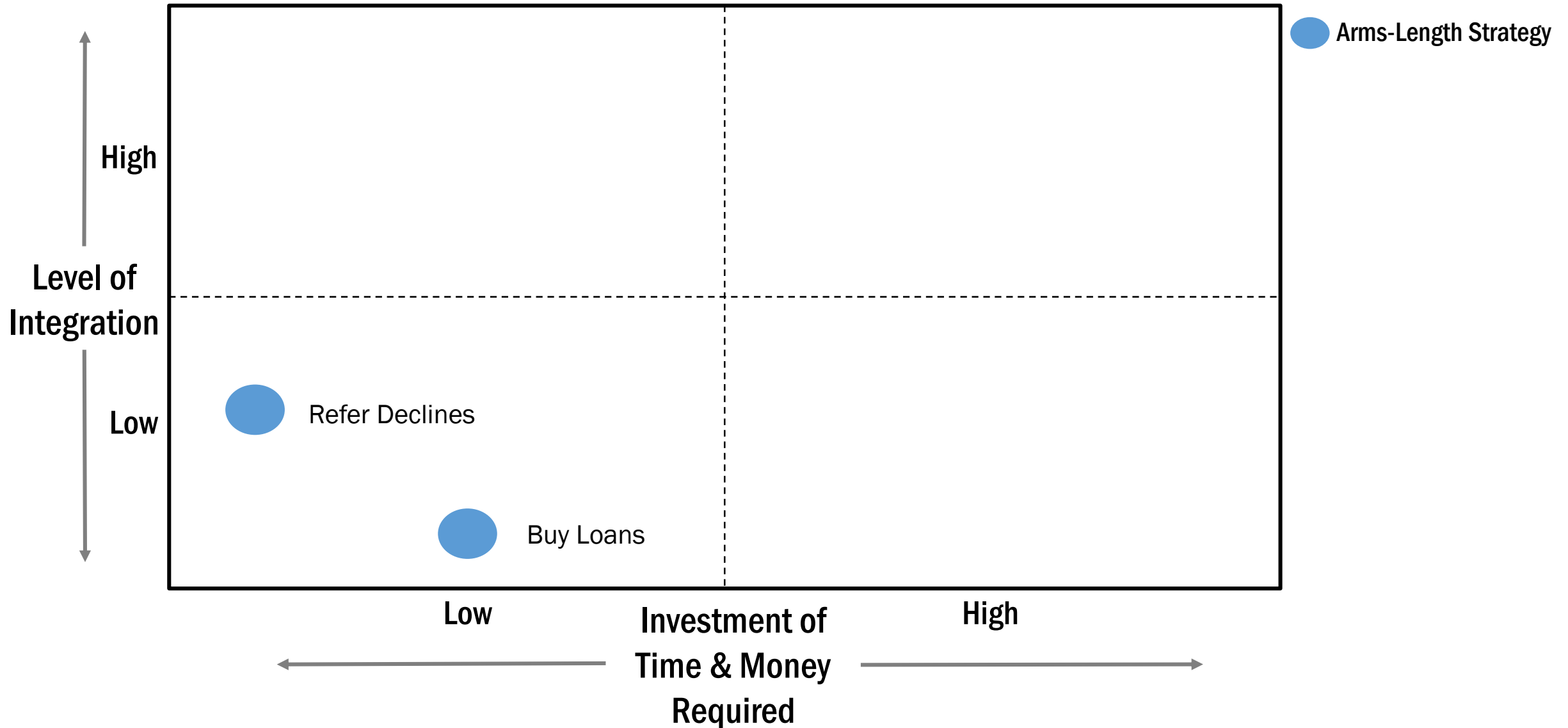
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