deBanked

January/February 2017

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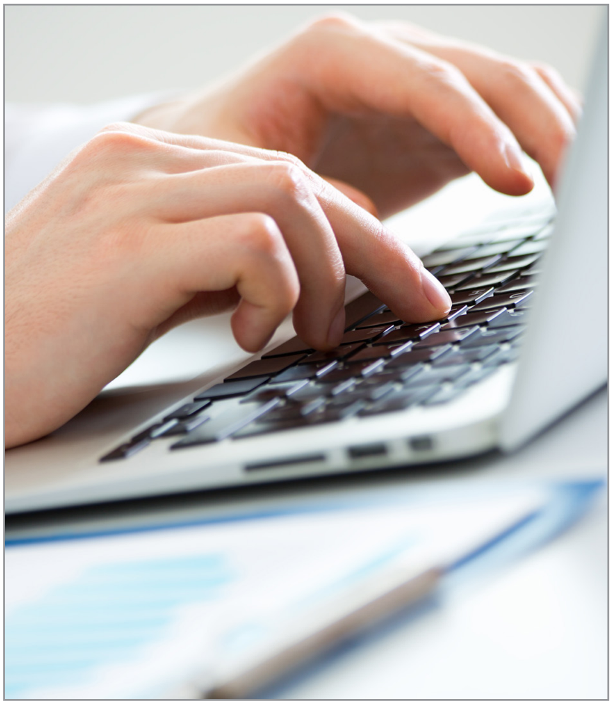

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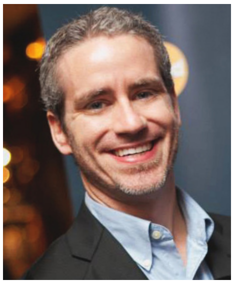
Letter From the Editor



BY
SEAN MURRAY

When deBanked first launched online in 2010, I thought it was too late, that perhaps all the exciting changes in alternative finance had already taken place and that aside from a few obsessed geeks, there wasn't that big of an audience to write for. It certainly felt a bit out-of-style, especially since I had been working in the industry for more than four years by that point. The only publication that was dedicated to the scene at the time had already come in to the public eye and vanished. Many alternative financial companies had met the same fate, thanks to the financial crisis.

In a way, deBanked started off as a post-apocalyptic diary, an accounting of the industry's survivors and their roles in the new world order. Primitive, my reporting may have been then, but interest quickly grew. By mid-2011, I was already forced to change web hosts to keep the website from slowing down.

In my day job as a commercial finance broker, I continued to talk to small business owners all the over the country about a common theme, that banks just weren't lending. And maybe they never would again, some predicted anyway. Or maybe the way loans were made in general would just never be the same.

Looking back among my old 2011 stories, I discovered that I had written a personalized review of Square's payment technology and had given it high marks. Back then however, I saw Square as a payments toy. It was innovative and sexy, but unrelated to lending. Fast-forward to 2016 and Square's capabilities have expanded. I should know, they funded my business exactly five years after my review. In this issue, I'll walk you through what it was like to play the role of borrower, and put marketplace lending up to the ultimate test. Thanks to Square Capital, my journey has come full circle or more appropriately, full square.

This issue is the first of 2017. For alternative finance, it fortuitously feels like the beginning, not the end. If our descendants far in the future stumble upon these stories, I pray they will enjoy our accounts of the transformation, when entrepreneurs dared to look at the world in front of them and boldly decided to change it. It was the early 21st century, historians will say, when mankind dared to de-bank and change everything we knew about finance.

In the here and now, you are a part of it all...

–Sean Murray

I GOT FUNDED
OMG, I'M A MERCHANT!

By *SEAN MURRAY*

I've read the press releases, interviewed the executives, and wrote the summaries about the latest and greatest innovations in alternative finance. I'm the guy that's supposed to know how everything in this industry works, but do I REALLY REALLY know? In the last decade, I've worn an underwriter hat, an MCA broker hat, a syndicator hat, a lead generator hat and a reporter hat just to name a few. This diverse array of experiences has surely influenced deBanked's success. But even as we publish content about the funders, lenders and other Fintech players in the wider industry, deBanked is truly a small business first.

