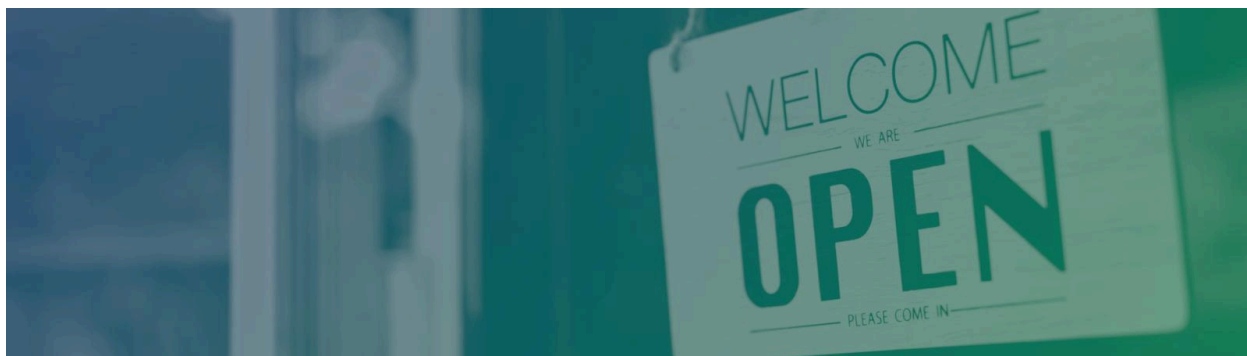




Advancing Innovation and Fairness in Small Business Finance

— Driving Innovation in Small Business Lending

Hosted by the Responsible Business Lending Coalition and the Aspen Institute's Business Ownership Initiative, March 24, 2025

About

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<https://www.aspeninstitute.org/events/advancing-innovation-and-fairness-in-small-business-finance/>

Panelists

- Phil Goldfeder, Chief Executive Officer, American Fintech Council
- Jacob Haar, Co-founder and Managing Partner, Community Investment Management
- Mickey Konson, Chief Executive Officer, Quantum Financial
- Luz Urrutia, Chief Executive Officer, Accion Opportunity Fund

Transcript

Joyce Klein (00:04)

I'm going to introduce our moderator and let him take it away. Our moderator for the panel is Jacob Haar. Jacob is the co-founder and managing partner of Community Investment Management or CIM, which is an institutional impact investment manager. CIM provides strategic debt capital to demonstrate and scale responsible innovation in lending for underserved communities in the US and in emerging markets as well. And

Jacob focuses on setting the strategic direction of CIM and leads the firm's investment activities, centering on partnerships with innovative lenders and fintech companies that also demonstrate a commitment to responsible, transparent and borrower-centric lending practices. Jacob is also on the board of the Responsible Business Lending Coalition, and I would be remiss if I didn't thank Community Investment Management for sponsoring today's event. He's also on the board of directors for Impact Capital Managers. So thank you, Jacob.

Jacob Haar (01:07)

Thank you so much, Joyce. It's great to be here today and thank you so much to our panelists that I have a pleasure of speaking with today. We have here three leaders from the innovative financial space. I'll start all the way to my right with Mickey Konson from Quantum Lending, Phil Goldfeder with American Fintech Council and Luz Urrutia from Accion Opportunity Fund. So thank you so much for being here. Community Investment Management is a private credit asset manager that really started out of a lot of the work that we were doing in our prior careers in global microfinance. And much of the challenges that Governor Barr discussed with us today were very present following the great financial crisis.

And in thinking about why, to his point on we have great business formation, we have growth, but capital has not kept pace, part of that is thinking about the lending models that we have that really are still in that 1970s capital-intensive type of model. Whereas the businesses that we have, particularly smaller businesses and those especially that are founded and run by women or people of color, generally tend to be smaller and services businesses as well. And so that's where cash flow based underwriting and other types of tools are so important to get access to that capital. Community Investment Management partners with various different innovative lenders to try to bring capital to that marketplace. And from our work overseas, we had identified that there were in fact many gaps in this ecosystem where we have great opportunities to bring financial access into the small business lending marketplace.