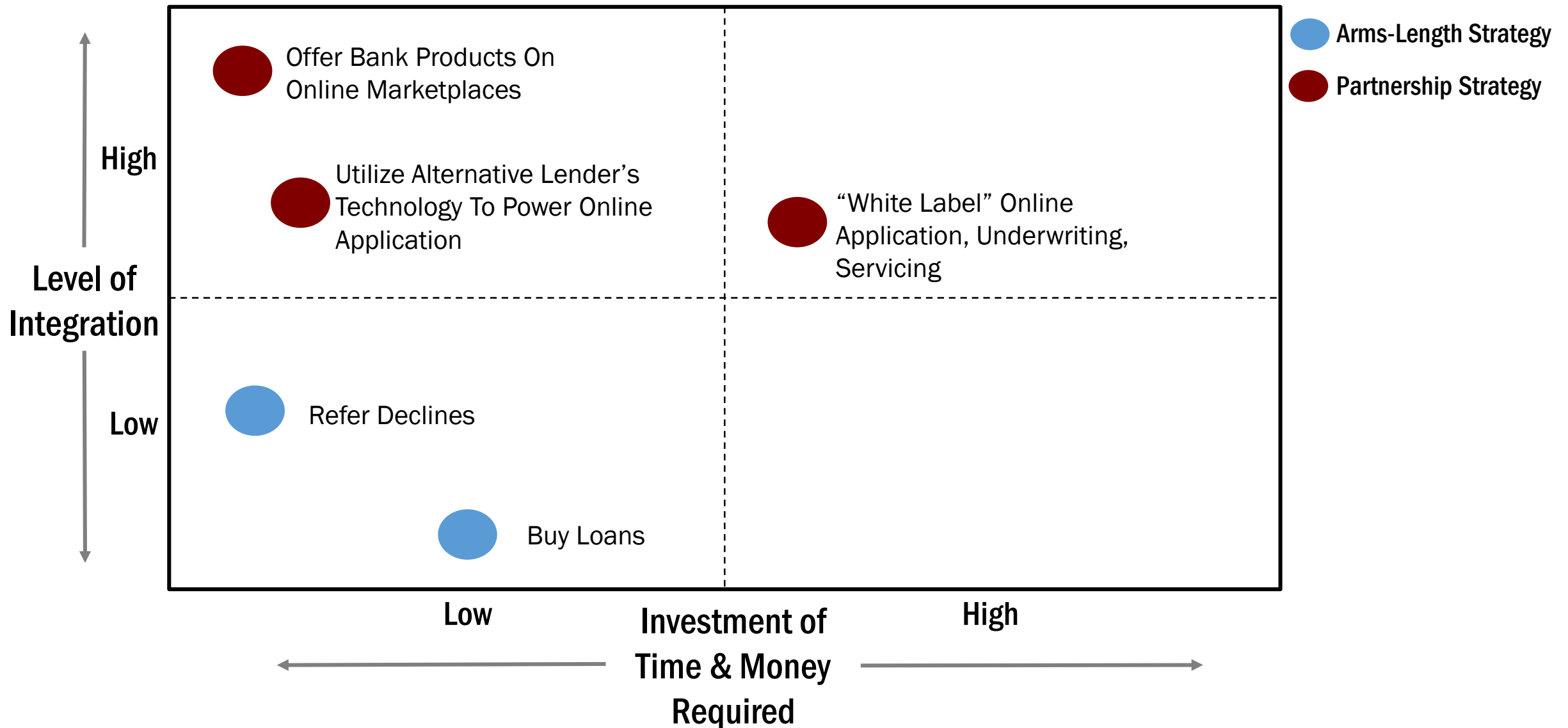
