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# Uncertain Terms: What Small Business Borrowers Find When Browsing Online Lender Websites

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

# Uncertain Terms: What Small Business Borrowers Find When Browsing Online Lender Websites

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# Contents

# Executive Summary

This report discusses findings of a study conducted by the Federal Reserve Board and the Federal Reserve Bank of Cleveland to assess the information presented to prospective borrowers on small business online lender websites. The Federal Reserve has an ongoing interest in small businesses and their access to the credit they need to succeed and grow. Without adequate credit, they may underperform, slowing economic growth and employment. As the small business credit market evolves, prompting discussion about borrower protections, the experiences of small business owners are an important consideration.

Nonbank online lenders are becoming more mainstream alternative providers of financing to small businesses. These nonbank lenders offer small-dollar credit products including cash advances, lines of credit, and various types of loans, typically under $100,000. Borrowers can apply in minutes and receive funds in days or even hours, expedience made possible with data-driven technologies. The industry's growing reach has the potential to expand access to credit for small firms, but also raises concerns about product costs and features, and the manner in which these are disclosed to prospective borrowers.

This study considers the information that is important to prospective borrowers and the availability of such information on lender websites for the purposes of understanding and comparing product costs and features. The study includes a systematic analysis of the content on online lender websites, such as, where and how credit products' costs and other details are disclosed, how much product information is made available before website visitors are asked to supply the owner's personal or business information, and the extent to which visitors are tracked.

## Key Findings of the Study

- Online lenders varied significantly in the amount of information provided, especially on costs. Lenders that offer term loan products were likely to show costs as an annual rate, while others convey costs using terminology that may be unfamiliar to prospective borrowers. Still others, particularly those that offer merchant cash advances, provide no information at all.
- Among lenders that provide cost details, their websites varied in the presentation of information. Lenders commonly present lowest-available rates. Ranges or average rates, if shown, are most often found in footnotes, fine print, or frequently asked questions (FAQs).
- On a number of the websites examined for this study, prospective borrowers must provide the lender with personal and business information in order to obtain details about products' costs and terms. Lenders' policies permit any user-provided data to be used by the lender and other third parties to contact business owners, often leading to bothersome sales calls.
- Online lenders make frequent use of trackers to monitor visitors on their websites. So, even when visitors do not share identifying information with the lender, embedded trackers may collect this information, as well as data on how visitors navigate the lender's website and other sites they visit.

Several implications arise from these findings, and addressing these issues is all the more important as online lending becomes more mainstream. For one, the lack of standardization in product descriptions across lenders' websites was identified in previous focus group research to be a source of confusion for small business owners. Focus group participants reported challenges understanding product terms and making product comparisons, suggesting that standardized disclosures could support more informed borrowing decisions. Moreover, in cases where lenders do not provide up-front pricing details, businesses incur a "cost" when sharing their information to request a quote or start an application. In addition to exposing their business to a potentially burdensome number of phone calls and a flurry of marketing content, some lenders may run credit checks early in the process, even if the business owner is just shopping rates. Furthermore, businesses could be subjecting their data to use by lenders and other third parties.

Finally, the data collected from trackers may be matched with data from external sources to develop profiles of small businesses that shop for credit online. Small business advocates have voiced concerns that data collected surreptitiously through trackers may be matched with data from third-party sources to identify individual business owners. It is unclear whether these data are used to underwrite and price offers of credit.

# Overview of Small Business Online Lending

Online lenders are nonbank credit providers that serve small business borrowers using data-driven processes and technology. These lenders are increasingly becoming mainstream providers of financing to small businesses.[1] According to the Federal Reserve's Small Business Credit Survey (SBCS), an annual survey of small businesses, credit seekers are increasingly turning to online lenders. Over the past three years, the share of applicants that reported they applied at an online lender increased from 19 percent in 2016 to 24 percent in 2017, and to 32 percent in 2018.[2]

Customers of online lenders apply, are processed, underwritten, receive funds, and are serviced largely—though not entirely—online. While the structure and features of the credit products vary significantly, they generally fall into one of two categories:

- **Loans and lines of credit:** Some loans are term loans with fixed rates, multi-year terms, and fixed monthly payments. Other products have a less traditional structure, with fixed fees or total repayment amounts, and requiring weekly or daily payments. Equivalent annual percentage rates (APRs) typically range from 10 percent to 80 percent, and funds are often repaid in six to 18 months.
- **Merchant cash advances (MCAs):** MCAs entail the sale of future receivables for a set dollar amount, repaid with a set percentage of the business's daily sales receipts. For example, $50,000 in capital is provided in exchange for $65,000 in future receipts, repaid with automatic draws of 10 percent of daily credit card sales. Depending on the speed of repayment, equivalent APRs may exceed 80 percent or even rise to triple digits. MCAs are generally repaid in three to 18 months.

Lenders themselves vary in their business models, as some lend their own funds while others connect borrowers with investors. Note that for purposes of this report, lenders utilizing any of these business models and offering these types of products are referred to as "online lenders." Though some online lenders specialize in specific types of financial products, it is clear from Federal Reserve focus group studies that small business owners view these companies collectively as lenders, and their various products as loans. Payments processors are also active in lending, as they offer loans to the merchants that process payments through their online platforms, but for this analysis are considered separately.

Lenders assert that they are broadening access to credit, reaching borrowers underserved by traditional lenders. SBCS data suggest that smaller, newer, and minority-owned firms are more likely

[1] Because online lenders have no requirements to report lending volumes, there are no reliable figures on industry growth; however, top small business lenders that publish statistics have indicated steady increases in lending.

[2] The Small Business Credit Survey is an annual survey of employer and non-employer small firms administered by the 12 Federal Reserve Banks; see https://www.newyorkfed.org/smallbusiness/small-business-credit-survey-2018.

to apply to online lenders.[3] In addition, the data suggest medium- and high-credit-risk applicants have had greater success obtaining credit at online lenders than at traditional banks (approval rates of 76 percent versus 34 percent at large banks and 47 percent at small banks).[4]

Applicants that chose to seek financing at online lenders reported the most important factors in their choices were the speed at which they expected lenders to approve and/or fund their application, and their perceptions that they had a better chance of being approved at an online lender.

While more applicants are successfully funded at online lenders, the SBCS indicates satisfaction levels with online lenders are far lower than with traditional lenders (net satisfaction of 33 percent at online lenders versus 73 percent at small banks and 55 percent at large banks).[5] In 2018, 63 percent of online lender applicants reported challenges working with their lender, with more than half saying they experienced high interest rates and almost a third reporting concerns with unfavorable repayment terms.

Also, it is important to note that the Truth in Lending Act (TILA) rules that apply to consumer loan and credit products generally do not apply to business credit, so in practice, lenders have more flexibility in their disclosures of product costs and features.[6] And indeed, as discussed in the next section, qualitative studies suggest that small business owners struggle to understand the wide range of products offered by online lenders and the unfamiliar terminology that some lenders use in their product descriptions.