But there is certainly a crossroads of whether or not we're going to do that in a responsible customer-centric way or in a way that, as Louis said, creates innovative ways to extract capital out of communities. And so for us, being part of the Small Business Borrower Bill of Rights and the Responsible Business Lending Coalition has been

a cornerstone of the type of work that we've done here. So I would love to ask you to talk about yourselves and your organizations. Mickey, if we could start with you. I know you've had a long career in banking focused on small business lending, and I've also been at the helm of a number of fintech companies, two of which have been part of the Responsible Business Lending Coalition. So we'd love to hear a little bit more about your background and your career in small business lending.

Mickey Konson (03:50)

Sure. Thank you Jacob. And thanks everyone. It's great to be here with a group of people who care about entrepreneurship and growth and keeping a level and safe playing field. So as Jacob mentioned, I've been in small business and small business lending and entrepreneurship for a long time. I started my career in the US at Capital One very early on as they were starting their small business initiatives. And so spent more than a decade there helping build out small business credit card and lending and ultimately incorporating the banking institutions that were acquired there. And since have gone on to co-found a company called StreetShares that was focused initially on veteran-owned businesses and eventually expanded that to be a platform that served hundreds of community banks and credit unions and helped them make small business lending more accessible to their customers.

And I currently am the CEO of a company called Quantum Lending Solutions, which is actually a roll up of a number of small business lenders, including a CDFI. And so our current focus is really on helping to approve small business owners that are declined by their banks or other partners. And so we operate as a second look lending to try to expand credit, but we also work with banking institutions to help them be better at their small business lending and to provide some of the newer tools like open banking, AI and ML and cash flow underwriting to allow them to be better at serving their small business, small business customer base.

Jacob Haar (05:28)

Great, thank you. And Luz, similar to Mickey, you've had a long track record in the financial services space, both working in various different parts of the sector's fintechs and now running Accion Opportunity Fund. Could you tell us a little bit about your work and also your background.

Luz Urrutia (05:44)

Sure. So good afternoon and thank you all very much for including me and for this great event. It's always great to see old friends, not from age, but from time that I've known them and meet new ones. So I'll share a little bit of the reason why I do the work that I do is because I really believe in building a more inclusive financial system, one that meets business owners where they are and provides them with capital, knowledge, resources and tools that they need to chart their own path. And my first experience with the US banking system was a denial. I applied for my first \$500 credit card and I got turned down by the bank that I was working for. And the reason is because I am from Venezuela, so I didn't have a credit history and my immigrant status meant that I was invisible and un-bankable.

And I knew that that was not an experience just to me, but it was something that millions of immigrants and other underserved communities were facing. So I took that denial and got the resolve to go and advocate for underserved communities. Fast-forward 21 years, I formed, co-founded a bank in Atlanta, El Banco de Nuestra Comunidad to help support immigrants, both consumers and small businesses and provide them access to affordable loans and support networks and coaching. And so my career hasn't been entirely in the for-profit sector. This is my first time in a non-profit CDFI. It's probably the hardest job I've ever done in my life, but definitely the most rewarding.

And the reason I wanted to come to a non-profit is because I felt that if we started with a mission, could we build an organization that was financially self-sufficient, scalable, and responsible? And we're not there yet, but we're almost there. So Accion Opportunity Fund, we exist to advance economic mobility by providing affordable loans, business advising and support networks for underserved small businesses that have been left behind by the mainstream financial system. In addition, we also provide coaching. We've done about a billion dollars, over a little billion dollars in loans, and we've helped about 4 million small businesses around the country. Because the combination of capital network and knowledge is really what drives economic mobility and financial freedom for small businesses in this country.

Jacob Haar (08:10)

Great. Thank you Luz. Phil, with your work at American Fintech Council, can you tell us about your perspective as a standards-based organization working with innovative fintechs to drive a more inclusive economy? And I know you have a deep background also in financial services policy. We'd love for you to just share a little bit about your background and your current work.