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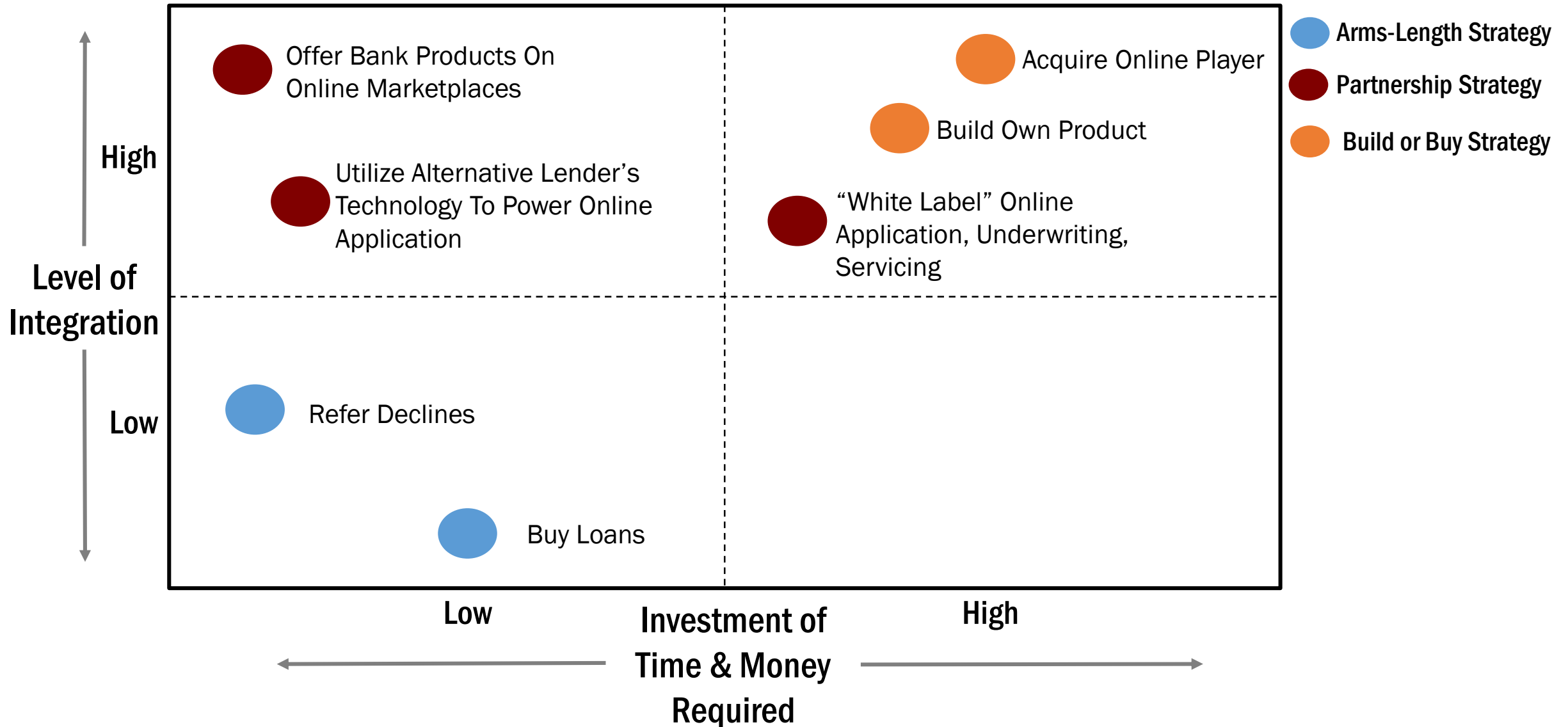


