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Laura Temel
U.S. Department of the Treasury
Marketplace Lending RFI
Washington, DC 20220

Ms. Temel,

On behalf of the Coalition for Responsible Business Finance (CRBF), I am writing in response to the U.S. Department of Treasury's ("Treasury) Request for Information (RFI) on expanding access to credit through online marketplace lending.

CRBF is a group of businesses and service providers that advocate for the value of alternative financing opportunities for small businesses. We created the coalition to help educate Congress, Treasury, and other federal departments and agencies on how technology and innovation are providing small businesses access to capital that is necessary for growth.

CRBF will not complete its membership list prior to the deadline for responding to this RFI, so we are unable to offer comments on specific business practices from individual companies. However, a number of CRBF companies are responding directly to the RFI and are in a better position of commenting on items 1-8 and 10-14. We are focusing our comments on #9, which asks what role the federal government can play in facilitating positive lending innovation. Our comments also are addressed solely to commercial lending and financing. While the term marketplace lenders can apply equally to consumer as well as commercial funders, the CRBF focuses solely on commercial transactions and believes that these two areas should be viewed differently when considering whether there is any need for further regulation.

In addition to business membership, CRBF is proud of its Advisory Board, which includes experts in small business finance and leaders in the advocacy community who have represented the interests of

small businesses in our nation's capital for several decades.¹ Thanks to our Advisory Board, CRBF is able to legitimately present views on alternative financing from the perspective of small business borrowers.

Small Business and Access to Credit

I cannot overstate the importance of small business to the American economy. Small businesses employ just under half of our country's private sector workforce and they have created 2/3 of the net new jobs over the past 20-years.²

As Secretary Lew recently stated, "small businesses are the engine of our economy, and because of the millions of small businesses and entrepreneurs across the country, the United States has the largest, strongest, and most innovative economy in the world."³

Just as small business is the economic engine of our country, cash is that engine's fuel. That is why access to capital is consistently a top priority for the small business community.

Small business borrowers are in a tough situation today because of what has happened over the past 8-years. The financial crisis and recession that occurred between 2007 and 2009 took a severe toll on small businesses. Between 2007 and 2012, small businesses shouldered 60% of the total net job losses.⁴ While payrolls at larger businesses fell by about 7% during the recession, jobs at small firms fell by approximately 11% and the smallest employers shrank their workforce by more than 14%.⁵

Normally, the banking community would be there for small businesses as the economy recovered. However, this economic recovery is different. Several banks stopped offering loans and lines of credit to small businesses during the recession and new regulatory requirements have made small-dollar loans uneconomical for many banks.⁶ Plus, bank consolidation and failure has led to fewer community banks, further limiting the ability of small businesses to obtain financing.⁷ Data continue to show the lingering effect of the financial crisis on the small business credit market.⁸

¹ CRBF's Advisory Board includes participants from deBanked, Hudson Cook, National Federation of Independent Business, National Small Business Association, Pepper Hamilton, Small Business & Entrepreneurship Council, and the Small Business Investor Alliance.

² U.S. Small Business Administration, Office of Advocacy, Frequently Asked Questions (March, 2014). Viewable at: <https://goo.gl/2lloAg> .

³ Secretary Jacob J. Lew, *Remarks on Growing America's Small Businesses at the Capital Access Innovation Summit* (June 10, 2013).

⁴ Karen Gordon Mills & Brayden McCarthy, Harvard Business School, *The State of Small Business Lending: Credit Access during the Recovery and How Technology May Change the Game*, pages 3-4 (July 22, 2014). Viewable at: <http://goo.gl/9iDMkZ> .

⁵ Id.

⁶ Charles Moldow, Foundation Capital, *A Trillion Dollar Market By the People, For the People; How Marketplace Lending Will Remake Banking As We Know It*, pages 10-12 (May 6, 2014). Viewable at: <https://goo.gl/dr37a1> .

⁷ National Small Business Association, *Improve Access to Credit and Capital, The credit crunch continues to stifle America's entrepreneurs and U.S. job growth* (2015). Viewable at: <http://goo.gl/aO1vxa> .