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[3] Ann Marie Wiersch, Barbara J. Lipman, and Brett Barkley, *Click, Submit: New Insights on Online Lender Applicants from the Small Business Credit Survey,* (Federal Reserve Bank of Cleveland special report, October 2016), https://www.clevelandfed.org/newsroom-and-events/publications/special-reports/sr-20161012-click-submit.aspx. As of this writing, an updated version of this report is forthcoming. See also, Mark E. Schweitzer and Brett Barkley, "Is 'Fintech' Good for Small Business Borrowers? Impacts on Firm Growth and Customer Satisfaction," Working Paper 17-01 (Federal Reserve Bank of Cleveland, February 2017), https://www.clevelandfed.org/newsroom-and-events/publications/working-papers/2017-working-papers/wp-1701-is-fintech-good-for-small-business-borrowers.aspx.

[4] Federal Reserve System, 2019 *Report on Employer Firms: Small Business Credit Survey,* https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-employer-firms-report.pdf. Approval rate is the share of firms approved for at least some credit.

[5] In the SBCS, net satisfaction is the share of firms satisfied minus the share of firms dissatisfied.

[6] The Truth in Lending Act is implemented through Regulation Z. Regulation Z does impose certain substantive protections applicable to credit card holders, including where the card is issued for business use. Alternative small business lenders, however, do not typically issue credit cards.

# About the Study

This study builds on prior work, including two rounds of focus group studies conducted by the Federal Reserve (see box 1) and quantitative findings from the SBCS.[7] The participants in these focus group studies—more than 80 small business owners—completed a "virtual shopping" exercise and compared mock products based on real online product offerings. These studies found that small business owners struggle to understand many of the products offered by online lenders and the unfamiliar terminology that some lenders use in their product descriptions.[8]

**Box 1. Background on Focus Groups Studies**

- Online focus groups with more than 80 business owners
- Two rounds of focus groups: 2014–2015 and 2017
- Participants were the business owner or financial decisionmaker
- Participants' small businesses:
  - Less than $2 million in revenue, fewer than 20 employees
  - In business at least two years
  - Included a variety of industries from across the United States
  - Had applied for credit in the prior 12 months (2017 focus group only)
- Topics:
  - Process for seeking short-term credit
  - Impressions of websites when virtually "shopping"
  - Evaluations of mock credit products and recommendations
- Key findings:
  - Participants found the websites appealing, but many noted information they sought was not readily accessible
  - They strongly disliked that information they considered important appeared in fine print or footnotes
  - Terminology used to describe the products was unfamiliar to some
  - They reported that aspects of the product descriptions were confusing or lacking sufficient detail
  - They found it challenging to identify interest rates or estimate costs
  - They made (sometimes mistaken) assumptions about the products based on past experiences with traditional bank loans

This present study considers the information that is important to prospective borrowers and the availability of such information on lender websites for the purposes of understanding and comparing

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[7] See Barbara J. Lipman and Ann Marie Wiersch, *Alternative Lending Through the Eyes of "Mom & Pop" Small Business Owners: Findings from Online Focus Groups* (Cleveland, OH: Federal Reserve Bank of Cleveland, 2015), https://www.clevelandfed.org/newsroom-and-events/publications/special-reports/sr-20150825-alternative-lending-through-the-eyes-of-mom-and-pop-small-business-owners.aspx; and Barbara J. Lipman and Ann Marie Wiersch, *Browsing to Borrow: "Mom & Pop" Small Business Perspectives on Online Lenders* (Washington: Federal Reserve Board, 2018), https://www.federalreserve.gov/publications/files/2018-small-business-lending.pdf.

[8] It is important to note that focus groups are designed to gather insights, not to measure incidence. Findings are not necessarily reflective of a wider population of small businesses.

product costs and features. The study includes a systematic analysis of the content on online lender websites, including:

- where and how credit products' interest rates, fees, repayment and prepayment terms, and other features are disclosed;
- how much product information is made available before website visitors are asked to supply the owner's personal or business information; and
- the extent to which data on visitors are collected, either passively through trackers or actively through inquiry forms.

This work was inspired by two previous efforts, one by the Federal Trade Commission (FTC) and the other from the Financial Conduct Authority, the United Kingdom's consumer protection agency.[9] Both studies examined how information was displayed on the websites of consumer online lenders, identifying the number of clicks needed to obtain certain product information and the font displaying that information. The FTC study also looked at the extent to which site visitors are tracked. These two studies focused on consumer lenders, while the study presented in this report focuses on small business credit providers.

Among the caveats to note, the scope of this study includes only the content and features of select lender websites. Therefore, the findings should not be considered representative of all websites in the industry. Importantly, the websites covered in the study largely overlap, but differ somewhat from those that the participants chose to view in the focus group studies. Note that the study does not explore what information lenders communicate directly to individual small business owners that seek credit. Finally, the study does not address provisions of formal offers of credit or loan agreements, and makes no attempt to assess whether the product terms described on lenders' websites match the terms in actual loan agreements.

## Methodology

The authors considered several factors in developing the list of 10 online lending companies included in the study. The list was compiled so as to include established lenders that report significant small business credit activity. In addition, the authors considered which lenders small business owners would encounter when conducting internet searches for small business lenders. To this end, the authors consulted numerous lists of the industry's largest lenders and conducted multiple keyword searches, identifying those lenders that appeared earliest in the search results. Finally, the authors attempted to ensure that a cross-section of lenders—based on business models and products offered—were included. Note that the list is not representative of the composition of the industry, which is highly fragmented and includes a significant number of small lenders, MCA providers, and broker websites.

9 This study builds on earlier work by the Federal Trade Commission, "A Survey of 15 Marketplace Lenders' Online Presence," June 2016, https://www.ftc.gov/system/files/documents/public_events/944193/a_survey_of_15_marketplace_lenders_online_presence.pdf and the U.K. Financial Conduct Authority, Payday Lending Market Investigation, "Review of the Websites of Payday Lenders and Lead Generators," appendix 6.4, February 2015, https://assets.publishing.service.gov.uk/media/54ebb75940f0b670f4000026/Appendices_glossary.pdf.

Separate from the 10 online lenders, the study reviewed the websites of two payments processors that extend loans to their merchant customers. These companies were considered separately because offers of credit products are made to existing customers, based on information that the company already has. Many of the considerations in the study, therefore, do not apply. Finally, for comparison purposes only, the authors identified five commercial banks that offer online applications for small business loans, and reviewed the presentation of product information on those websites.

The study itself involved a systematic review of the content on lenders' websites, ways in which their products are described, and the processes through which lenders collect information from prospective small business borrowers. The authors reviewed 15 different aspects of the content, documenting in standard forms the language used and where and how the information is displayed. The specific variables reviewed are described in the following section. In addition, the study utilized a Chrome browser extension to identify and quantify the number and types of third-party trackers employed by the websites.