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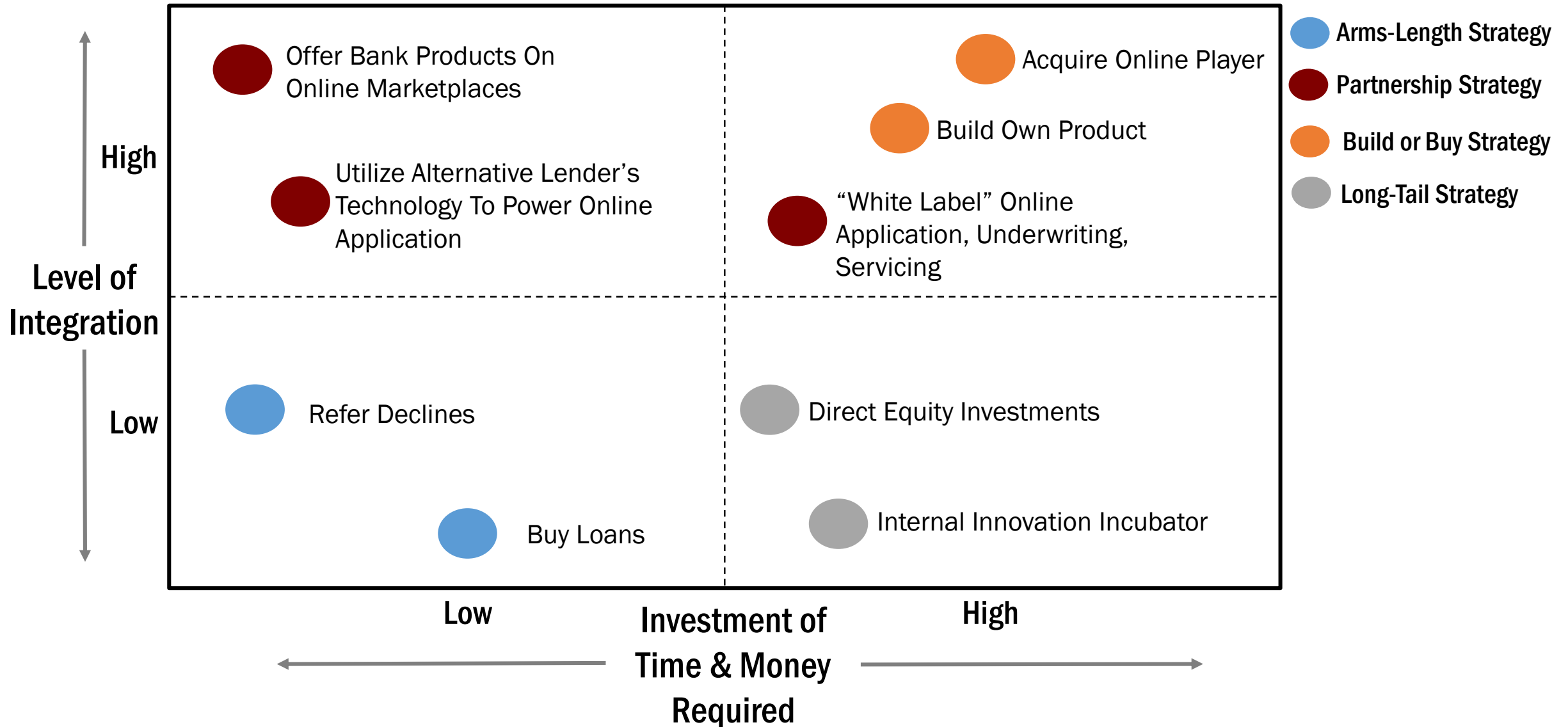




