Testimony of
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before the
Subcommittee on Economic Growth, Tax and Capital Access
of the
Committee on Small Business
United States House of Representatives

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My name is Renaud Laplanche and I am the founder and CEO of Lending Club, a credit platform that employs over 300 people in San Francisco. My father was a small business owner; he owned a grocery store in a small town in France and I spent every day of my teenage years from 5 am until 8 am before class helping him in the store. After having started two companies in New York and San Francisco, residing in the US for the past 14 years and starting a family here, I recently passed my citizenship test and will soon be a US citizen. Testifying before this Committee on the state of small business lending in America is a special moment for me.

Small Businesses are not only a driving force in the US economy; they are an essential part of the American Dream. I believe it is our shared responsibility to ensure that these businesses and their owners have sufficient access to capital on fair terms.

I have two points I hope to convey to you today. First, small businesses have insufficient access to credit, and that situation is worsening. Second, their credit performance as a group suggests that they should be getting more credit.

1. Small businesses have insufficient access to capital and that situation is getting worse.

A survey released by the Federal Reserve Bank of New York in August of this year was the latest to paint a grim picture of availability of credit to small businesses. Access to capital was reported as by far the biggest barrier to growth. Out of every 100 small businesses, 70 wanted financing. Of those 70, 29 were too discouraged to apply. Of the 41 that applied for credit, only 5 received the amount they wanted. Substantially all of these businesses (93%) were looking for $1M or less in capital. [NY Fed]

This situation has not gotten better: while the overall volume of loans of more than $1M has risen slightly since 2008, loans of less than $1M have fallen by 19%. The number of small businesses with a business loan fell by 33% from 2008 to 2011. [NFIB]

The problem is worse for the smallest businesses. While businesses with 20+ employees reported an increase in bank loans from 2009-2011, the majority of small businesses, which have fewer than 20 employees, reported a decline with the smallest businesses suffering the steepest decline. Businesses with 2-4 employees reported a 46% reduction in bank loans over the same period. [NFIB]

While traditional sources of capital have pulled back, alternatives are on the rise. Alternative lenders such as online lenders and merchant cash advance providers are the fastest-growing segment of the SMB loan market – recording a 64% growth in originations in the last 4 years. [Paynet] Many of these alternative lenders, however, charge fees and rates that result in annual percentage rates generally in excess of 40% and, without full transparency, business owners don't always understand the true cost of the loan. This lack of understanding can be very harmful to a small business, which could find itself in a spiral of inescapable debt service.

2. Small Business Loan Performance is Doing Just Fine.

Charge-off rates on small business loans have been below 1% since March 2012, down from a peak of nearly 3% in 2009. [SBFE] In contrast, charge off rates on consumer credit cards peaked above 10% during the financial crisis.

These figures show that absolute loan performance is not the main issue of declining SMB loan issuances; we believe a larger part of the issue lies in high underwriting costs. SMBs are a heterogeneous group and therefore the underwriting and processing of these loans is not as cost-efficient as underwriting consumers, a more homogenous population. Business loan underwriting requires an understanding of the business plan and financials and interviews with management that result in higher underwriting costs, which make smaller loans (under $1M and especially under $250k) less attractive to lenders. By contrast, larger loans – going mostly to larger businesses - are more attractive, as they allow underwriting costs to be amortized over a larger amount and longer loan term.

We believe we have solutions to bring underwriting costs down and create the conditions for credit to become more available and more affordable to small businesses in America, and would be honored to answer the Subcommittee questions in that regard.