As noted earlier, this study is intended to capture the information that prospective borrowers encounter when researching and comparing credit products. Therefore, throughout the report, the content described is not associated with the names of specific lenders.[10] Although the information shown is publicly available, company names have been anonymized as this analysis is intended to describe typical practices in the marketplace rather than to single out practices of individual companies.

## Considerations for the Study

To ascertain which aspects of product descriptions should be considered in the study, the authors consulted various sources.

**Focus group studies:** The participants in the two rounds of focus groups (outlined in box 1) described the information they were looking for when they completed a virtual shopping exercise. Participants identified the following details as being important to them as they searched for information on online lenders and the funding products these lenders offer:

- application process and information required by the lender for the application
- approval requirements/qualifications
- interest rates, fees, and other charges
- repayment terms (frequency, length of term, method of repayment)
- maximum available loan amounts

[10] Online lenders considered in this study include BFS Capital, CAN Capital, Credibly, Fundation, Funding Circle, Kabbage, Lending Club, National Funding, OnDeck, and Rapid Finance. Payments processors include PayPal Working Capital and Square Capital. Commercial banks include Bank of America, Live Oak Bank, TD Bank, US Bank, and Wells Fargo. The order in which the companies are listed here does not correspond to the identifiers used in subsequent sections of this report.

- time to approve application and speed of funding
- trust cues (customer reviews, Better Business Bureau ratings, etc.)

**Truth in Lending Act:** While, as noted earlier, TILA rules generally do not apply to business credit, the requirements provide a frame of reference for disclosure of credit products. Additionally, because the business owners using online lenders tend to be smaller "mom & pops," they are very consumer-like in their approach to financing.[11] Most have limited financial expertise and, more often than not, do not have a dedicated chief financial officer on staff.

Although not intended for small business credit, TILA provides useful guidelines for the advertising of consumer credit products, including what's shown on websites. The requirements ensure the costs of various credit products are comparable since financing charges must be shown as an APR. The guidelines also help to ensure important details—like repayment terms and fees—are described clearly, so consumers are not misled by statements in advertising.

**FTC dot.com guidance:** The website analysis considers not only what is presented, but how it's presented. The FTC's dot.com guidance says disclosures should[12]

- be truthful; not misleading or unfair,
- use understandable language,
- be readily noticeable to consumers and not require scrolling,
- use the same font size as other text,
- be located near advertising claims they qualify, and
- not relegate necessary information to "terms of use."

Taking the focus group findings, the TILA rules, and the FTC guidance into account, the authors developed a framework for a systematic review of the description and display of 15 items (see box 2).

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[11] See Small Business Credit Survey, *2019 Report on Employer Firms,* Data Appendix, Employer Firms by Revenue, https://www.fedsmallbusiness.org/survey.

[12] Federal Trade Commission, *.com Disclosures: How to Make Effective Disclosures in Digital Advertising* (March 2013), https://www.ftc.gov/sites/default/files/attachments/press-releases/ftc-staff-revises-online-advertising-disclosure-guidelines/130312dotcomdisclosures.pdf.

**Box 2. Elements Included in Systematic Website Review**

- Lenders' appeal to prospective customers
  - Main marketing pitch
  - Trust cues, such as customer reviews, Better Business Bureau ratings, etc.
- Application process
  - Approval requirements and borrower qualifications
  - Information required to initiate an application
  - Application form and identification of product
  - Impact of an inquiry on credit score
  - Speed of approval and funding
- Products, rates, fees, and features
  - Level of detail in product descriptions
  - Terminology used to describe interest rates and additional costs and fees
  - Repayment terms
  - Prepayment savings or penalties
  - Maximum loan amounts

This review tracked language used on websites, the level of detail provided, and the position and appearance of text for key information.

# Themes and Observations from Online Lender Website Analysis

## Online Lenders Seek to Engender Trust

While online lenders have grown and become more mainstream, the industry is still relatively new and faces challenges in attracting customers. One contributor to those challenges is the unfavorable views of the industry held by some prospective borrowers.

During the focus group studies, small business participants were asked for their initial impressions of "online lenders." Some participants had positive perceptions. They thought of these lenders as being faster, more efficient, and more willing to work with small business borrowers. Some thought that, since they have less overhead, online lenders would be more affordable. However, a larger share of participants had negative impressions, associating online lenders with high costs and interest rates. Some of their responses indicated a lack of trust in online lenders, while others mentioned unwanted calls, mail, and email.

Online lenders have positioned themselves as trusted alternative providers of small business credit, advertising their faster, more convenient processes and their product options for firms with low credit scores. The content on the lenders' websites reflects their awareness of borrowers' perceptions of the industry. Indeed, focus group participants reported having more positive impressions of online lenders after visiting some of the lender websites during the virtual shopping exercise.

The headings, taglines, and other prominent text on lenders' websites convey their focus on speed and simplicity ("Get a quote in minutes," "minimal paperwork"), while also highlighting their flexibility and willingness to work with small businesses with less-than-perfect credit ("High approvals," "All credit scores are considered").

Some focus group participants were impressed with sites that offer comparison charts, but a review of these charts suggests many lack specific content. Lenders give themselves check marks for fast funding, easy process, and flexible approval criteria, shown side-by-side with unfavorable marks (Xs or blanks) they attribute to nonspecific competitors ("banks" or "other lenders"). In most cases, these charts simply reiterate companies' sales propositions, while relaying minimal details about product features or costs that would be useful to a prospective borrower who is comparison-shopping.

This analysis finds that online lenders seek to engender the trust of businesses visiting their websites. This was most evident in the display of badges and logos of various business intermediaries—such as the Better Business Bureau, Trust Pilot, and similar organizations. Mentions of their companies in the media also were often featured on the pages, as well as ratings and endorsements from outside organizations. Five of the 10 lenders also referenced a relationship with an FDIC-insured bank. This strategy does appear to reassure some visitors:

"I'm not sure why I trust them, but I do. Maybe because they state they are BBB accredited."

"I appreciated how they address concerns about their credibility up front with their BBB and TrustPilot rating."

While reviews, ratings, and testimonials were valued by some focus group participants, a scan of online lenders' reviews and ratings revealed very little specific information about products; however, these are the details that are important to borrowers, based on responses from focus group participants. Most reviews were positive, but limited to customers' early interactions with their lenders. The majority either commented on positive experiences with sales representatives, simple applications, or quick turnaround; they offered little insight on the products themselves or experiences with the lenders after receipt of funding.

## Inquiries Lead to Collection of Prospective Borrowers' Data

All of the online lenders' websites prominently feature links and buttons prompting visitors to "apply now" or "get a quote." These links connect visitors to pages on the websites with online forms to input their personal and business information. These forms typically serve as an initial inquiry with a lender, either requesting pricing information or initiating an online application. They collect contact information from prospective borrowers, and in many cases, financial details—including annual revenues, credit scores, and account balances. In at least one case, the lender requests that the applicant grant access to the business's Quickbooks account to expedite the application process.