⁸ The U.S. Small Business Administration's (SBA) most recent annual small business lending report explains that bank lending to small businesses has not fully recovered to pre-recession levels. U.S. Small Business Administration, Office of Advocacy, *Small Business Lending in the United States, 2013* (December 2014). Viewable at: <https://goo.gl/3sDCbP> .

Former SBA Administrator Karen Mills explains the economic danger of shutting small businesses out of the credit market, “... if credit is unavailable, small businesses may be unable to meet current business demands or to take advantage of opportunities for growth, potentially choking off any incipient economic recovery and undermining the free flow of financing to their most productive uses.”⁹

Alternative Finance and Lending May Provide the Small Business Credit Solution

The average small business owner seeks between \$10,000 and \$80,000 per year in capital.¹⁰ While banks and credit unions cannot afford to offer loans at these levels, alternative finance and lending businesses can. Lowering overhead and maximizing efficiency are two hallmarks of technology and, when applied to the small business credit market, new opportunities promise to fill an essential credit void.

Solutions as simple as decreasing the application time make a huge difference for small business borrowers.¹¹ When small businesses spend an average of 26 hours searching for and applying for credit, providing same-day or 24-hour approvals make alternative finance options attractive for small business borrowers.¹² Technology allows the use of big data to evaluate potential borrowers and to improve upon FICO. As a result, alternative finance and lending businesses are underwriting better, more predictive loan pools than retail banks.¹³

The Federal Role for Incentivizing Innovation in the Alternative Lending and Finance Sector

CRBF’s advice to Treasury is that federal regulators should be careful not to “kill the goose that lays the golden eggs.” We use the idiom to illustrate the need for federal regulators to approach the subject of a federal role in the alternative finance and lending sector very carefully. Small business owners value choice and speed when looking at alternative finance and lending options. Any federal approach needs to balance new regulatory requirements with the impact on the alternative finance and lending sector and on the sector’s small business customers.

Treasury deserves enormous credit for issuing this RFI, and CRBF applauds Treasury for taking this step towards better understanding the alternative lending and finance business. CRBF further credits Treasury for hosting an industry roundtable on August 5th that included several companies involved in marketplace lending. It is through these types of public solicitation for comment and government/industry collaboration that federal regulators gain a better understanding of how alternative lending and finance works.

For those reasons, CRBF recommends that Treasury create an alternative finance and lending interagency working group that will meet on a quarterly basis. We suggest that twice a year the

⁹ Mills & McCarthy at 26.

¹⁰ U.S. Small Business Administration, Office of Advocacy, *Small Business Finance, Frequently Asked Questions* (February 2014) (using data from the Wells Fargo Small Business Index Study and the Kauffman Firm Survey). Viewable at: <https://goo.gl/OxktVy> .

¹¹ Miriam Segal, U.S. Small Business Administration, Office of Advocacy, *Peer-to-Peer Lending: A Financing Alternative for Small Businesses* (September 10, 2015). Viewable at: <https://goo.gl/XhrSQy> .

¹² Id.

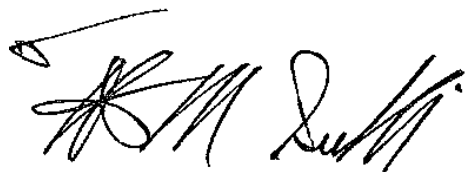
¹³ Moldow at 21.

working group meet as a group comprised solely of governmental personnel, with officials from SEC, SBA, FTC, Federal Reserve, OCC, and other relevant agencies. And, we suggest that twice a year the working group meet with business leaders from across the alternative finance and business lending spectrum, including representatives from lead generators, aggregators, merchant cash advance professionals, peer-to-peer lenders, risk analytics services, direct lenders, marketplace lenders, and others. Meeting with different groups of businesses throughout the life span of an interagency working group will allow Treasury to keep up with a rapidly evolving business sector and will help ensure that any federal approach is sensitive to its impact on the sector and on its small business customers.

CRBF is committed to educate federal authorities on how alternative lending and finance benefits small business and the economy. We would certainly help Treasury establish any working group that serves the same purpose.

Thank you for your consideration and please do not hesitate to contact me with any questions about this response to the RFI or about CRBF.

Kind regards,

A handwritten signature in black ink, appearing to read 'Thomas M. Sullivan', with a stylized flourish at the end.

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