FinRegLab to Evaluate Data to Increase Credit Access for Minority Business Enterprises and to Scale Lending by Mission-based Lenders

WASHINGTON, D.C., September 7, 2023 — FinRegLab is launching an initiative with support from the U.S. Department of Commerce Minority Business Development Agency (MBDA) to improve credit access for minority-owned companies and other underserved small businesses through the use of non-traditional data sources and mission-based lenders.

In addition to MBDA funding, the project is supported by Visa. Plaid will provide free account connectivity services to participating mission-based lenders to allow loan applicants to authorize their account data to be accessed for underwriting.

The research project will help evaluate efforts by minority depository institutions (MDIs), community development financial institutions (CDFIs), and other mission- and community-based lenders to explore ways that bank account records and other sources of cash-flow information can be used to scale their lending operations. It will also evaluate the predictiveness of different credit attributes using loan performance data from larger fintech lenders.

"Increasing credit access among minority business enterprises can help to address racial wealth gaps and spur job creation," said FinRegLab CEO Melissa Koide. "This new project will deepen our understanding of how data and technology can be used responsibly to bring credit to millions of small and minority-owned businesses, particularly among mission-based lenders as they adopt new data, technology, and partnerships to broaden their impact."

"The Minority Business Development Agency is committed to breaking down the minority business community's greatest barrier to success: access to capital," said Under Secretary of Commerce for Minority Business Development Donald R. Cravins, Jr. "To expand access, we need to not only open the doors to traditional funding often closed for minority-owned businesses, but also to construct new inclusive gateways to non-traditional capital sources. To do so, we need the data and research to back it up, which is exactly the goal of FinRegLab's credit access initiative. MBDA is proud to provide funding and support for this innovative project, continuing our mission forward to creating a strong, equitable business ecosystem."

"We are proud to join FinRegLab and the Department of Commerce to support MDIs and the critical role they play in helping improve economic outcomes for minority business enterprises and communities of color," said Worku Gachou, Head of North America Inclusive Impact & Sustainability, Visa. "This partnership builds upon our previous commitments to provide MDIs with depository funds, insights and solutions through Visa's MDI Accelerate Program."

FinRegLab expects the project to be the first in a series of research studies focusing on ways that data and technology can improve financial services for small businesses — which create two out of every three net new jobs in the U.S. and can be a critical path for wealth-building among

households of color. The current project will have three primary components over the next two years:

(1) **Mission-based lenders' adoption**: In one workstream, FinRegLab is working with Emmanuel Yimfor of Columbia University to structure studies of pilot programs by minority depository institutions, community development financial institutions, and other smaller lenders to explore the potential to scale their lending to minority business enterprises through use of automated data flows, non-traditional data sources, and partnerships with fintechs. FinRegLab will start the workstream with a qualitative report to highlight lessons learned through the pilots and past initiatives.

(2) **Empirical research:** FinRegLab is partnering with Sabrina Howell of New York University to analyze data from fintech lenders who have been using automated sources of cash-flow data since before the COVID-19 pandemic. The analysis will compare the predictiveness of a range of metrics distilled from automated cash-flow data as well as traditional credit scores and report information to identify which data points are most useful in underwriting loans to minority business enterprises and other types of small businesses.

(3) **Stakeholder engagement:** The third workstream involves engaging market actors, policymakers, advocates, and other stakeholders to explore the implications of the research for market practices and public policy going forward. FinRegLab will use webinars, podcasts, and convenings to share findings with key audiences.

The project will be structured to facilitate later empirical analysis of loans from the pilot programs as they conclude. Additional components may be added over time to assess the potential for mission-based lenders to combine "high tech" and "high touch" approaches and to increase the scale of their operations substantially through partnerships with fintechs.

For earlier FinRegLab work evaluating the use of cash-flow data in both consumer and small business underwriting, visit https://finreglab.org/cash-flow-data-in-underwriting-credit.

About FinRegLab
FinRegLab is an independent, nonprofit organization that conducts research and experiments with new technologies and data to drive the financial sector toward a responsible and inclusive marketplace. The organization also facilitates discourse across the financial ecosystem to inform public policy and market practices. To receive periodic updates on the latest research, subscribe to FRL's newsletter and visit www.finreglab.org. Follow FinRegLab on LinkedIn and Twitter (X).