



Opinion Poll

Small Business Owners Concerned with Predatory Lending, Support More Regulation of Alternative Lenders

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Executive Summary

Access to capital is consistently one of the most pressing issues for small business owners. Previous opinion polling from Small Business Majority found 90% of small business owners agree that the availability of small business loans is a problem.¹ Further, according to the 2016 Small Business Credit Survey from the Federal Reserve Bank of New York, 61% of employer small businesses faced financial challenges in the last year, with credit availability or securing funds for expansion ranking as the top financial challenge.² While traditional banks are still a primary source of funding for small businesses, online lending is increasingly a major source of credit, particularly for smaller firms. Twenty-six percent of small firms applying for credit turned to online lending, compared to 21% of large firms. As online lending grows, it's critical to understand small business owners' opinions of alternative lending options.

A recent survey conducted by Greenberg Quinlan Rosner Research for Small Business Majority found that small business owners are worried about predatory lending and agree there should be stronger regulations on online lending. The poll was an online survey of 500 small business owners conducted between September 29 and October 4, 2017.

Specifically, the survey revealed that predatory lending is a particular concern for small business owners. An overwhelming majority of 74% feel that while online small business lending has opened up new sources of capital for small business owners, these lenders should be regulated to ensure small business borrows are protected from predatory practices. Nearly 3 in 10 respondents (29%) feel that these lenders need to be much more closely regulated. Additionally, an overwhelming majority of 8 in 10 small business owners reported that they are in favor of regulating online lenders to ensure interest rates and fees are clearly disclosed to borrowers. This support makes sense in light of the fact that 78% of small business owners feel that high interest, high fee products being offered to small businesses are a problem.

The poll additionally found 1 in 3 small business owners (33%) have sought capital or credit in the past 12 months. Of those small business owners who applied but did not receive a loan, nearly half (47%) reported that they were denied for having a credit score that was too low, while one-third (33%) reported their application was denied for non-credit reasons. We know from the 2016 Small Business Credit Survey that, for those firms that did apply for a loan, a 55% majority sought \$100,000 or less in financing.

The respondents were asked to rank factors taken into account when applying for a loan in order of importance. Small business owners reported that getting the best rate was the most important factor in applying for a loan, followed by a tie between the speed of obtaining a loan and the ease of the application.

Online lending is a fast-growing source of capital for small businesses, but as this survey makes clear, small business owners feel that it's crucial these lenders are required to operate in a safe, responsible way.

¹ <http://smallbusinessmajority.org/our-research/entrepreneurship-freelance-economy/opinion-survey-small-business-owner-opinions-access>

² <https://www.newyorkfed.org/smallbusiness/small-business-credit-survey-employer-firms-2016>

Main Findings

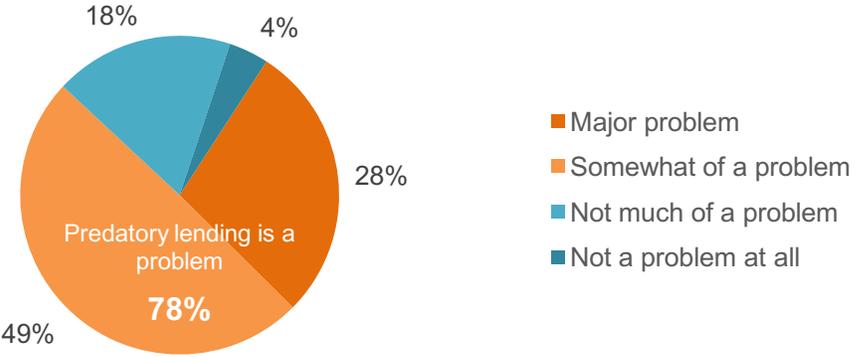
- **Predatory lending seen as a major problem by small business owners:** A vast majority of small business owners (78%) agree that high interest, high fee products offered to small businesses are a problem. Nearly 3 in 10 (28%) think such lending is a major problem.
- **Small business owners believe online lenders should be regulated:** Nearly 3 in 4 small business owners (74%) feel that while small business lending has opened up new sources of capital and credit for small business owners, they should be regulated to ensure small business borrowers are protected from predatory practices. What's more, an overwhelming majority of 8 in 10 small business owners reported that they are in favor of regulating online lenders to ensure interest rates and fees are clearly disclosed to borrowers.
- **1 in 3 small business owners have sought capital or credit in the last 12 months:** 33% of small business owners report having sought capital or credit in the last 12 months. A plurality of small business owners who have (47%) applied but not received credit report being denied because of a low credit score.
- **Favorable interest rates key factor for small business owners when applying for loans:** When asked to rank factors taken into account in applying for a loan, small business owners ranked getting the best rate as most important, followed by a tie between the speed of obtaining a loan and the ease of the application.