**Table 1. Select details on application processes from online lender websites**

| Online lender | Common application form for all products | Initial inquiry impact on credit score* | Consent to use of contact information |
|---|---|---|---|
| Company A | Not applicable, only one product offered | Soft pull: "won't affect your credit score" | By clicking "continue" on lenders "get a quote" form, user gives consent |
| Company B | Common application; fine print on application form notes user is not applying for a specific product | Soft pull: "will not impact your personal credit score" | By clicking "continue" on application form, user gives consent |
| Company C | Common application; all "get quote" links for all products lead to same form, same URL | Soft pull: "no credit impact to get a quote" | By clicking "continue" on "get my quote" form, user gives consent |

| | | | |
|---|---|---|---|
| Company D | Not applicable, only one product offered via online application | Credit check: FAQs specify that credit report is pulled for business owner | By clicking "get started" on application form, user consents to privacy policy (includes permission to contact) |
| Company E | Common application; all "apply now" links lead to same form/URL, regardless of page or product | Soft pull: "no impact on credit score" | Website's terms of use specifies that user expressly consents to be contacted |
| Company F | Common application; "get started" links on all product pages lead to same form/URL | Soft pull: prequalification "does not negatively impact your credit score" | Prequalification form includes authorization to contact |
| Company G | Not applicable, only one product offered | Soft pull: "won't impact your credit score" | Website's terms of use specifies that user expressly consents to be contacted |
| Company H | Common application; all "apply now" links lead to same form/URL, regardless of page or product | Not specified; terms and conditions authorizes company and affiliates to request credit report | By clicking "get started" on application form, user consents to terms and conditions (includes permission to contact) |
| Company I | Common application for two products, though application link appears only in the menu and not with product descriptions | Not specified; privacy policy specifies that the company may obtain credit reports | Website's privacy policy specifies that users consent to be contacted |
| Company J | Common application for two types of loans and MCAs; "apply now" links on both product pages lead to same form/URL | Credit check; "personal credit check is part of the approval process" | User must check box indicating agreement with privacy policy; permission to contact also described in a footnote on application form |

Note: Although all information shown is publicly available, company names have been anonymized, as this analysis is intended to describe typical practices in the marketplace rather than to single out practices of individual companies.

* A "soft pull," also known as a soft inquiry, is a credit check performed by a lender to pre-qualify a prospective borrower. Unlike hard credit inquiries, soft pulls do not appear on customers' credit reports and do not affect their credit scores.

Source: Authors' analysis of company websites, as of August, 2019.

A majority of the companies utilize a common application, that is, a single form for all products. For example, the "apply now" link shown with a lender's business loan description, and the "apply now" link shown with their MCA description both lead to the same URL and application form. In such a case, a prospective borrower may complete an application seeking a business loan. The concern is that this may be a potential source of confusion for borrowers who think they may be applying for one product, but are offered another product with different terms than what they were seeking.

Once a user completes a lender's application or inquiry form, the lender begins steps to verify the creditworthiness of the user and to establish terms of any credit offer that may be extended.

Several companies advertise that their initial credit check will not affect the user's credit score, often specifying that only a "soft pull" is done upon receipt of the application or inquiry. Other companies state, typically in Terms of Use or FAQ pages, that a credit check is part of the application process, without reference to a soft pull.

## Lack of Information Prompts Solicitation

Lenders vary significantly in the level of upfront information they provided to prospective borrowers. On some sites, product descriptions feature little or no information about the actual products, but instead focus on the ease of applying and qualifying for funding, the speed at which applications are approved, and the array of uses for loan proceeds. Details that were important to focus group participants—rates, fees, and repayment information—were absent from several of the websites. In some cases, details like loan terms were found on Terms and Conditions pages or in FAQs. Note that the lack of detail described here is typical of lenders that cater to higher-risk borrowers and those that offer MCAs.

As noted earlier, on the websites of several online lenders included in this study, visitors must enter their personal and business information in order to obtain information about the lenders' products. Some focus group participants that encountered such sites during the virtual shopping exercise were frustrated by the lack of information:

> "All these sites are a lot of clicking around and not getting very far without providing information I'm not ready to provide. I don't want to be solicited for the rest of my life just because I was looking for some information."
>
> "I hoped to see rates, terms and what I qualified for. [The site] wouldn't provide any information without an email or contact info."
>
> "I couldn't get info unless I signed in. I wanted to know how much interest, and if I paid back quickly, was there lower interest."

Several participants cited concerns about lenders' requests for information about their businesses in online forms and the prospect of receiving solicitations as a result of providing this information. Indeed, the lenders themselves are somewhat transparent about their intent to use the information collected to make contact with the business. As shown in table 1, all of the companies include some provision for users to grant permission to the lenders and lenders' affiliates to contact them using any information the lender collects. On some sites, the consent is described explicitly on the application form; on others, consent is implicitly given, as described in the sites' privacy policy or terms of use pages. The consent provisions cover purposes that include communications regarding applications and loans, but also marketing and sales of additional products.

More than three-quarters of the focus group participants reported receiving some type of contact from online lenders in the past, either in the form of email, mail, phone calls, or offers. These contacts, particularly the phone calls, were bothersome to the participants:

> "I get these calls and emails almost every day. The worst part is they almost never take 'no' for an answer."
>
> "I received 20+ calls a week after I secured a loan with [an online lender]."
>
> "I get calls twice a week and emails all the time. You just want to shut it off and not be bothered by it."

## Online Lender Websites Vary in Cost Information Provided

Some sites provide more details about the features of their financing products than others.[13] However, even on websites with more information, specific details about repayment, fees, and other items important to focus group participants were sometimes missing or not readily displayed. For example, one lender featured in prominent bold print the "as low as" rate for a loan product, but in a footnote, disclosed a far higher average rate for the product. A few lenders relied on footnotes to convey key details about products, especially costs (see table 2).

[13] This analysis covers companies' business loans, merchant cash advances, and lines of credit. Certain specialized products offered by some lenders, such as equipment leases and industry-specific loans, are not included.