Independently owned, there are no investors in the company to turn to for assistance. And that's not such a bad thing, if you know at all what it can be like to have partners. At the end of last year, we did what hundreds of thousands of small businesses around the country have done, we got funded by a marketplace lender. Through that experience, I found myself wearing a brand new hat, one that says "merchant" on it.

On December 1st, my company received a deposit for $35,000. It was a loan from Square Capital and I didn't pursue it for a story, but rather to facilitate cash flow at the busiest time of the year. I was moving into a larger office on the same floor of our building and the hustle and bustle of the pre-holiday craze was upon us. The circumstances may come off a bit cliché, simulated even, but there it was at the right time and the right place, an email

telling me that I was pre-approved.

If you've ever wondered if that kind of marketing works, it must, because a half hour after reading through the materials, I made an educated decision and applied for a loan.

The higher-ups at Square Capital, those above the underwriting department, might have no idea that they even funded us (our legal name is different from our trademark publication name). And I haven't reached out to them for comment because I didn't want to turn this into a PR stunt or get them riled up about my account. But if you work at Square and you're reading this now, you don't need to hold your breath. Everything seemed to work just as the press releases, ads, and executives claim it does. Phew! That's good for you, but it was also very good for me.

The most pleasant surprise was that our business got approved for the maximum amount advertised in their email. Here's how it went down:

11/29/16

1:34 PM

Received email offering a business loan up to $35,000 to repay over 12 months

2:01 PM

Applied for $35,000, which consisted of logging into my Square account and tapping a button

8:02 PM

Got approved for $35,000

11/30/16

Square sent out the funds via ACH

12/1/16

Received full loan deposit in my business bank account

All in all, it couldn't have been any simpler. The deposit was for the full $35,000. And try as you might to hate me for saying this, I never calculated what the APR is. Square explained the cost as a fixed fee, which for me was $3,160. That's approximately 9% of the principal of which the whole loan and fee would be repaid in equal installments over the next 12 months. To those that work in the industry, I got a 12-month 1.09 deal.

As a small business owner, I calculated whether or not it made sense to pay a set fee for $35,000 over that time period and determined it did. An APR would not have impacted my decision, nor would I really have found it helpful in determining the supposed true cost. The true cost is already there in black and white, the total dollars I agreed to pay.

Two things guided me, speed and economics. I wasn't motivated to shop around to try and get the absolute best deal, just one that made economic sense with the least amount of work in the shortest amount of time. It sounds ironic to write that, especially as someone who has a bachelor's in both Accounting and Finance but if you're someone who works 7 days a week like I do, well maybe you'd understand my thought process. If I was applying for a million bucks, then yes, I'd shop and think on it pretty hard, but in my circumstances, a few thousand dollars in fees is relatively small stakes for the company. Besides, I was using the money proactively, as a positive tool.

I knew my patience for waiting was thin. For example, an experience with one of my banks earlier in the year had already left me rattled. I had asked to extend the limit of a business credit card and I was told that in order to do so, I'd have to visit the bank branch where I had originally signed up for the card (I don't even live near that branch anymore) and that I would have to bring financial statements with me to present for review. By the way, this was for a limit increase to an amount that was much less than $35,000.

I learned that day that the rumors about (some) banks are true. They wanted me to visit a branch... and bring paperwork... for some kind of unspecified analysis... in 2016. Lo and behold I never showed up, and was more entrenched in my belief than ever before that the world needed to become de-banked and soon.

My business already processes cards through Square so I've got a track record with them.