Phil Goldfeder (08:30)

This is quite the tough group to follow, I'll tell you that for sure. So I'm a recovering politician, and aspiring technologist banker. I'm not quite sure yet where I'll end up, but I spent many years working for Senator Chuck Schumer before running for office and serving in the state legislature in New York, before thinking about what the next thing for me was going to be. My district when I represented in the state legislature got devastated during Hurricane Sandy, and insurance was kind of the easy thing to focus on. It was really the banking, which became the secondary, almost the thing that got forgotten, but was just as impactful to the communities who were trying to recover after the hurricane.

And so when I left public office, the idea of getting involved in financial technology was important, but not just fintech for fintech's sake, responsible fintech, and that word responsible is just as important as the second word. And when I came to the American Fintech Council, as Jacob just talked about, it was a standards-based organization. So what does that actually mean, a standards-based organization? Credit to Louis and I saw Armen Meyer was here somewhere before - we founded the organization together about five years ago. The idea was to put as much effort and energy into our community advisory board into what does responsible mean as to how quickly can we grow our membership?

And most organizations, you think about how can we grow and become more powerful and more influential in terms of our ability to move policy? We felt that we didn't want to just simply move policy, we wanted to move policy the right way. And you can't do that when you operate in an industry bubble. And so creating number one, a community advisory board, and number two, building out the standards in concert with your membership, you're able to build a foundation that you can stand on for years and years to come and feel proud that you're not just innovating for the

purpose of offering another product, but offering the right product to the right consumer, the right small business when they need it, and the one that best meets their needs.

Jacob Haar (10:40)

Thanks, Phil. I mean this is a great panel because we have all of you representing the companies that are out there doing this innovative work of trying to redefine how small businesses can get access to capital. And would love to understand a bit more about the types of innovations that you are ultimately working on that you see are effective at solving pain points for customers for whom the system is not working great. And how essentially that digital transformation that we're seeing in society commerce, how that's enabling new pathways to be able to solve this access problem and bring a more inclusive approach to small business lending. And Luz, would love to start with you. I know we were talking recently and you were telling me that Accion Opportunity Fund is now a digital-first CDFI and that you've really reoriented the organization with that focus, and it'd be great if you could tell us why, how far into that journey are you, and ultimately what does that represent for a community development financial institution like Accion Opportunity Fund?

Luz Urrutia (11:59)

Sure. When I came here seven years ago, I realized that to serve the size of businesses that we serve and do it at scale and do it in a financially sustainable way, we had to be a digital-first CDFI. And because it's very important to innovate at different key points in that customer's life cycle. And so we launched a digital platform to meet customers where they are on their devices across different time zones and in multiple languages. But one key component of this is the ability we've also really much built from scratch, which we got from Lending Club and we have just improved and improved, is AI machine learning models to offer differentiated credit underwriting depending on the size of business. So we're pulling things like your standard consumer and commercial euro that you would expect. We're also using cashflow data and other data from industry consortiums.

And so what we're finding is that with our new credit scores and our new credit modeling, we are able to approve businesses that we would've declined previously. We call those the overlooked or the underestimated small businesses. And we now are

turning down businesses that are riskier that we now have data that perhaps we would not have had before. And what's happened to our operation is that we have streamlined processes and reduced processing times by 40% while being able to increase approval rates by 100%. And so that combination obviously brings a lot of effectiveness because more people get more capital and more efficiencies for us. The other thing that we've done is alongside our lending capabilities, we have created integrated coaching and learning that we are matching with our lending pipeline. And so for businesses that don't get a loan, they can be redirected into the learning path.