**Table 2. Select details from online lender websites**

| Online lender | Location of cost information | Product cost description* | Additional fees |
|---|---|---|---|
| Company A | On home page in box, details in footnotes | **Business loans:** rates described as a **Total Annualized Rate**; fixed rates ranging from 5.99% to 29.99% | Origination fee: 1.99% to 8.99% of loan amount |
| Company B | On home page in plain text, details on product pages in feature text and in footnotes | **Term loans:** costs shown as **simple interest** starting at 9% for short-term loans and Annual Interest Rate **(AIR)** starting at 9.99% for long-term loans (both rates exclude fees).<br><br>**Lines of credit (LOCs):** costs shown as Annual Percentage Rate **(APR)** (starting at 13.99%, weighted average is 32.6%) | Origination fee: up to 4% of loan amount; monthly maintenance fees on LOC |
| Company C | Not provided | **Loans and lines of credit: no rates** or product costs are described<br><br>**MCAs: factor rates** usually between 1.14 and 1.48 | No information |
| Company D | On Rates and Terms page in feature text, details in footnotes | **Loans:** costs are described as a monthly fee determined by the **fee rate**, which ranges from 1.5% to 10% | Third-party partners may charge up to an additional 1.5% per month |
| Company E | Not provided | **Loans and MCAs: No rates** or product costs are described on the website | 3% origination fee (loans), $395 admin fee (MCAs) |
| Company F | On product page in plain text | **Working capital loans and MCAs: factor rates** as low as 1.15<br><br>**Business expansion loans:** interest rates starting at 9.99% (not an APR) | Set-up or underwriting fee: 2.5% of loan total; Admin fee up to $50/month |
| Company G | On home page in feature text, details in tables on Rates and Fees page | **Loans:** costs shown as **fixed annual interest rate**, ranging from 4.99% to 26.99% | Origination fee: 0.99% to 6.99%; late payment fee: 5% of missed payment |
| Company H | Not provided | **Loans and MCAs: No rates** or product costs are described on the site | No information |
| Company I | Not provided | **Loans and MCAs: No rates** or product costs are described on the site | No information |
| Company J | Not provided | **Loans and MCAs: No rates** or product costs are described on the site | No information |

Note: Although all information shown is publicly available, company names have been anonymized, as this analysis is intended to describe typical practices in the marketplace rather than to single out practices of individual companies.

* A factor rate is a rate used to calculate a borrowing fee, often expressed as a percentage of the borrowed amount and typically shown in decimal form.

Source: Authors' analysis of company websites, as of August, 2019.

The placement of product cost information on lenders' websites varies from lender to lender. In some cases, cost information—typically the lowest-available rate—is conspicuously displayed in an upfront manner that would be highly visible to a user visiting the website. A few lenders prominently advertise their costs in "feature" text, that is, in font that is larger than other text on the page, often in bold or in an accent color. Lenders also may display the information as part of graphic features like tables and boxes. By contrast, other lenders provide cost information in a way that is less visible to users of the websites—for example, in plain text or in footnotes at the bottom of a page.

Focus group participants had mixed reactions to footnotes. Many were frustrated by fine print, and said they thought lenders were trying to conceal information. Conversely, other participants appreciated the additional information provided in the footnotes, after being unable to successfully locate such details on some of the websites they encountered during their shopping exercise.

> "Any company hiding things in fine print and buried in paperwork should not be trusted."
>
> "Fine print [has] what I want to see. They're being more upfront and aboveboard about the reality of their loans."

In some cases, footnotes and fine print contain information on fees that companies typically charge for their products, aside from interest charges. These fees are most often for product origination, but others include administrative fees, account maintenance fees on credit lines, or fees charged by partners. Fees may be disclosed as a range of rates, flat monthly or one-time charges, or charges "up to" a set percentage. Some lenders do not describe any fees on their websites.

The website analysis found significant variation in the terminology used to explain products' costs. As shown in table 2, two lenders provide costs in the form of an annual rate that excludes fees; a third describes costs in APR terms for only one product, their line of credit. Several lenders describe costs for at least one of their products using nontraditional terminology, such as a "factor rate," "fee rate," or "simple interest." Four lenders provide no rates or costs for any of their products. For traditional term loans, product descriptions tend to be somewhat detailed, while descriptions for MCAs include little or no information about the actual costs and repayment terms.

The variation in the product cost descriptions was confusing to focus group participants. They found it challenging to determine products' actual costs and to compare products when descriptions used unfamiliar or varying terminology.

"It is difficult [to compare when] they are using different models and different terminology."

"They don't like to use the word 'interest,' and they dress it up in other ways to conceal the real cost of the loan."

"I don't know what a 'factor rate' is."

"Full disclosure, like on credit cards or mortgages… is what is necessary. They need to state the actual APR."

Participants noted that the varying product descriptions provided no common basis for cost comparisons, and several suggested that APR would be helpful for that purpose. In fact, determining the equivalent APR on some products may be challenging, given the non-standard terminology and structure of products offered by online lenders. Table 3 presents APR-equivalents for a common scenario in which $50,000 is repaid in six months according to the terms and rates promoted on the lenders' sites.

**Table 3. Estimated APRs for select online products**

| Rate advertised on website | Product details | Estimated APR equivalent |
|---|---|---|
| 1.15 factor rate | • Total repayment amount $59,000<br>• Fees: 2.5% set-up fee; $50/month administrative fee<br>• Term: none (assume repaid in six months)<br>• Daily payments (assume steady payments five days/week) | Approximately 70% APR |
| 4% fee rate | • Total repayment amount $56,500<br>• Fee rate: 4% (months 1–2), 1.25% (months 3–6)<br>• Fees: none<br>• Monthly payments<br>• Term: six-month term | Approximately 45% APR |
| 9% simple interest | • Total repayment amount $54,500<br>• Fees: 3% origination fee<br>• Weekly payments<br>• Term: six-month term | Approximately 46% APR |

Source: Authors' calculations, based on product descriptions on company websites.

The non-standard terminology also proved challenging for focus group participants trying to compare online offerings with traditional credit products. For example, when asked to compare a sample short-term loan product with a 9 percent "simple interest" rate to a credit card with a 21.9 percent interest rate, most participants incorrectly guessed the short-term loan to be less expensive.[14] For another sample product—a $50,000 MCA with a factor rate of 1.2 and total repayment of $60,000—focus group participants were asked for their guesses of an interest rate, if the funds were repaid in one year. Interestingly, although all participants were presented with exactly the same information about the product, they responded with a wide range of estimates, from 10 percent to over 50 percent.[15]

## Payment Arrangements Are a Source of Confusion

All companies described the frequency of required payments for their products, ranging from daily to monthly payments. Fixed payments were most common for term loans. Payments on MCAs are typically variable, as the payment amount usually fluctuates with sales volume. A few companies provided no information on the payment structure for one or more products offered.

As shown in table 4, companies provide limited details on the impact of prepayment. A few note that by prepaying, the customer incurs savings on interest (as they would with a traditional loan). Other companies advertise that some borrowers may qualify for prepayment discounts on their remaining financing charges. Still others provided no details regarding charges or savings associated with early repayment.

**Table 4. Select details on product repayment from online lender websites**

| Online lender | Payment amount and frequency | Term length (loans only) | Prepayment |
|---|---|---|---|
| Company A | Fixed monthly payments | 1–5 years | Interest savings |
| Company B | Fixed daily or weekly payments | 3–36 months | "Potential interest reductions" |
| Company C | **Loans:** fixed daily, weekly, or monthly payments<br>**MCA:** variable daily or weekly payments based on sales volume<br>**LOC:** daily or weekly payment (fixed vs. variable not specified) | 3–60 months | Not specified |

[14] See Lipman and Wiersch, *Browsing to Borrow*, 18 (sample Product B). According to the product description, Product B has a 3 percent origination fee and requires weekly payments.