Small Business Owners Feel Predatory Loan Products Are a Problem, Favor More Regulation

Small business owners believe that predatory lending is a problem. More than three-fourths (78%) of small business owners agree that high interest, high fee products being offered to small businesses are a major problem or somewhat of a problem.

Figure 1: Small business owners agree predatory lending is a problem

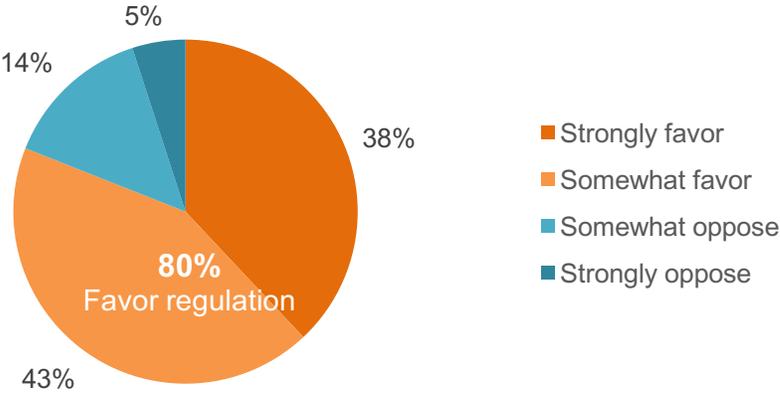
Do you think that high interest, high fee products being offered to small businesses is a major problem, somewhat of a problem, not much of a problem, or not a problem at all?



Given this belief about predatory lending, it’s no surprise that small business owners would favor more regulation on alternative lenders. Small business owners were presented with two statements about online lending and regulations and asked to pick which statement more closely reflected their views. Respondents overwhelmingly agreed that online business lending has opened up new sources of capital for small business owners, but they should be regulated to ensure small business borrowers are protected from predatory practices. Seventy-four percent of small business owners felt that this statement was closer to their views, while just 26% agree more with the statement that online small business lenders should be free of regulation so that they can continue to innovate without any restrictions. Among respondents, nearly 3 in 10 (29%) felt that online lenders should be regulated much more closely.

Noting that online business lenders are not currently regulated, survey respondents were presented with the statement that some people say online business lenders should be regulated to ensure interest rates and fees are clearly disclosed to borrowers while other people say the last thing we need is more government regulation. After reading these statements, 80% of small business owners responded that they were in favor of regulating online lenders. Nearly half (48%) of those respondents strongly favor such regulations, while only 5% strongly oppose such regulations.

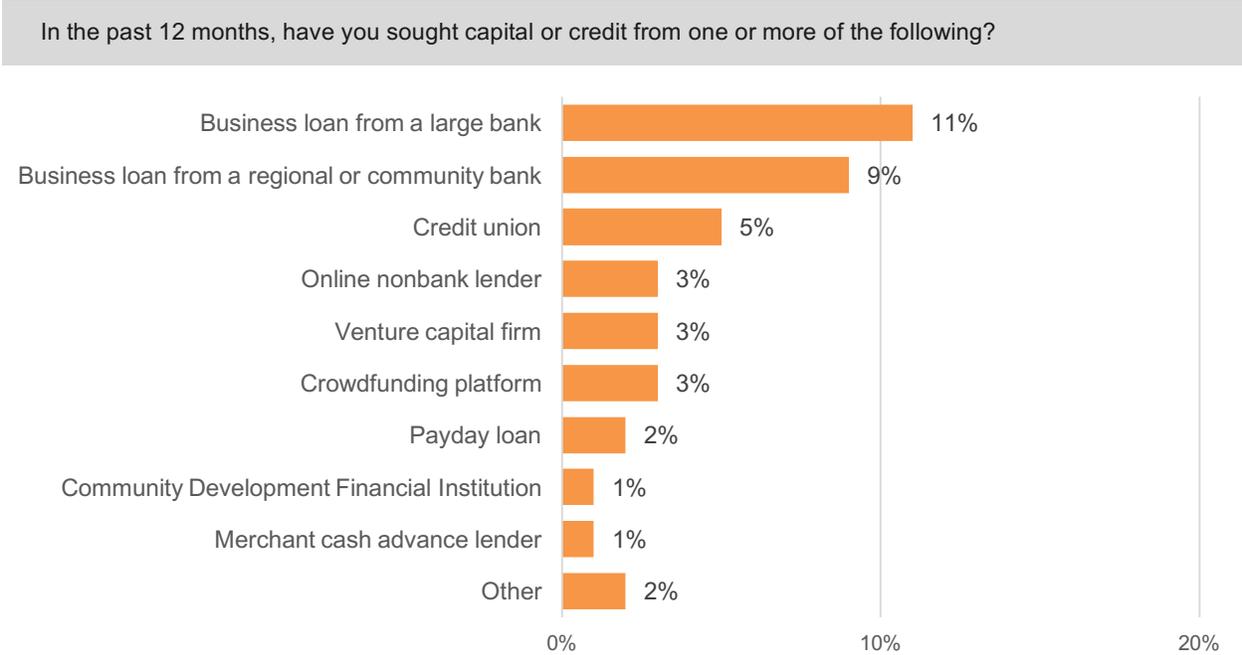
Figure 2: Small business owners favor stronger regulation of online lenders



