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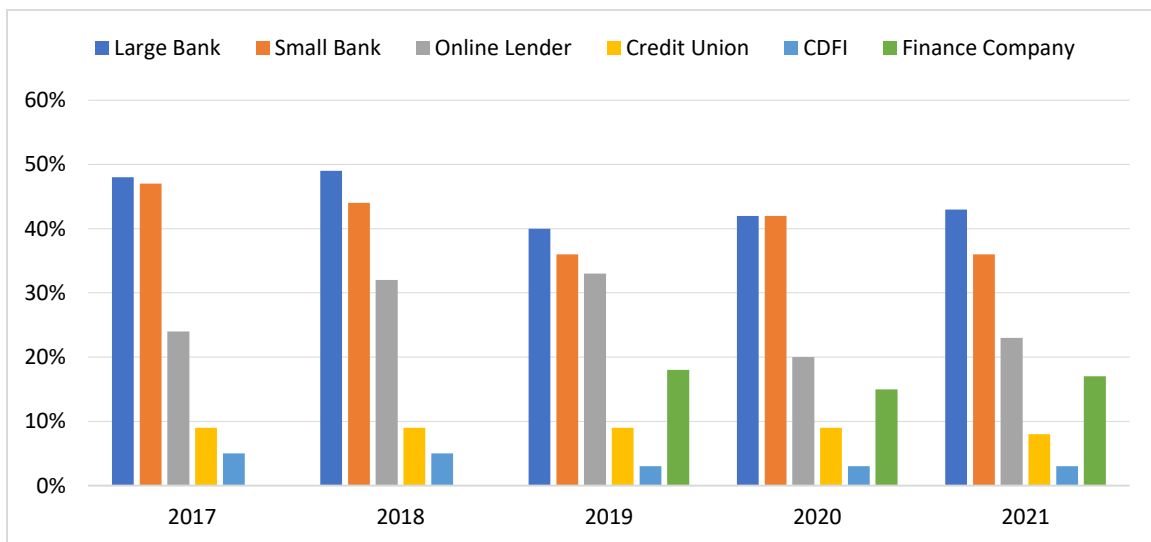
FinTech Lending to Small Businesses Yet to Recover from Pandemic Decline

Finance Technology (“FinTech”) companies offer many appeals to small businesses looking for credit: small loan size, broad geographic coverage, and efficiency driven by new technologies. However, at the onset of the Covid-19 pandemic, FinTech lending to small business seemingly collapsed.¹ This article looks at aspects of FinTech lending to small businesses before and during the pandemic using data from the Federal Reserve’s Small Business Credit Survey.²

Fewer Small Businesses Are Applying to Online Lender for Credit Now than Before the Pandemic

When asked to list the sources of credit applied to, one third of small businesses included online lender in 2019. **Figure 1** shows a sharp (13 percentage points) decline in the use of online lender as a credit source in 2020. Despite some recovery, the use of online lender by small businesses in 2021 remained lower than that in 2017.

Figure 1: *Percentage of Response by Source of Credit Applied*



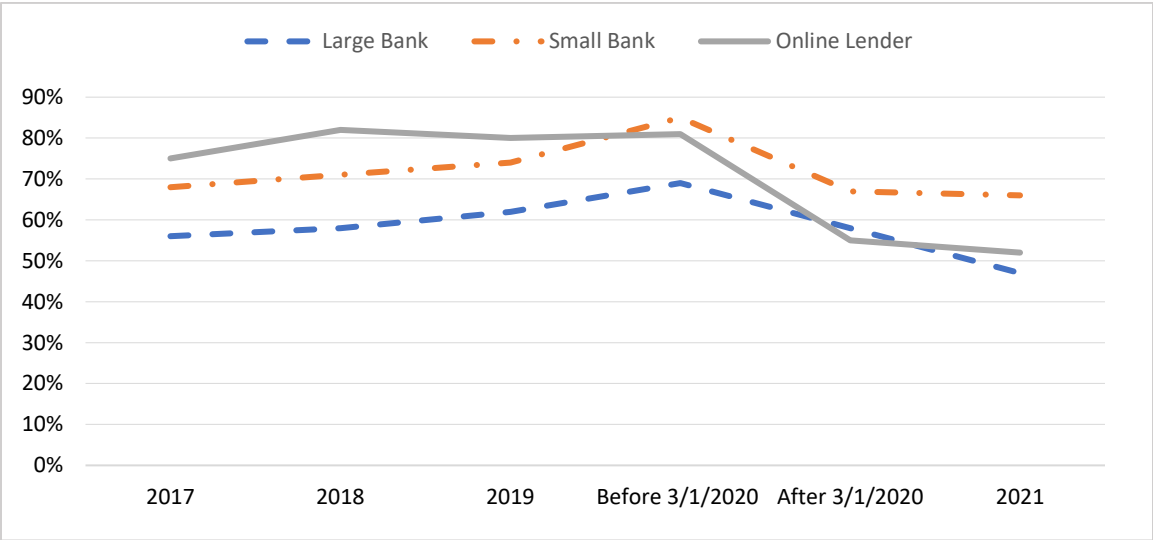
¹ Ben-David, Itzhak, Mark J. Johnson, and René M. Stulz. “Why Did Small Business Fintech Lending Dry Up During March 2020?” *National Bureau of Economic Research* No. w29205 (September 2021) <<https://www.nber.org/papers/w29205>> (accessed August 13, 2022).

² “Small Business Credit Survey – Report on Employer Firms.” *Fed Small Business*. (2017-2022). <<https://www.fedsmallbusiness.org/survey>> (accessed August 13, 2022).

Online Lenders Saw the Largest Decline in Loan Approval Rate Since the Pandemic

One reason for the decline in the use of online lenders amongst small businesses could be quite simple: their applications were increasingly getting rejected. **Figure 2** shows that before the pandemic, online lenders had a higher loan approval rate than banks, large or small. While loan approval rate dropped across lenders starting around March 2020, the decline was the largest for online lenders.

Figure 2: Loan Approval Rate by Source of Credit



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