And for businesses that do get a loan, they get additional tools and resources so that they can run their businesses in a more effective way. Also, traditional CDFIs, we have term loans. And so what we're seeing is a lot of businesses need more than that, and we're launching an equipment leasing product to help give businesses the ability to define what their payment and terms want and can be, and also to give them the ability not to have to make a large down payment. For example, we are a big lender into the trucking industry, sole owner operators, and today we have a term loan that we finance. But when you look at other kinds of equipment, industrial ovens like for bakeries and pizzerias or specialized equipment for arborists, we find that small businesses, they know how much money they can pay you, and they know a term, but they don't have the cash up front.

So that's part of how we're thinking about innovating on the product side. And when you think about where are we? Are you all familiar with baseball? Of course you are, right? I would say we're probably at the bottom half of the fourth inning of a baseball game. And so we've done four innings, we have five to go. We've learned so much. We've made a lot of mistakes and we've done things that worked out really well that are helping us scale, that reduce our cost and provide more capital to these underserved small businesses and combining it with learning, which I think is critical. But I think we all have a lot to learn in doing this business responsibly, financially self-sufficient, and at scale.

Jacob Haar (15:41)

That's great. And Mickey, in terms of the small business lending, which you all do at Quantum Lending, you mentioned the partnership with banks and how you're able to assist banks in doing small business lending where otherwise they've struggled. And it's

one of the themes we've seen going really back to the savings and loan crisis in the eighties, the bank consolidation and inability to essentially lend to small businesses within the community, especially as Governor Barr said, looking at the stats around businesses that are owned by women or people of color. So we'd love to understand where you are innovating, but also where you're not innovating in terms of having this long career in small business credit and how you are able to bring that innovation to help bring banks back to the table in lending to small businesses.

Mickey Konson (16:32)

Great, thanks, Jacob. So I think when it comes to small business lending for banks, I think that what banks love in the small business entrepreneur space is they love their small business customers, but what they really love is their small business customers' deposits. And what they also love is their small business customers' fee-based products. So treasury management wires, right? \$40 wires, we'll do that all day long, that's fantastic. But small business lending is a difficult product within a bank. It's often squeezed between highly scaled automated low margin, but very large consumer lending or really bespoke high margin commercial lending. And so small business lending is a really difficult product to make work, and it is capital inefficient for banks, especially when it's a line of credit. And so it's a product or a segment that banks both like but have trouble with.

And so one of the things that frankly I love doing is helping banks and other institutions, credit unions, I spent a long time working with credit unions, helping them to get better at lending to small business owners. And one of the things that I found quite interesting is we will show banks the profile of customers that we will approve after they have declined them. The thing that they're often shocked by is it's the same profile as the customers they're approving. So the reason for that is that we are bringing loose mints in some of these cloud-based computing. We almost don't even think that's an innovation anymore, but it's such a powerful innovation, AI machine learning techniques, and open banking has had a massive impact on our ability to really look through the financials into their cash flow. And then just general digital technology that has allowed us to kind of understand it at scale and very efficiently what a small business owner looks like.

And often they're overlooked or underestimated as Luz said. And so we're just able to evaluate businesses better for credit products. And so I think that is specifically how we operate with banks. And again, we do about twice as many loans for banks' balance sheets as we do for our own balance sheets. We're very proud of doing that as well as helping them to access their customers better. And in many ways, I think this should be the golden age of small business lending because of all the advancements. So it's not quite there yet for many reasons I think, including standards and I think the items that Governor Barr talked about. But I think we're tapping into that and we're working with a lot of partners to try to help expand access in the space.

Jacob Haar (19:36)

Great. Thank you. Phil, as an industry organization, you've got this broad membership and you really represent in many ways the spectrum that is the financial technology space, but you've done it in a way that narrows in on responsible fintechs. Could you tell us about some of the innovations and types of models that you have within your membership that are working on bringing financial inclusion to small businesses in the US?