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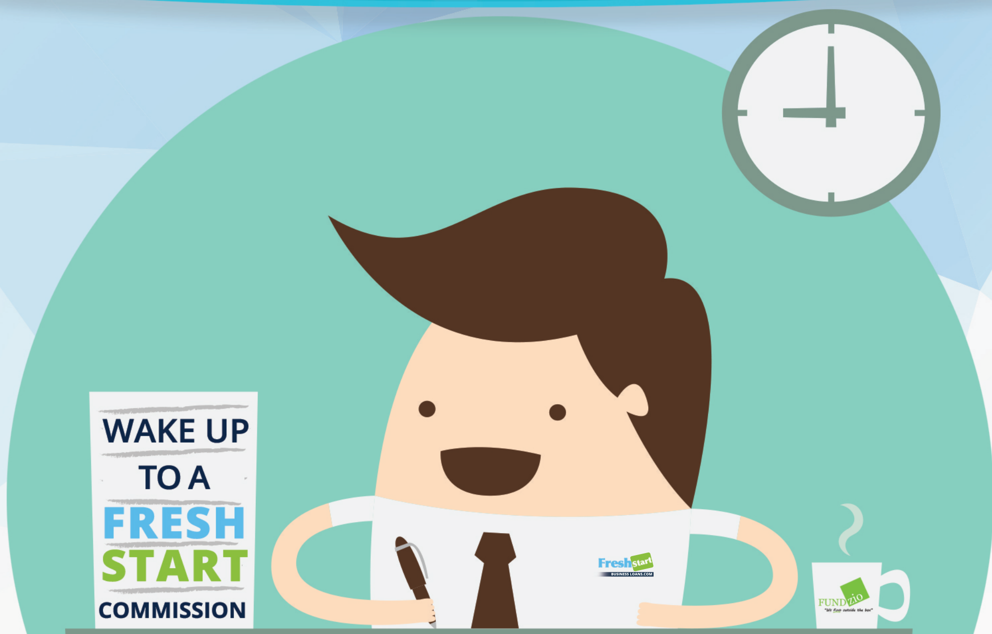

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Applying didn't place any inquiries on my personal credit report nor did anyone at Square ever call me to ask me any questions. I know that most of their competitors conduct what is commonly known as a "merchant interview" prior to full approval or funding, but they didn't. It wouldn't have bothered me if they did though since we have a good business and would be using the money for the right reasons. Alas, the entire process really all just came down to clicking a button online.

> **I KEPT WAITING FOR THE CATCH, FOR THEM TO LET ME DOWN, TO COME UP SHORT OF ALL THE PROMISES THAT THE FINTECH REVOLUTION HAS MADE ABOUT CHANGING THE WORLD, BUT IT NEVER HAPPENED.**

I kept waiting for the catch, for them to let me down, to come up short of all the promises that the Fintech revolution has made about changing the world, but it never happened.

A month later, Square withdrew their first payment from our account. Like I said earlier, I was satisfied with the entire process and it was a big help. Had I been given the option however, I might've opted to structure the arrangement differently and sold a portion of our future sales proceeds rather than simply borrow money. Allow me to explain.

It's entirely possible that the next 12 months of business won't pan out the way I project. If my sales drop, I still have to make the fixed monthly payment in accordance with my loan terms regardless. Not so when selling future sales proceeds since the delivery of those funds to the buyer is entirely tied to actual sales activity. A structure like this, what many consider a merchant cash advance, is actually what Square used to offer up until early 2016. When the pace of sales slow down, delivery of the sales proceeds slows with it. When the pace of sales increases, so too does the delivery to the buyer. And if I went out of business, well then the buyer would get what they purchased, nothing.

Merchant cash advances are harder to bundle up and securitize though because there are no maturity dates nor is there even a guarantee the buyer will get what they purchased in full. They're investments with loads of uncertainty built in for the sales-proceeds buyer, and that's probably why Square switched to loans and also probably why the cost of my loan was relatively inexpensive. They've minimized the uncertainties.

Nonetheless, the loan I ultimately got, is just fine. In the moment that I needed it, the process couldn't have been any simpler or any faster. The banks have met their match.

I got funded and loved it, now it's your turn.

THE NEW NORMAL

By *JEREMY BROWN, CHAIRMAN, RAPIDADVANCE*

In March 2014, I wrote the following for DailyFunder.com: *I think we are either currently in, or are fast approaching a "market bubble" in MCA. Bubbles never end well...When I see some of the business practices, offers, terms and other aspects of our business today, I am worried...assets are being overpaid for through higher than economically justified commissions ...and [funders are] stretch[ing] the repayment term of the MCA or loan even further*. I went on to say that this felt to me an awful lot like the subprime mortgage meltdown of 2008.

Like all good bear market prognosticators, I was a touch early in my forecast. 2014 and 2015 were continued boom years for small business alternative lenders (or "small business Alt Lender." I don't agree with applying the moniker "online lender" for our industry. It might be sexy, but it's not accurate.) Loan and MCA terms got longer, loan pricing to the client dropped further, companies grew 100% year over year. And then 2016 happened.