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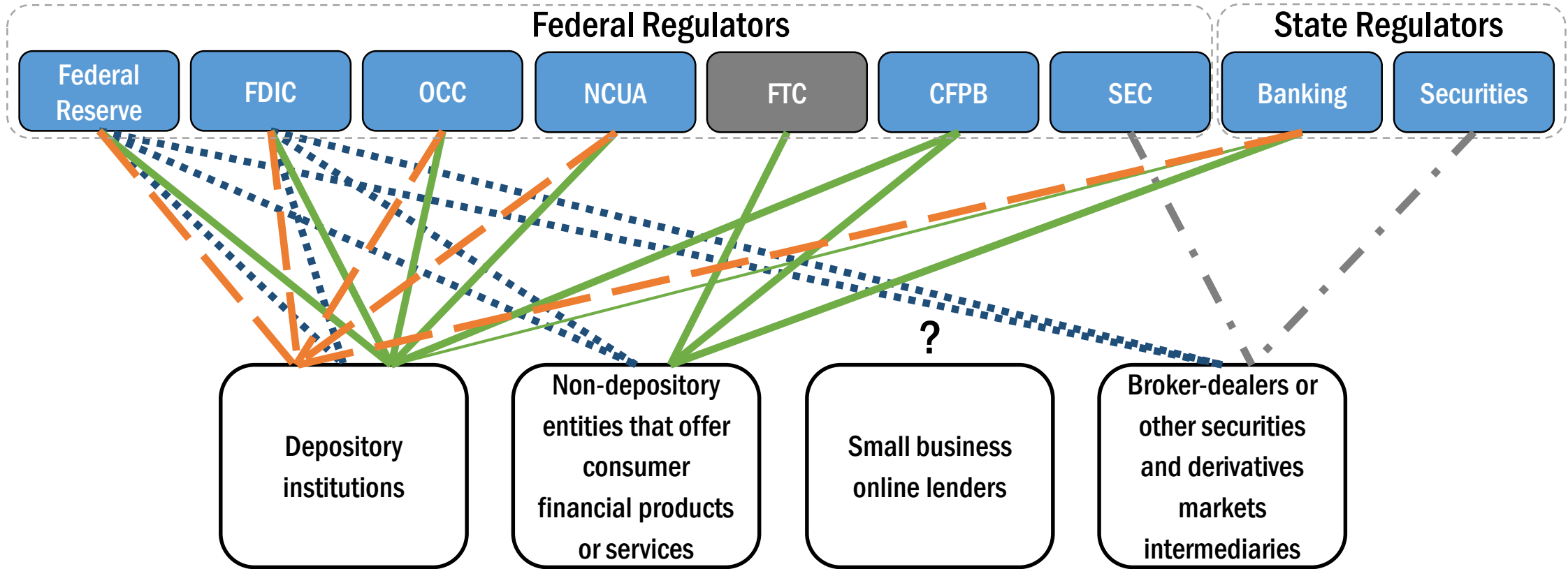