Phil Goldfeder (20:04)

So it's funny, to what Luz said, not all fintech is created equal and not all consumers are created equal. And the beauty of technology is it enables us to do different things than maybe we did 10, 15, 20 years ago. In that you're able to look at consumers differently, and when you do it the right way and you're coming at it from a place of responsible lending, then you can actually provide that consumer what they need when they need it. And so I think that was a great point. I think for us over the last two years, the strategic point of growth has been really building out. I would argue just as fintech companies are innovative banks, banks who are embracing innovation, who are offering things like embedded finance and are partnering with fintech companies to offer various kinds of programs.

What I have found most interesting in these really innovative banks is that when you look, literally to what you just said, when you look at their small business lending program, you start to say that literally, they're the most advanced bank using the most antiquated systems to lend to small businesses. And we talk about this a lot over the last 18 months, how we fintech-ize our small business services, not just as external

companies who are taking over from the banks, but what we've tried to do is merge those two worlds. I think people are always surprised when we're the American Fintech Council and they learn almost 25% of our membership is actually community banks. And so what we're trying to do is continue to merge those two worlds to continue to enable the services, but try to do it with a combination of the traditional institutions with the new and innovative approaches to how to do it. And so the question just becomes how do you move that from product vertical to product vertical and continue to do it in a safe way?

Jacob Haar (21:52)

And picking up on that theme of essentially looking at where banks have retracted and also how we potentially can bring them back in. I think all three of you are seeing partnerships with banks, various different relationships with banks, where ultimately the goal is providing both bank capital and non-bank capital to be able to serve the various needs of fintechs. But I think one of the things that Joyce and Governor Barr were talking about was the rise of non-bank lending and alternative lending. We've certainly seen this with significant growth of options for small businesses, which is great.

Competition and options is certainly what we all want for an inclusive system that works well for those small business customers, but also there are some risks associated with that as well. And Luz's Opportunity Fund had done research back in 2016 in your Unaffordable and Unsustainable paper that looked at the average surveyed small business loan that was provided by an online lender had a 94% APR. And that was a little while ago, nine years, so has that changed? And how do we see this marketplace evolving, where we have a whole spectrum of lenders, from banks providing SBA loans to potentially merchant cash advance and other players providing things that may even be higher than that 94% average rate.

Luz Urrutia (23:25)

So for the record, predatory lending is a systemic problem that we have in this country for small businesses, and it hasn't gotten any better since that study. Perhaps it has gotten worse, but I think that is because there's another systemic issue, which is lack of access to capital. The gap in the US for small business loans is \$100 billion annually for small businesses that are accessing less than \$100 thousand. So 80% or so of small businesses go with their financing needs being met, that means that they have to resort

to get capital wherever you can find it. And so we have been doing some more recent research on our own. And I'll tell you, and when I looked at this, I told the folks in our team, I said, "Are you sure? Can you please go back and validate these numbers?" So in the last year we've been looking at a number of small businesses and refinancing their debt.

We've been doing this for years. That's where part of that study came from back that we published in 2018. In the last year, we took 86 businesses that we refinanced or high cost debt, merchant cash advance and other loans, and we saved them \$395,000. That's an average of \$4,600 per month per business. One single business was able to save, we went from like \$27,500 to about \$7,000. That was a 75% decrease in their monthly payment that was just destroying their cash flow. So things that are unregulated, if you want to expect something, you have to inspect it. If nobody is inspecting and there's no rules and regulations that are requiring lenders to disclose what they're doing to small businesses, you're bound to find the things that we are finding day in and day out. And that study that you mentioned, that was the average of 94%, the highest was 358% APR.

Jacob Haar (25:36)

I'll speak for looking at many online small business lenders, we see fantastic lenders that are losing out on customers when they're offering a much lower interest rate because of some of the things that Governor Barr talked about, disclosure of say a factor rate, as opposed to an apples to apples type of comparison. And Mickey, at Quantum, you're really filling a gap in the market. Could you talk a little bit about that gap and the role that you see yourself playing?