Small Business Owners Seek Capital from Variety of Lenders

One-third of all small business owners have sought capital or credit in the last 12 months. This includes 11% seeking a business loan from a large bank, 9% seeking a business loan from a regional or community bank, 5% from a credit union and 3% each from online nonbank lenders, venture capital firms and crowdfunding platforms, with small percentages seeking loans at other institutions. A small percentage of respondents sought but did not obtain a loan. Of these respondents, nearly half (47%) report that their application was denied because their credit score was too low. One-third stated that their application was denied for non-credit reasons, while 22% reported that they were approved but decided not to take on new debt.

Figure 3: One-third of small businesses sought capital or loans in last 12 months.



Small business owners were also asked to rank a variety of factors by level of importance when applying for a loan, with one meaning the highest level of importance and four being the lowest level of importance. Small business owners felt strongly that getting the best rate was the most important factor, with an average score of 1.6. The speed of obtaining a loan and the ease of the application were tied for the next most important factors with an average rank of 2.7. The relationship with the lender was the least important factor among the list included in the survey.

Conclusion

Small businesses consistently report that access to capital is one of the most pressing issues for their business, with one-third of small business owners having sought capital or credit in the last 12 months. While online lending can provide an important avenue for small businesses to access needed capital, it's crucial that they are able to access transparent, safe and responsible lending options. They support stronger regulations to ensure that such loans do not take advantage of small business borrowers.

Methodology

This poll reflects an Internet survey of 500 small business owners nationwide with 1-99 employees. The poll was conducted by Greenberg Quinlan Rosner Research for Small Business Majority between September 29 and October 4, 2017. The margin of error is +/-4.4%.

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500 Small Business Owners Nationwide (Online)

1-99 Employees

September 29 - October 4, 2017

Q.1 Do you own your own business?

	Total
Yes	100
No	-
Not sure	-

Q.2 How many people are directly employed by your business or company, including yourself?

	Total
1	20
2-5	49
6-10	13
11-25	9
26-50	4
51-100	4
More than 100	-
25 or less	92
26 or more	8

Q.3 How is your business organized?

	Total
LLC	39
S-Corp	22
Sole proprietorship	22
C-Corp (i.e. you do not pass your business income to yourself personally)	8
Partnership	7
Other	2
Not sure	-

Q.4 In the past 12 months, have you sought capital or credit from one or more of the following?

	Total
Business loan from a large bank	11
Business loan from a regional or community bank	9
Credit union	5
Online nonbank lender	3
Venture capital firm	3
Crowdfunding platform	3
Payday loan	2
Community Development Financial Institution	1
Merchant cash advance lender	1
Other	2
I have not sought capital or credit	67
I have sought capital or credit, but did not obtain the loan	4

Q.5 (If sought but did not obtain loan) What were the reason(s) you were unable to obtain a loan? Please select all that apply. (42 responses)

	Total
Application was denied because my credit score is too low	47
Application was denied for non-credit reasons	33
After a favorable loan decision, I decided I did not want to take on new debt.....	22
Other/Not sure	-

Q.6 Thinking about online small business lending, which comes closer to your views:

Online small business lending has opened up new sources of capital for small business owners, but they should be regulated to ensure small business borrowers are protected from predatory practices.

