

The Economic Benefits of Online Lending to Small Businesses and the U.S. Economy

NEW YORK STATE

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Highlights of the Report

Small businesses are vital for America. However, these businesses routinely lack access to necessary capital to maintain and expand operations. Online lending fills this critical gap for small businesses. Indeed, the innovation of online lending products serves to complement, rather than replace, traditional funding sources. Online lenders fund small and short-term loans to business owners very quickly, providing an important financing option for small businesses.

Importantly, the economic impact of this lending activity is substantial. Access to capital allows small businesses to purchase inventory, cover operational costs, or provide capital to expand. In turn, these businesses stimulate additional economic activity and create jobs in their communities.

Three key highlights of the report are:

- From 2015 to 2017, the five major online lenders participating in this study funded nearly \$10 billion to approximately 180,000 small businesses in urban and rural communities across America. The \$10 billion in loans funded to small businesses between 2015 and 2017 directly generated \$23 billion in sales for the small business borrowers. Those additional sales in turn generated \$37.7 billion in gross output and created 358,911 jobs with \$12.6 billion in wages in the local economies of small business borrowers across the country.
- In New York State alone, the five participating online lenders funded over \$758 million to 11,490 small businesses from 2015 to 2017. Nearly one-third of these loans went to small businesses in lower-income communities (those below the national median income). These online loans directly generated \$1.8 billion in sales for small business borrowers in New York State. The additional sales of small business borrowers in turn generated \$2.5 billion in gross output and created 20,154 jobs with \$795 million in wages in the local New York economies of small business borrowers.
- The economic benefits of online lending vary across industries. For every \$1 in lending to small businesses in New York State, sales of small businesses increased between \$1.06 and \$3.08 (with an average of \$2.38). Additionally, for every \$1 in lending, the small business borrower's additional sales in turn created between \$1.86 and \$5.08 (with an average of \$3.34) in gross output in the local communities of the borrowers.

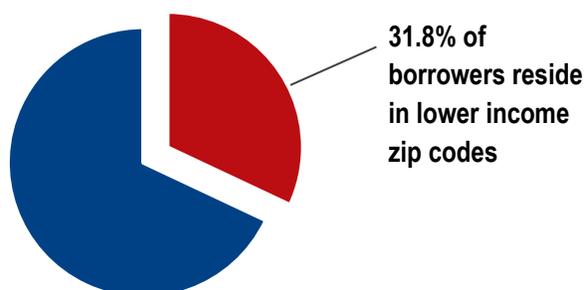
¹ This state report is a companion report of our main report "The Economic Benefits of Online Lending to Small Businesses and the U.S. Economy." Nam D. Pham is Managing Partner, Alex J. Triantis is Senior Advisor, and Mary Donovan is Principal at ndp | analytics. Gabriela Irizarry and Benjamin Yoxall provided analytical assistance. We would like to thank the Electronic Transactions Association (ETA), the Innovative Lending Platform Association (ILPA), and the Small Business Finance Association (SBFA) for their financial support to conduct this study. The opinions and views expressed in this report are solely those of the authors.

The Economic Impact of Online Lending in New York State

Online lenders serve small businesses in both urban and rural areas. New York borrowers resided in 1,148 different zip codes, accounting for over half of all zip codes in the state. About one-third of borrowers are in lower income areas (those below the national household median income). (Figure 1)

Figure 1.

Nearly 32% of loans went to communities that have lower-than-median income in New York



Between 2015 and 2017, the five major online lenders participating in this study funded \$758 million of loans to 11,490 small businesses in New York State. We applied the most recent average sales-to-capital ratio of each individual industry to estimate the direct business impact of these loans on sales for small businesses in New York. Overall, \$758 million of loans that were originated between 2015 and 2017 created \$1.8 billion in additional sales for the small business borrowers in New York. (Table 1)

Table 1.

\$758 million in small business lending from 2015 to 2017 created over \$1.8 billion in additional sales

Industry	Loan Amounts	Sales	Loan-to-Sales Ratio
Agriculture, mining, utilities	\$2,214,449	\$2,782,560	1.3
Construction	\$69,882,435	\$84,557,746	1.2
Manufacturing	\$46,613,588	\$81,188,815	1.7
Retail & wholesales trade, warehousing	\$239,795,194	\$738,871,099	3.1
Information, finance, insurance, real estate	\$36,695,442	\$38,964,841	1.1
Professional & business services	\$123,933,422	\$323,682,721	2.6
Education, healthcare, other services	\$239,189,598	\$531,071,910	2.2
Total	\$758,324,128	\$1,801,119,692	2.4

We applied the official economic multipliers estimated and published by the Bureau of Economic Analysis to calculate the indirect and induced economic impacts of online lending activities on gross output, jobs, and earnings in New York State. We calculated \$758 million of loans that were originated between 2015 and 2017 generated \$2.5 billion in gross output and created 20,154 jobs with over \$795 million in earnings in New York State. (Table 2)

Table 2.
\$758 billion in small business lending created \$2.5 billion in gross output and 20,154 jobs

Industry	Gross Output	Jobs	Earnings
Agriculture, mining, utilities	\$4,595,416	30	\$893,298
Construction	\$161,556,030	1,166	\$50,624,723
Manufacturing	\$148,291,278	729	\$34,509,762
Retail & wholesales trade, warehousing	\$445,453,911	3,679	\$130,379,028
Information, finance, insurance, real estate	\$69,958,982	307	\$15,336,735
Professional & business services	\$629,654,645	5,273	\$212,216,898
Education, healthcare, other services	\$1,069,950,635	8,969	\$351,343,255
Total	\$2,529,460,897	20,154	\$795,303,699

Final Remarks

The economic benefits of online lending are far-reaching. Advanced technology enables online lenders to gather information and to assess credit risks quickly to provide loans to a broader group of borrowers. Online lending complements, rather than replaces, traditional funding sources.

The economic benefits of online lending vary across industries. For every \$1 in lending to small businesses in New York State, sales of small businesses increased between \$1.06 and \$3.08 (with an average of \$2.38). The additional sales in turn created between \$1.86 and \$5.08 (with an average of \$3.34) in gross output in the local communities of the small business borrowers.

In sum, online lending fills a critical gap in funding for small businesses. Through increased access to capital, small businesses across America are able to grow. As these businesses succeed, so do those around them. As such, communities across the U.S. have realized positive economic impact from online lending.