Mickey Konson (26:10)

Sure. So as I mentioned before, we partner with banks and other financial institutions. And so we think about ourselves as a near bank lender. So we're not trying to offer five-year loans, we're not trying to solve a vehicle purchase or anything like that. Our focus is on trying to help small businesses with working capital needs that last several quarters, which I think is the biggest part of the small business lending need. Most small businesses do not have a five-year planning horizon. And the reality is most new formations in the small business space are services-based. They don't have assets. They're not particularly focused on building a business that has very high fixed capital

requirements. And so we really try to focus on solving shorter-term needs. Of course, there's MCAs or Merchant Cash Advance, which is really focused on solving about a ninety-day need.

And those, they do have a place, I think in the ecosystem. Oftentimes one ninety-day loan turns into 10 ninety-day loans. And so that is where I think the problem arises. And it may not be properly disclosed, but our focus is really trying to fill that gap in the middle between short-term lending needs, which is really just cash flow management in the very short-term, especially if you actually have a merchant platform and you're waiting for receipts from your bank and the long-term need, and that's really where we tend to focus. So because we work with banks, we try to stick to the same disclosure requirements as banks. And banks, if they offer a small business loan, they'll often, or most often, they'll actually hold those to the same requirements as the consumer lending platform. And so that tends to work really well. It's really harder I think, in the MCA and some of the other alternate spaces from a disclosure perspective.

Jacob Haar (28:06)

Well, I was going to say, Phil, seeing this spectrum of product players, how have you as an organization anchored in this standards-based approach that you all take, how have you thought about defining what responsible small business lending looks like as you make decisions around membership and advocacy?

Phil Goldfeder (28:33)

It's the reason why organizations like the Aspen Institute and the Responsible Business Lending Coalition are so important. Because unfortunately, especially sort of when you're talking about legacy institutions who've been around and legacy processes have been around for a long time, and all of a sudden you have this onslaught of innovators who are all trying to offer a better product faster, more efficiently, quicker. But if we don't differentiate who's doing what and what kind of products they are and how often are they being cycled, and as you just mentioned, it's not a ninety-day, it's oftentimes times five or six or seven. And the debt continues to grow and grow and there's really no pathway out if we don't differentiate, unfortunately, as was mentioned earlier as well, the good products that are available don't necessarily get used because number one, it's hard to understand and differentiate what they are. And number two is

I think small businesses, like consumers, will tend to go with what they know. I know that guy, I know he's not offering me the same terms.

I know he's probably not offering me a fair loan, but that's what I know and that's where I'm going to tend to go. And so it's critically important that we come together. The only way to really do it is that if you bring industry together, together with consumer groups, together with regulators to define what the standard looks like, because the challenge is you can't expect small businesses and consumers to understand it if the industry is fighting with each other and if regulators are fighting with each other about how the best way to regulate. And so really uniforming and unifying these entities to come with a clear path forward is sort of step one. Getting to the small business is probably step 26. We've got a lot of work to do on the back end. And a huge credit to the work that Luz is doing, is hopefully getting us a step closer to where the small business number one, understands the product they're taking. And then number two is getting the best possible deal that's out there and the best possible offer that's out there.

Jacob Haar (30:36)

And in terms of the role of responsible lending standards and how we're able to pull this together, we'd like you to share a little bit about where we are right now. I think there's been some, as Governor Barr mentioned, we have some laws that are on the books, but there's also a different kind of operating environment that's out there where many of the companies that we see that are doing responsible lending, the way that they are essentially marketing their products is with a loan calculator. So they put a calculator on their website so they can help a small business owner decipher the various different products that are out there and make an informed decision. So I think that when we look at the space and where there is maybe room for both self-imposed standards as an industry as well as working strategically on a state and federal level, what is the role of responsible lending policy? Just open that up.

Phil Goldfeder (31:34)

If I could just say it was interesting, and it was an eye-opening experience for me through the PPP program for those who went, obviously were in the small business space through the pandemic, and you realize that every business is built differently in that there were some who didn't know what they pay in a lease or how long their lease is for, or what they normally pay for goods or even what their payroll is without sitting

down for days to try and really calculate what their business looks like. And so small businesses are struggling to keep their small business open and to keep their small business thriving, which means that on the policy front, we can't add more burdens. We've got to remove some of those burdens and find new ways to remove some of those burdens and create clearer data points that enable them to make clearer decisions.