[15] See Lipman and Wiersch, *Browsing to Borrow*, 18 (sample Product C). Note that although interest owed on this product is 20 percent of the principal value, the effective rate, assuming daily payments and steady sales, would be on the order of 40 percent.

| | | | |
|---|---|---|---|
| Company D | Monthly payments in set amounts established at loan origination | 6–18 months | Savings on monthly fees implied |
| Company E | **Loans:** fixed daily payments<br>**MCA:** variable daily payments based on sales volume | 6–18 months | Discount available on loans repaid within 90 days of origination |
| Company F | **Loans:** fixed daily or weekly payments<br>**MCA:** variable daily payments based on sales volume | 6–24 months | Not specified |
| Company G | Fixed monthly payments | 6 months to 5 years | Interest savings |
| Company H | **Loans:** daily or weekly payments (fixed vs. variable not specified)<br>**MCA:** variable daily payments based on percentage of sales | 4–24 months | Discount available on loans repaid within 100 days of origination |
| Company I | **Loans:** biweekly payments (fixed vs. variable not specified)<br>**LOC:** fixed monthly payments | Up to 4 years | Interest savings |
| Company J | **Loans:** fixed daily or weekly payments<br>**MCA:** variable daily payments based on percentage of sales | Up to 18 months | Not specified |

Note: Although all information shown is publicly available, company names have been anonymized, as this analysis is intended to describe typical practices in the marketplace rather than to single out practices of individual companies. MCA is a merchant cash advance and LOC is a line of credit.

Source: Authors' analysis of company websites, as of August, 2019.

Early repayment on products with fixed payback amounts was particularly confusing for focus group participants. Using the same sample MCA described above—an advance of $50,000 with a repayment amount of $60,000 paid back with a small percentage of daily credit card sales—participants were asked the impact of higher-than-expected sales on the repayment of the advance. While most participants correctly noted that repayment would occur more quickly, their expectations regarding the effect on their interest rate were varied:

> "I would definitely plan to [pay] the loan back much sooner and have a lesser repayment amount."
>
> "The stronger [your] sales the faster you could pay off the loan which would in effect lower the interest rate."

Importantly, some participants, accustomed to traditional consumer products, expected that their interest or financing charges would be reduced by repaying quickly. In fact, faster repayment would increase the effective interest rate and would not reduce the $60,000 amount owed.

# Comparing Online Lender Websites to those of Banks and Payments Processors

To provide a frame of reference for the findings from the analysis of online lenders' websites, the authors conducted similar systematic reviews of two other groups of lenders: (1) payments processors that provide small business credit, and (2) commercial banks that offer their own small business credit products online.

**Payments processors:** This study looked at the two major payments processors that offer credit to their small business customers. Though these companies are among the largest online lenders, they are excluded from the set of online lenders analyzed in this study for several reasons. First, these companies lend exclusively to their existing customers by making customized offers to their merchants based on the data they already collect on sales processed through the platforms (sales data as well as inflows and outflows to and from the merchants' accounts). Therefore, key elements of the website analysis undertaken for this study are not relevant, as the companies already have their customers' data. Furthermore, these lenders communicate product information to their customers through the credit offers themselves; therefore, the content on the websites serves a less critical role in informing the prospective borrower.

That said, issues around the comparability of products are relevant for the payments processors, as would-be borrowers may have a need to compare offers of credit from these companies to products available at other online lenders, or to other options such as credit cards.

The payments processors, like many other online lenders, use non-standard cost structure and product terminology. In some ways, their products are hybrids of MCAs and loans. Like an MCA, the products feature a fixed repayment amount, and further, the credit is repaid through swipes of daily sales receipts, so payment amounts vary with sales volume. However, like a term loan, these lenders require loans to be fully repaid in a set number of months, regardless of sales activity. The lenders may require periodic supplemental payments if sales are slow.

Focus group participants were shown a sample product like that offered by one of the payments processors. For the sample loan, the borrower chooses a "repayment percentage," that is, the portion of their daily sales devoted to repayment, and borrowing costs are set accordingly.[16] The terminology and the corresponding change in cost were confusing to many focus group participants. Some appeared to equate the repayment percentage with an interest rate.

[16] Lipman and Wiersch, *Browsing to Borrow*, 16 (Product A).

"It doesn't make sense that if the fee is 30%, the [repayment] amount is lower."

"What are the monthly installments?"

"The interest rates are not published so you have to calculate yourself."

"I feel like they are trying to hide the true cost of the loan. Just tell me the % interest."

"I'm not interested in paying that high of fees. The minute I saw 30% I was turned off."

**Commercial Banks:** Again for comparison purposes, this study considered the manner in which credit products' costs and features are communicated on bank websites. For a suitable comparison, the five banks identified for the study offer small business credit and an online application process. Their online products are loans and lines of credit, generally unsecured, and typically up to $100,000.[17]

In their advertising, these banks placed far less emphasis than online lenders on easy credit, and as a general rule, the minimum qualifications described were more stringent. In addition, the banks downplayed their speed of funding and processing times. The two banks that do reference funding times specify a week to 10 days.

As with online lenders, the analysis finds considerable variation across the bank sites in the level of detail provided. Three of the five banks provided cost information for their credit products; two provided none. Among the three that did give more thorough product information, the products tended to be traditional term loans with fixed monthly payments, and were described using familiar terminology. Costs were described using an annual interest rate, such as prime plus a fixed percent. Similar to online lenders, the banks featured their "as low as" rates, and some cost details were conveyed in footnotes and FAQs.

[17] Websites were reviewed in August, 2019. One institution offers secured loans and lines of credit only, and one offers unsecured loans up to $250,000.

# Tracking Website Visitors

As stated in the introduction, a goal of this study was determining the extent to which online lender website visitors are tracked. In addition to the collection of customer data through the use of forms, described earlier, lenders have robust tools for tracking and identifying customers. Some of these are generally imperceptible to customers, though a few of the small business focus group participants expressed concerns about their privacy during the virtual shopping exercise and in their prior experiences:

> "I was wondering if my IP address was being tracked because I was getting solicitations through my email while researching."
>
> "I just feel violated because I never applied for any loans. It's a scary feeling wondering how these people get your information."

Companies use "trackers" to collect data on prospective customers. When installed on a lender's website, trackers collect identifying information about website visitors and attempt to match them to known businesses or owners, using data from a variety of sources including Facebook, Amazon, Twitter, LinkedIn, and other common web platforms.[18] The profiles may contain information like company name, address, and internet activity, as well as more sensitive data including financial information and owner demographics. So, even when visitors do not share identifying information with the lender, embedded trackers may collect this information, as well as data on how visitors navigate the lender's website and other sites they visit. Such details can then be shared with data aggregators to build a more complete profile.