The most shocking event for me in 2016 was the disruption at CAN Capital. They had the most data, the most experience, market dominance, and the most in-depth institutional knowledge. The granddaddy of all of us. Not far behind is the fiasco that is On Deck, the only publicly traded small business Alt Lender. In the past 12 months alone, the stock price has declined by over 40%. And that is after a roughly 50% drop in stock price in 2015. The first 9 months of 2016, driven in part because of market required changes to their business model

when they could no longer profitably sell a sufficient volume of loan originations, they have a GAAP net loss of almost $50 million. There have also been a number of other lesser but still high profile failures, shutdowns, and exits from the industry in the past several months alone.

So what is driving this abnormally high rate of failure in the Alt Lending industry? Is it the "New Normal?" And what do I think lies ahead in 2017 and beyond? Before revealing my personal crystal ball again, I will share an anecdote from earlier in my business career.

I was the CFO (and eventually CEO) of a profitable, long-tenured family owned construction company. We had a working capital credit line from a major bank secured by a first position lien on our accounts receivable. The credit line was also personally guaranteed. We borrowed from the credit line for three reasons. For cash flow, when our receivables paid more slowly than expected; we had tax payments due; or we purchased a large piece of equipment. We always paid back the draw on the credit line as quickly as we could, to keep interests costs low, to impose cash management discipline, and to create future availability on the line once repaid.

The credit line was for one year. It was always renewed. But I was frustrated to have to go through an annual underwrite process with our bank, despite the personal guarantee, consistent profitability, and that we always paid back our draw on the credit line. Our banker (patiently) explained to me that economic cycles changed, and medium sized

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businesses – we had about 200 employees – suffered ups and downs and sometimes became financially distressed and even went out of business. The bank wanted to protect their position and not overextend the term of the credit line.

When I started RapidAdvance in 2005, I drew on my personal knowledge and previous experience as a borrower. The products we offered made sense based on our customer profile which was main street small business. We needed to protect against economic cycles and the high rate of small business failure. The maximum term offered by any company in 2005 was 8 months, at that time only for an advance product (future purchase and sale of credit card receivables), not a loan. Payment was received daily through a credit card split, thus allowing for a future capital advance (renewal) within about five or six months as the open advance was paid down. Cash advances could be used for taxes, equipment purchases, or business expansion. The price of the product reflected the risk of the credit offered.

What many in the small business Alt Lending industry seem to have forgotten, or never learned, is that our business is fundamentally a subprime credit industry. We are either lending to subprime borrowers, because of either the personal credit of the owner or the balance sheet of the borrower, or if the credit is strong and the business is more substantial, the loan itself is a subprime risk because we are at the bottom of the capital stack – behind the bank loan, the business property mortgage loan, the other personal guarantees of the owner, the factoring company, etc. We are taking the most risk. To offer two and three year terms and to try to pretend to get to "bank like" rates is, in my opinion, committing lending suicide.

At Rapid, we were dragged kicking and screaming into slightly longer term and lower cost products in order to stay competitive with certain customers. But we have kept that pool of customers as a very small percentage of our overall receivables.

Going into 2017 and beyond, I see five major trends. First, terms will get shorter, prices will increase, and offers will become more rational. That is already happening. Second, capital to this industry will become less available. The best companies with proven data driven models, consistent underwriting, a strong balance sheet and predictable loss rates will get financed. The days of easy money chasing this space are over. Equity will be particularly hard to come by.

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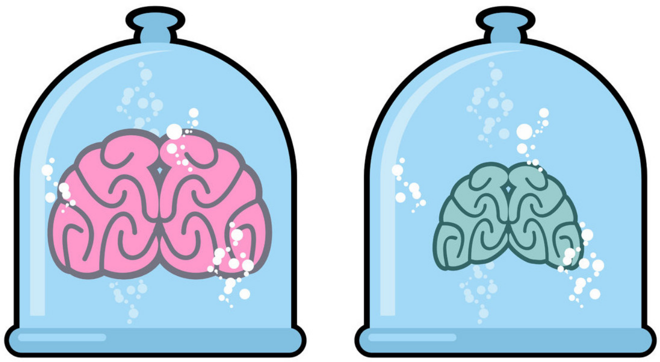
Third, there will be continued disruption of funding companies. Companies will consolidate and some will disappear. On Deck may be in for a big challenge. They had a tremendous cash burn converting their business model to more balance sheet financed instead of originating and selling loans. Their market cap today is approximately book value, i.e. if you could buy up all the shares of the company at today's trading price that would be roughly equal to their cash on the balance sheet and the value of their net receivables. The next two quarters are crucial for them to show the market they have turned the corner to become a self-sustaining lender. I am not optimistic, but I am rooting for them to succeed as it is in the best interests of the industry.