OR

Online small business lending has opened up new sources of capital for small business owners, and they should be free of regulation so that they can continue to innovate without any restrictions.

	Total
Regulated, much closer	29
Regulated, somewhat closer	45
No regulation, somewhat closer	21
No regulation, much closer	6
Not sure	-
Total Regulation	74
Total No Regulation	26
Regulation - No	48

Q.7 Please rank the following by level of importance when applying for a loan. Rank each in order of importance on a scale of one to four where one means the highest level of importance and four means the lowest level of importance.

	1	2	3	4	Mean
Speed of obtaining a loan	8	32	40	20	2.7
Getting the best rate	66	18	11	5	1.6
Relationship with the lender	13	20	16	50	3.0
Ease of the application	13	30	33	24	2.7

Q.8 Currently, online business lenders are not regulated.

Some people say online business lenders should be regulated to ensure interest rates and fees are clearly disclosed to borrowers.

OR

Other people say the last thing we need is more government regulation.

Having heard this, do you favor or oppose regulating online lenders?

	Total
Strongly favor	38
Somewhat favor	43
Somewhat oppose.....	14
Strongly oppose	5
Not sure	0
Total Favor.....	80
Total Oppose.....	20
Favor - Oppose	61

Q.9 Do you think that high interest, high fee products being offered to small businesses is a major problem, somewhat of a problem, not much of a problem, or not a problem at all?

	Total
Major problem	28
Somewhat of a problem.....	49
Not much of a problem.....	18
Not a problem at all.....	4
Not sure	-
Total Problem	78
Total Not problem.....	22
Problem - Not.....	55

Q.10 Which ONE of the following categories best describes your business?

	Total
Professional services, incl taxes, accounting, IT, legal, finance, media	37
Retail.....	10
Construction and real estate	10
Healthcare and education or social services.....	6
Wholesale and distribution of goods.....	6
Restaurant/food service	4
Manufacturing	4
Leisure and hospitality.....	3
Other non-retail related services.....	20
Prefer not to say.....	-

Q.11 In what year were you born?

	Total
18 - 24	0
25 - 29	4
30 - 34.....	6
35 - 39	7
40 - 44.....	11
45 - 49	10
50 - 54.....	12
55 - 59	16
60 - 64.....	16
65 and over	18

Q.12 Generally speaking, do you think of yourself as a Republican, a Democrat, an Independent, or something else?

	Total
Democrat	23
Independent-lean Democrat	12
Independent	12
Independent-lean Republican.....	14
Republican	32
Other	2
Don't know/Prefer not to say	5

Q.13 Which of these categories best describes your total household income last year, that is in 2016?

	Total
Less than \$10,000	1
\$10,000 to \$19,999	1
\$20,000 to \$29,999	4
\$30,000 to \$49,999	6
\$50,000 to \$74,999.....	13
\$75,000 to \$99,999.....	16
\$100,000 to \$149,999.....	24
\$150,000 to \$199,999	12
\$200,000 or more.....	15
Prefer not to say.....	6
Under \$100,000.....	42
\$100,000 or more	51

Q.14 What is your race?

	Total
White.....	79
African American or Black	5
Hispanic or Latino	8
Asian or Pacific Islander.....	5
American Indian or Native American	0
Biracial or multiracial.....	1
Prefer not to say.....	1
Other	1

Q.15 What is your gender?

	Total
Male	60
Female.....	40

Q.16 In what state do you currently live?

	Total
AL.....	1
AK	0
AZ.....	4
AR	0
CA.....	12
CO	2
CT.....	2
DE	1
DC	0
FL.....	10
GA	3
HI	0
ID	1
IL.....	6
IN	2
IA.....	0
KS.....	1
KY.....	0
LA.....	1
ME.....	-
MD	1
MA.....	3
MI.....	3
MN	2
MS	0
MO	2

MT.....	0
NE.....	1
NV.....	1
NH.....	1
NJ.....	2
NM.....	1
NY.....	6
NC.....	3
ND.....	0
OH.....	2
OK.....	1
OR.....	1
PA.....	4
RI.....	1
SC.....	1
SD.....	-
TN.....	3
TX.....	7
UT.....	0
VT.....	0
VA.....	3
WA.....	3
WV.....	-
WI.....	2
WY.....	0