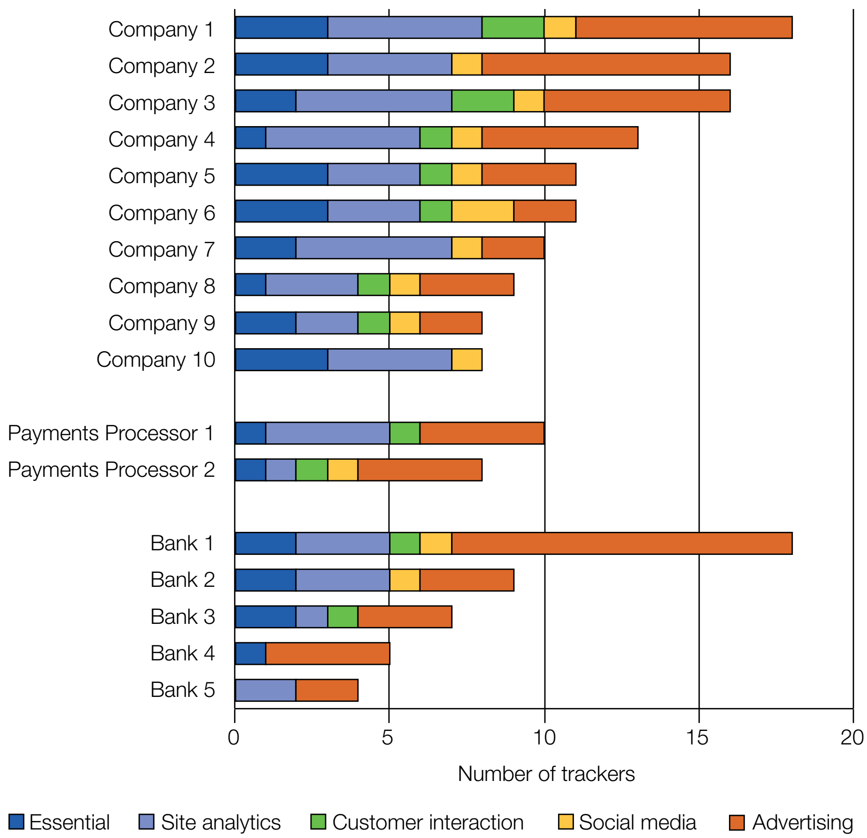
The analysis of trackers on lender websites utilized Ghostery, an open source browser extension, to measure the extent to which visitors are tracked on websites using embedded trackers. The Ghostery tool analyzes every network request (e.g., clicks) generated on a specific web page and then matches the outgoing URL patterns against a database of known trackers to determine which trackers are present on the website (see figure 1).[19] The analysis finds that third-party trackers are commonly used by both online lenders and banks, though the online lenders were more likely than

[18] See, for example, Wolfie Christl, *Corporate Surveillance in Everyday Life: How Companies Collect, Combine, Analyze, Trade, and Use Personal Data on Billions* (Vienna: Cracked Labs, June 2017), https://monoskop.org/images/b/ba/Cracked_Labs_Corporate_Surveillance_in_Everyday_Life_2017.pdf. See also, Katharine Kemp, "Getting Data Right," Center for Financial Inclusion at Accion (blog), September 27, 2018, https://www.centerforfinancialinclusion.org/getting-data-right.

[19] The analysis does not include websites' use of so-called "zero day trackers," which are designed to be undetectable.

the banks included in this study to have trackers in greater numbers. Each of the 10 online lender websites used at least eight trackers, and most used several in each category.

**Figure 1. Use of trackers on select online lender and bank websites.**




Note: Key identifies bars in order from left to right. Company names have been anonymized; the order in which they are listed here does not correspond with the order in tables 1, 2, and 4, or with the order in footnote 10.

***Essential*** includes tag managers, privacy notices, and technologies that are critical to the functionality of a website.
***Site analytics*** collects and analyzes data related to site usage and performance.
***Customer interaction*** includes chat, email messaging, customer support, and other interaction tools.
***Social media*** integrates features related to social media sites.
***Advertising*** provides advertising or advertising-related services such as data collection, behavioral analysis, or retargeting.

Source: Federal Reserve Board analysis, as of September, 2019

Lenders use trackers much the way other companies do—to collect as much information as possible about each visitor in order to customize visitors' experiences and reach them through targeted advertising. However, privacy experts as well as small business advocates have suggested that data collected through trackers may be used along with the other alternative data (such as cash flow, invoicing, and shipping information) that online lenders employ in their algorithms to underwrite and price offers of credit.[20]

[20] See Christl, *Corporate Surveillance in Everyday Life*, 53. Also see FinRegLab, *The Use of Cash-Flow Data in Underwriting Credit* (September 2019), https://finreglab.org/wp-content/uploads/2019/09/FinRegLab-Small-Business-Spotlight-Report.pdf.

# Implications and Policy Questions

As discussed earlier in the analysis of product descriptions on companies' websites, the online lenders varied significantly in the amount of information provided, especially on costs. Lenders that offer term loan products were likely to show costs as an annual rate, while others use nontraditional terminology to convey costs. Still others, particularly those that offer MCAs, provide no information at all. That said, virtually all the sites focus on the ease of applying and qualifying for funding, the speed at which applications are approved, and the array of uses for loan proceeds.

The study also found that, in many cases, prospective borrowers must furnish information about themselves and their businesses in order to obtain details about product costs and terms. This information, as well as other data collected on website visitors through the use of trackers, may be used to build profiles of small businesses.

These practices, coupled with relatively low satisfaction rates shown in the SBCS, raise concerns that some borrowers may be opting for credit products that are not well-suited for their businesses—even in some cases, putting their businesses at risk.[21]

## Merits of Standardized Disclosures

The debate about small business borrower protections and product disclosures has accelerated recently with California enacting truth in lending legislation applicable to small business online lenders—an action being considered by other states.[22] At the national level, legislators, regulators, and policy advisory groups continue discussions about whether and how to address concerns in small business lending.[23]

Also, some in the online lending industry itself continue their efforts to promote standardization of disclosures. In 2016, several lenders in coordination with a nonprofit organization, launched the SMART Box disclosure initiative, aimed at developing a format for voluntary disclosures in loan documents that would present total cost of the loan, APR, and other repayment terms. The effort

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[21] Record of Meeting, Community Advisory Council and the Board of Governors (October 5, 2018), 7, https://www.federalreserve.gov/aboutthefed/files/cac-20181005.pdf: "The Council notes a growing trend among small business owners getting into trouble with expensive online small business loans, such as merchant cash advances (MCA). Oftentimes, the pricing and structure of these loans [are] deliberately obscured, and small business owners take on debt burdens and fees that they are not able to sustain."