Fourth, stacking will continue to be an issue. I believe that the legal system over the next few years will bring some semblance of order to this industry scourge. At Rapid we have taken an aggressive legal stance against stacking, with some success in the courts. The challenge is that each situation is fact specific, and to prevail in a claim of tortious interference, the first position lender has to prove damages. I think that an unrelated decision at the end of 2016, *Merchant Funding Services, LLC vs. Volunteer Pharmacy* in New York State, could be a game changer. Because of the form of contract and the business practices in *Volunteer*, the judge ruled that the transaction constituted criminal usury. Knowing the business practices of the stackers, specifically the practice of writing an agreement that pretends to be a sale and purchase of future receivables but is in fact a loan, which is the basis for the judge's ruling in *Volunteer*, I can see lawyers seizing on this precedent to help overstressed small business owners attempt to void their stacked loan agreements. The small business would first block the stacker's ACH, claim the contract is void because of criminal usury, and then sue the stacking company. There could also be class action lawsuits like we saw a few years ago in California – bundle together a number of these claimants and go after the deep pocketed investors and banks that finance the stacking companies. The State's Attorney General in New York may take a public policy interest in these types of loans. Once the dominoes start to fall, the costs of stacking – litigation and unpaid loans, in addition to proactive claims for damages - could be enormous for both the stacking companies and their owners and investors.

Lastly, and to my great pleasure, I think we will stop hearing small business Alt Lenders calling themselves "Fintech." I think we will see the beginning of the demise of fully automated, no manual touch funding. At Rapid we have data and risk and pricing algorithms but we have always had an underwriter at a minimum review every file. At conferences when I have presented or participated in Fintech panels I always referred to Rapid as a technology enabled, non-bank small business lender. Now even On Deck describes themselves in similar terms.



I titled this post "The New Normal." In the classic Mel Brooks movie *Young Frankenstein*, Dr. Frankenstein sends his assistant Igor to steal a brain from a cadaver to implant into his monster. But Igor accidentally drops the genius brain he was supposed to steal, and brings the doctor a different brain without telling him. When the monster awakes and has the personality of a psychotic five year old, Igor tells him he brought him a brain that was labeled "normal" instead of the one he was supposed to steal. It was, as Igor read it, "Abby Normal." Abnormal, I believe, is the "New Normal" we will be dealing with in 2017.

Jeremy is a founder and Chairman of RapidAdvance, and also a founding member and Vice President of the Small Business Financing Association, an industry trade association. Jeremy was President and later CEO of Rapid until 2015. Jeremy speaks at industry events and conferences as an expert on small business financing, and is also a Director of the Commercial Finance Association. Jeremy can be reached at jbrown@rapidadvance.com

INDUSTRY *NEWS*

12/2 / Total Merchant Resources secures $20 million in private equity, launches wholesale funding division

Bitcoin-based P2P lending platform BitLendingClub shuts down

OCC announces they are moving forward with a special purpose national charter for fintech companies

12/8 / Former CEO and co-founder of World Wrestling Entertainment tapped to run Small Business Administration

12/9 / OnDeck announced new $200 million revolving credit facility with Credit Suisse

12/12 / Knight Capital Funding announced new Chief Data Scientist

12/13 / Fifth Third Bank is reported to buy a stake in franchise marketplace lender ApplePie Capital

12/14 / BlueVine raised $49 million in Series D funding

12/15 / Swift Capital named Tim Naughton as Chief Legal Officer

John MacIlwaine, Lending Club's Chief Technology officer, submitted his resignation to the company to pursue another opportunity

12/16 / CAN Capital is reported to have laid off more than 100 employees

Chicago-based Argon Credit filed for bankruptcy

12/20 / Fundation announced that it will offer digital lending capabilities to Citizens Bank

12/22 / Bizfi announced that it has surpassed $2 billion in originations since inception

1/4 / Strategic Funding Source integrates US operations of Capify

1/9 / Two Democratic United States Senators protested the OCC's plans to create a limited fintech charter through a letter sent to Comptroller Curry