# BANKS AND INCUMBENT LENDERS: OPTIONS FOR STRATEGIC RESPONSES



# CURRENT STATE: SPAGHETTI SOUP – MULTIPLE REGULATORS

Currently little oversight of small business online lenders



- — — Safety and soundness oversight
- ⋯ ⋯ ⋯ Consolidated supervision or systemic risk-related oversight
- — Consumer financial protection oversight
- . - . Securities and derivatives markets oversight
- Financial Stability Oversight Council member agency

- FDIC:** Federal Deposit Insurance Corporation
- OCC:** Office of the Comptroller of the Currency
- NCUA:** National Credit Union Administration
- FTC:** Federal Trade Commission
- CFPB:** Consumer Financial Protection Bureau
- SEC:** Securities and Exchange Commission

# POSSIBLE AREAS FOR REGULATORY ACTION

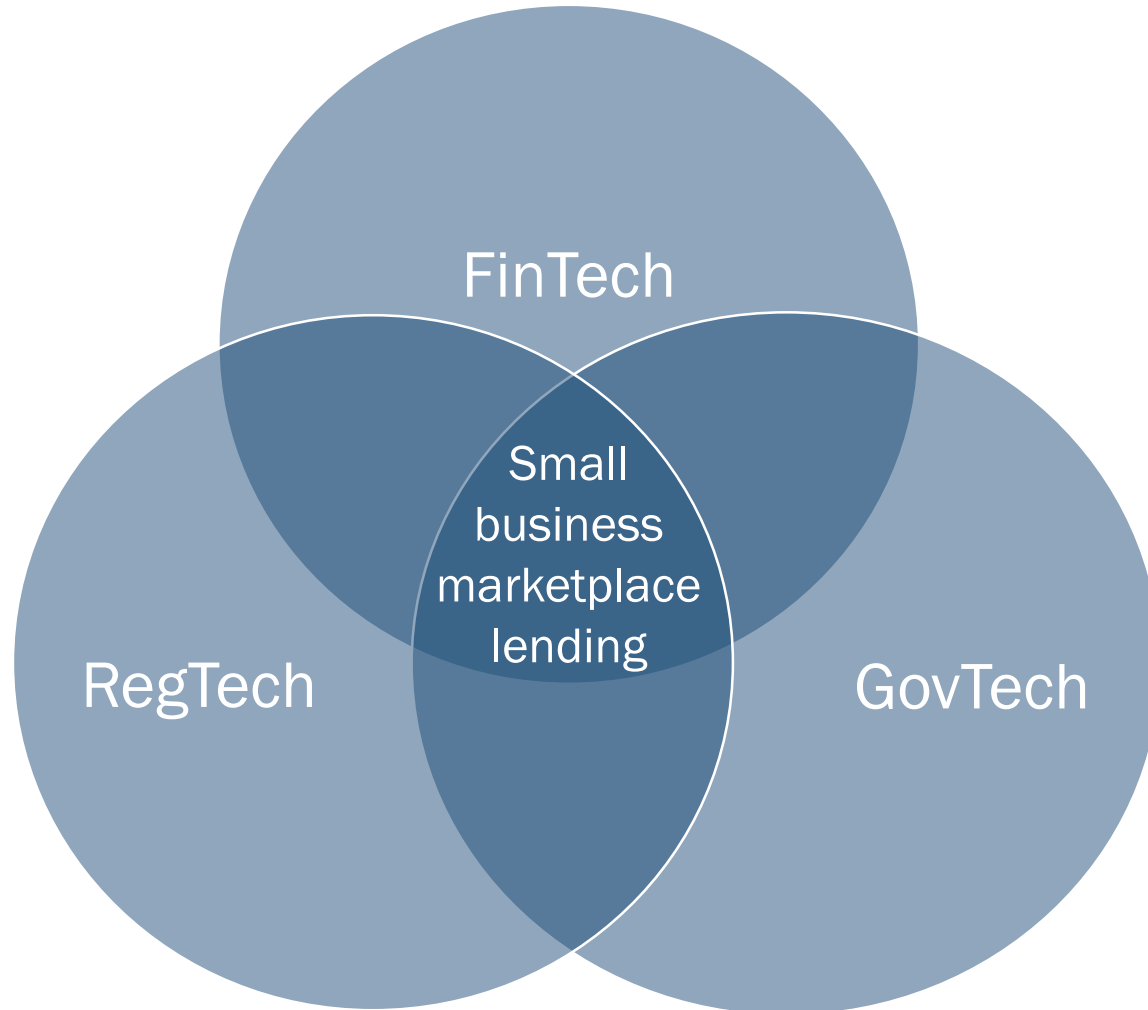
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1. Borrower Disclosure: “SMART Box”; Borrower Bill of Rights
2. CFPB: Data Collection – Dodd-Frank Section 1071
3. OCC: Nonbank Charter
4. Broker Oversight: Borrower’s “best interest”
5. Joint Third-Party Guidance
6. Financial Innovation Office(s)