[22] California SB-1235, "Commercial Financing Disclosures," was signed into law on September 30, 2018. As of this writing, it has not yet been implemented as the California Department of Business Oversight is adopting regulations. The New York and New Jersey legislatures are considering similar bills.

[23] See, for example, U.S. House of Representatives, Committee on Small Business, "Financing through Fintech: Online Lending's Role in Improving Small Business Capital Access," hearing held October 26, 2017, https://www.govinfo.gov/content/pkg/CHRG-115hhrg27255/html/CHRG-115hhrg27255.htm. See also, the Bipartisan Policy Commission report *Main Street Matters: Ideas for Improving Small Business Financing* (August 2018), https://bipartisanpolicy.org/report/main-street-matters-ideas-for-improving-small-business-financing/.

is voluntary and, as of this writing, an updated version of the SMART Box is being considered.[24] It is the case, though, that the required inclusion of APR for products is a point of contention in the industry.

Some lenders argue APR should not apply to small business products with variable payments and no fixed term, such as MCAs. However, small business advocates suggest that APR is important for cost comparisons with other products, including consumer products like credit cards and home equity lines of credit that are often used to finance small businesses. Furthermore, APR is a familiar metric. Prospective borrowers generally are aware from their experiences with consumer products what constitutes a high APR.

It seems apparent that clearer descriptions of products and, in particular, their costs would position small business owners to make better borrowing decisions. That said, research suggests that borrowing decisions are not always driven by costs. For example, while among the focus group participants, “best price” was the most commonly mentioned top factor in their choice of lender, “quick and easy loan application process,” “a lender I know and trust,” and “likelihood application will be approved” were primary considerations for others. Similarly, the SBCS finds that several factors—including the likelihood of approval and speed of the decision and funding—are more important than cost for online lender applicants in their choice of a financing source. Therefore, clearer information—in the form of standardized disclosures—will not necessarily alter the decisions of some small business borrowers about whether and where to obtain financing.

Even so, the clear disclosure of product costs and terms could help many of these business owners make informed decisions about the amounts they borrow, cash flow management, early repayment, and repeat borrowing. Focus group participants reacted favorably to a sample disclosure box with total cost of capital, the term, payment frequency, APR, average payment amount, and basic information about prepayment.[25] Their comments indicated that such information, presented clearly and in a standard format, would be very useful for product comparisons. A majority of participants commented that APR was among its most helpful details. The repayment amount, frequency of payments, and prepayment penalties were also cited as important.

*When* small business borrowers receive disclosures may be nearly as important as *what* is disclosed. Nearly all focus group participants said they would want clear upfront information to help them make borrowing decisions, stating they would want the level of detail that is provided in the disclosure as early as possible in the process. Many remarked that presenting the product rate and terms at loan closing is too late, as they have already invested time in the application process, shared their financial data with the lender, and may have already committed the expected loan proceeds.

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[24] Two of the lenders included in the website analysis are SMART Box adopters and both present sample SMART Boxes on their websites, showing rates that are nearly the lowest offered by these lenders. According to their websites, one lender provides the SMART Box at the time credit is offered; the other includes it with the loan agreement. For more information on the SMART Box Model Disclosure Initiative, visit http://innovativelending.org/smart-box/.

[25] Lipman and Wiersch, *Browsing to Borrow*, 22.

To this end, much as technology has introduced efficiencies and increased the speed of lending, technology-based solutions may be leveraged to inform borrowers early in the process. For example, one focus group participant suggested lenders make interactive tools available on their websites that would enable small business owners to input their information (e.g., credit scores, monthly sales, years in business) to see—upfront—the average interest rates and terms for a business like theirs.

In sum, greater transparency and early disclosure would enable business owners to determine which lenders offer products with rates and terms they would find acceptable, and would encourage prospective borrowers to explore additional financing options and make informed comparisons.

## Privacy Concerns and Business Owners' Data

This study considers the level of information about products and their costs that small business owners can access without providing the lender with information about themselves or their businesses. Indeed, there is a "cost" to the business incurred by sharing their information to request a quote or start an application. In addition to exposing their business to a potentially burdensome number of phone calls and a flurry of marketing content, some lenders run credit checks early in the process, even if the business owner is just shopping rates. A few of the focus group participants voiced concerns about this practice and the potential impact on their credit scores. Furthermore, while many of the participants in the most recent focus group study appeared resigned to the potential for data breaches with any financial services provider, some were particularly concerned about the security of their information with online lenders. As a practical matter, providing personal and business information to numerous lenders simply for the purpose of comparison shopping is certainly not ideal from the standpoint of preserving a prospective borrower's privacy. Such concerns may limit a prospective borrower's willingness to explore all their options.

The analysis in this report on the use of website trackers by small business lenders only scratches the surface on issues regarding privacy and use of data collected. Though the use of trackers is widespread in many industries, there are unique issues associated with the use of data by lenders. Little is known about online lenders' underwriting algorithms and the data they employ. Small business advocates have voiced concerns that data collected surreptitiously through trackers may be matched with data from third-party sources to identify individual business owners. It is unclear whether these data are used to underwrite and price offers of credit.[26] However, this potential use of alternative data raises questions about how such practices could amplify—or perhaps mitigate—concerns about fair lending.

## Questions for Future Research and Analysis

The lack of data on small business lending remains a critical issue that hampers the ability of lenders and policymakers to make informed decisions about lending and policy. Nonbank lending is a particular blind spot, as comprehensive data for the online lending industry are not available.[27]

[26] See Christl, *Corporate Surveillance in Everyday Life*, 53.

[27] Section 1071 of the Dodd Frank Act amended the Equal Credit Opportunity Act to require that lenders gather information on credit applications made by small businesses, and women- or minority-owned businesses. As of this writing, this requirement has not yet been implemented by the Consumer Financial Protection Bureau.

Policymakers would benefit greatly from data on outcomes for small business credit applicants and borrowers to strengthen understanding of the impact of being denied credit, and how firms fare after securing credit—either from traditional or alternative lenders. Such insight would benefit organizations that serve small businesses and the business owners themselves, as they make borrowing decisions.

For online lenders, specifically, greater insight is needed on the information disclosed to prospective borrowers throughout the entire application process, that is, beyond the shopping phase. As small business applicants receive actual offers of credit from online lenders, are they given clear information that is sufficient to support decisionmaking?  Furthermore, are the credit agreements, presented to business owners at closing, explicit about costs and terms?  Do borrowers have a clear understanding of their obligations and any possible penalties?

With public attention now focusing on the potential benefits of standardized disclosures, it is worth further exploring the impact on borrowers of more transparent, comparable, and complete information. Could greater transparency improve borrowers' satisfaction levels and their trust in online lenders?  And ultimately, how would better information help owners make the borrowing decisions that best help their small businesses thrive and grow?

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