It's not that we're not going to make any progress. So the challenge we have though is right now, and again as we talk about not just what's happening in the federal government, but state to state in the absence of clarity from the federal government, you find that every state tends to implement their own rules and their own guidelines, and it creates issues when you have regional-based businesses where it creates literally state-to-state challenges. And so again, uniformity is key. We say this a lot, clarity is key. For the small business, they're struggling with what they're struggling with. We have to make sure that we're providing and we're working to provide as much clarity in the policy and the regulation as possible.

Luz Urrutia (33:03)

I mean, of course, we believe that regulation and standards play a key role in creating guardrails to ensure that innovation and small business lending is done responsibly and it's done right. And we believe that innovation and regulation are not at odds. They go hand in hand, they work together. And I would say that that's why, were we one of the first to join, I wasn't here, to join the RBLC?

Jacob Haar (33:36)

Yes.

Luz Urrutia (33:37)

And sign the Small Business Borrower Bill of Rights and advocate for the small business Truth in Lending and section, by the way, when I die my tombstone is going to be, "She fought for section 1071." I've been fighting for that since 2010 because I believe, again, those all things bring clarity and visibility and the idea that this is not the right thing to do. I mean, this would give so much for lenders and products, visibility to everybody to see how responsibility can be done in a good way and how businesses value and

benefit from that. So more clarity would mean better solutions for the industry, not worse solutions.

Mickey Konson (34:22)

Yeah. One of the things that is wonderful about the fintech space is there's a lot of innovators. And what typically innovators are doing is they're bringing technology and finance and they're optimizing. And this is a wonderful thing for the industry, but I think one of the things that I've learned over my career in finance is that if you follow your nose, you'll end up in dark corners. And so one of the things that I have found to be very helpful is bright lines. So bright lines in my own organizations that I've run, they help to constrain the problem solving optimization space to keep you kind of in the safe box for your customers ultimately and also for you.

And so while I don't think that in an industry we'll all agree on what the bright lines are, we should at least agree that we should tell our customers what our bright lines are, and we should do so with a language that they understand and can compare. And so I think one of the things that I just love about the work that's represented on this stage and in this room is that the idea of transparency should not be controversial. The idea of being able to disclose to our customers what they're paying for in a language that they can understand that is familiar to them should not be controversial. And so that's where I think my own personal stance has been and where we are as a company.

Jacob Haar (35:43)

Yeah, it's great to see essentially this framework of providing choice and financial freedom for small businesses to make those types of decisions. Because we've been hearing about small businesses making Herculean efforts to start their businesses, keep their businesses open, and ultimately we trust that they can make the right kind of financial decisions, provided they're given the information that they need. So we want to open it up for questions here. I think we just have a couple of minutes if folks have any questions either here or online. We have a question here from Eric Weaver. I know you're coming around with the microphone.

Eric Weaver (36:22)

Well, it's sort of more of a comment. I hope it's okay, but I just want to stress how this actually happens. Sometimes, yes, a small business owner sits down on a computer and

they look at all the online lenders and they shop around. But what's happening a lot is you run a small business, the person that sold you your credit card thing or got you hooked up with that, who you know, comes to you and says, "I can put \$20,000 in your account tomorrow and I'll take care of the payments. Just the payments will come out of your merchant, no worries." That's how this happens a lot of the time. So that's how easy they're making it and with so little information. That's all.

Jacob Haar (37:05)

Thank you. Any other questions? We have one over here from Sean.

Sean (37:12)

Yeah, thanks. My question actually follows up on that, which I was wondering. You've talked a lot about underwriting methodologies and about the back end. What have you seen on the front end as the most effective ways to, when borrowers do choose the better product, one of your products or the products of the groups you represent versus the unscrupulous 90% APR product, what are the things that have brought them in and led to that better choice, the most effective strategies for doing that?