# ONE GUIDING PRINCIPLE: “DO IT SMART”

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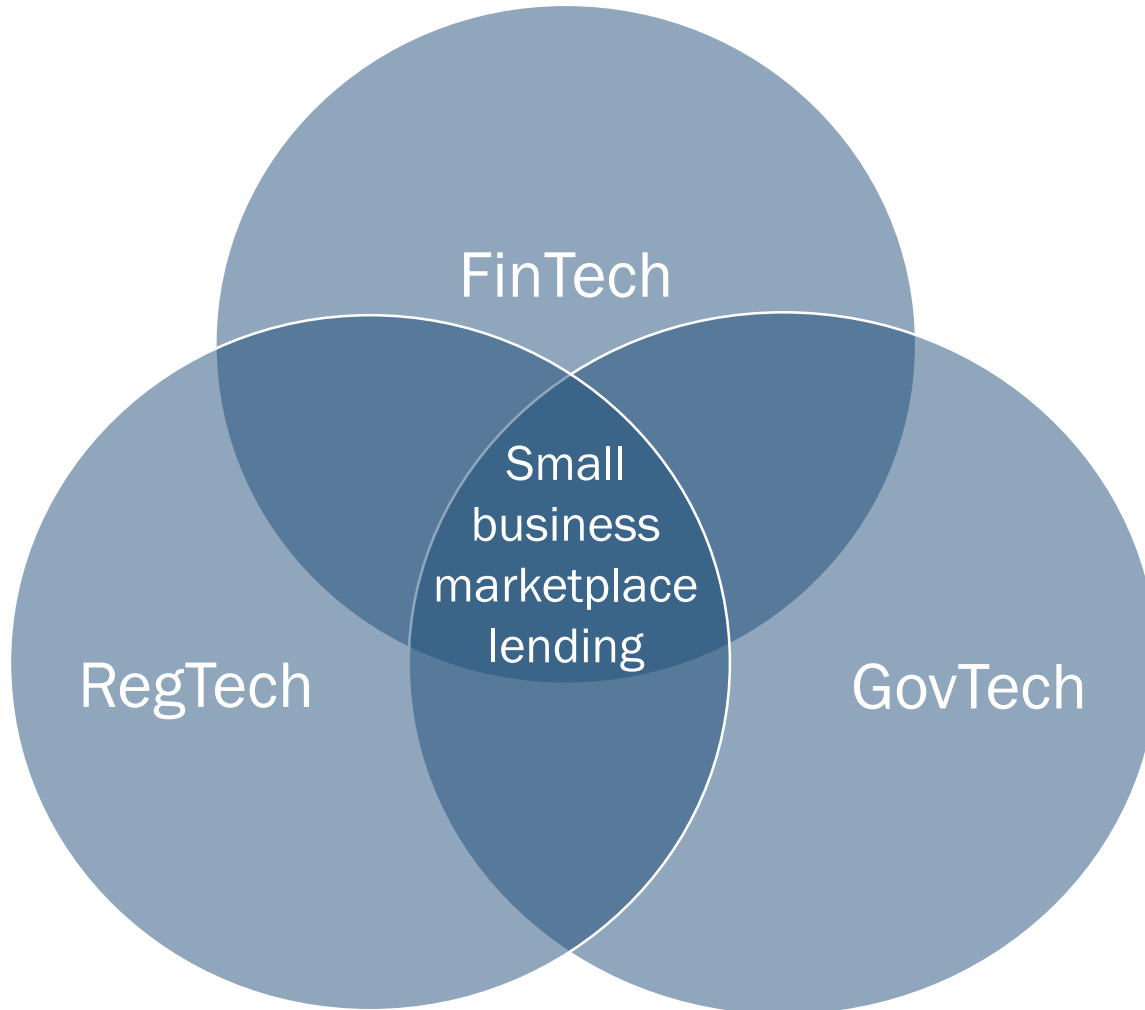
Small business lending is at the intersection of FinTech, GovTech, and RegTech



# ONE GUIDING PRINCIPLE: “DO IT SMART”

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Small business lending is at the intersection of FinTech, GovTech, and RegTech



1. Issue clear, succinct, joint guidance
2. Engage industry
3. Use technology
4. Be data driven



**HARVARD  
BUSINESS SCHOOL**

**THE STATE OF SMALL BUSINESS LENDING:  
INNOVATION AND TECHNOLOGY AND THE IMPLICATIONS FOR  
REGULATION**

Karen Gordon Mills  
Brayden McCarthy