Mickey Konson (37:48)

So the question is around how to present a product to a customer? That's the...

Sean (37:55)

Not just how to present it, but channel everything on the front end of acquiring that customer into one of these products versus the other products.

Mickey Konson (38:07)

Yeah. So I think the answer for us, I think is going to be that we try to work in trusted natural channels for small business owners. And so the reality is even though banks are not approving very deeply, they're still very much a trusted channel for their small business owners. And every day, hundreds of thousands of small business owners show up at a bank or a credit union even more increasingly, and ask for a small business loan. And the customer that goes through a channel like that has an expectation of what a disclosure, a rate, a term is going to look like.

And so the reality is operating in those channels, your product I think is going to come with a set of standards that the bank and their regulators impose on you and that the customer brings their own expectations to. I will say on the opposite end of the scale, there are pure marketplaces or pure funnels, and it is difficult to compete in the open market with a product that has a different sort of disclosure level. It's really difficult for you to compete in that space. So I actually don't know that I can answer your question, really. It has some difficulties when you're out there and you're just speaking a different language and the metric that a competitor may use is just numerically lower.

Phil Goldfeder (39:33)

I think the answer is, I don't think we're there yet. I mean, I don't even think we're close. And the challenge is you're fighting against an unscrupulous sort of opponent that they're trying to deceive, right? It's a question of responsible business lenders going in to be as transparent as possible versus it's the opposite is true when you have someone who is a bit more unscrupulous, who's trying to push the money out at all costs, will say whatever they have to say. And so I don't think necessarily we've done a good enough job yet of permeating the ecosystem with enough the right products in the right way that we're actually winning over those small businesses.

Luz Urrutia (40:11)

And small businesses do not generally know that there are alternative options beyond the MCAs and the high cost loans, right? CDFIs are certainly not marketing at scale because we don't have the budgets and the marketing dollars. And so it becomes a real challenge, buyers beware wherever they find and when you say no to a small business loan, generally they're going to go try to find it because they need the capital. And if they don't have access to a responsible option, then they're going to go find whatever is first available to them, which is part of the problem.

Jacob Haar (40:51)

Great. I'm going to take one more question and then we'll wrap up here. I think we have a question over there. Can you just wait for the microphone?

Nikita Singhal (41:04)

Thanks, Jacob. This is Nikita Singhal with Blue Owl Capital. My question is about the conviction and improved underwriting through tech-driven, whether it's AI, I mean, I

remember back in 2012 when I was at a foundation and we were working with CDFIs on big data and how that was supposed to significantly improve underwriting. I'm not quite sure that that story turned out as expected. So I'm just curious to press on your conviction that this will help with underwriting. And in some of the examples that you gave, are there concrete examples where there are certain kinds of data or trends that machine learning or AI is picking up on that traditional underwriting would not? And obviously it's scalable and cheaper, but on the intelligence part of it, I'm just curious.

Phil Goldfeder (41:53)

I would just point to consumer lending for a moment. I think if you go back to 2012, 2013, 2014, there was a lot of talk of, not necessarily AI, but alternative data points. And I think what we learned was, even though there was a lot of talk of it not necessarily happening. It was tiny bits and pieces on the ends. 10 years later, you're seeing a lot more of alternative data becoming a snapshot of someone's future versus a credit score being a snapshot of someone's past.

And I think you could probably look at small business lending in the same way in that we're just getting started, and I don't dare not want to get into AI in terms of what we can look at, but it's the amount of data you could process and pull in order to make a better decision for that small business. And so, yeah, they may have struggled for the last two years for any number of reasons, but we're able to look at certain data points that gives us a better snapshot of how this business is going to do in the future. And I think to me, that's what the game-changer is. It's the outlook, is it the previous or is it, what potential does this business have?

Jacob Haar (42:58)

Thank you. Just want to, everyone, please join me in thanking our panelists today.