1/11 / Funding Circle announced a new $100 million equity round led by Accel

1/12 / Marketplace Lending Association announced 11 new members

1/16 / WSJ broke a story revealing that CAN Capital had breached its covenants with its big-bank creditors, laid off about 250 staffers, hired a restructuring firm for assistance in negotiating with creditors, and hired Jefferies Group for advice on strategic alternatives

NY proposes that business finance brokers obtain lending licenses

1/17 / OnDeck announced a partnership with Wex, a provider of corporate and small business payment solutions

New York Department of Financial Services protested the OCC's plans to create a limited fintech charter through a letter sent to Comptroller Curry

1/18 / Credible raised a $10 million in a Series B round from investors that included Ron Suber, the president of Prosper Marketplace

1/19 / LendIt announced finalists of its first ever industry awards

Sean Murray of deBanked selected as a finalist for Best Journalist Coverage

1/20 / Fifth Third announced a partnership with QED Investors to advance fintech strategy

President Trump issued an executive order freezing all new regulations

THE LENDIT STORY

By *ED MCKINLEY*

The LendIt Conference was supposed to be a smallish local meetup for New York-based members of the online lending community. But founders Jason Jones and Bo Brustkern soon discovered they had the makings of a big annual industry-wide national convention. And before long, they found themselves replicating their successful American show on other continents.

To understand how the trade show was born and how it's matured, flash back about seven years. In 2010, Jones and Brustkern were putting together venture capital deals when they happened onto the fledgling peer-to-peer lending movement. "Consumer credit was something we weren't all that knowledgeable about, but we could see the market was large," recalls Jones. "There was a clear opportunity that was structural in the market, and there were stable, consistent returns." So the two of them launched one of the first P2P funds.

Jason Jones

Their lending business soon took off, but Jones and Brustkern felt they were working in a void. The industry lacked community, and they decided to do something about it. In 2012, they formed a company to create the first Lendit Conference so they could network with their colleagues and put new products on display. Brustkern was based in Denver, but they decided to hold the first conference in New York City, which was home base for Jones.

To heighten the credibility of the new confab, Jones and Brustkern decided to seek the help of Peter Renton. They didn't know Renton personally but considered him "the voice of the industry," Jones says. Renton had nurtured and sold off two printing businesses and used the proceeds to take up online lending as a hobby. He had also launched the Lend Academy in 2010 to teach the world about peer-to-peer lending. Somehow, he had also found the time to develop a following for himself as a blogger.

In early January of 2013, Jones and Brustkern cold-called Renton to gauge his interest in putting on a show. As fate would have it, Renton had just made a New Year's resolution to launch a conference for lenders and was receptive to joining up. He took the position of LendIt conference chairman. The team also enlisted Dara Albright as conference organizer, but she's no longer involved.

The originators put up their own money and worked together daily from January to June of 2013, when the first show convened. They secured space that would contain 220 people and calculate their break-even point as 200 attendees. "This was never intended to be a profitable enterprise," Jones says of those early days. "This was something we all wanted to do for the community. We thought that if we wanted it, others would want it."

More than 400 people registered for that first conference. "We had a line literally out the door," Jones notes. "We had to shut off registration. We ended up squeezing about 375 people into that first event. It was completely shocking to us." From the beginning, attendees came from all over the world. "That's when I learned China had a P2P industry," Jones says.

After the initial meeting, Jones, Brustkern and Renton formed a unified company. Renton brought in Lend Academy, while Jones and Brustkern added their investment fund. The conference also became part of the united company. Ever since, a holding company has owned all three businesses.

From the initial attendance

KEEP CALM AND FUND ON

LendIt USA 2016 conference in San Francisco, California, USA on April 12, 2016. (photo by Evans Vestal Ward)

of 375, the U.S. conference grew to 975 attendees in 2014, 2,500 in 2015, 3,500 in 2016 and a projected 5,000 for this year. About 33 percent of attendees come from the fintech industry, 23 percent are investors, 23 percent are service providers, 14 percent are banks and 2 percent come from government, the media and other backgrounds, Jones says. At first, many of the attendees come from the ranks of CEOs and managing partners, but that's changing as the industry comes to view the conference as an annual convention where lower-ranking members of an organization can learn about the business, he notes.

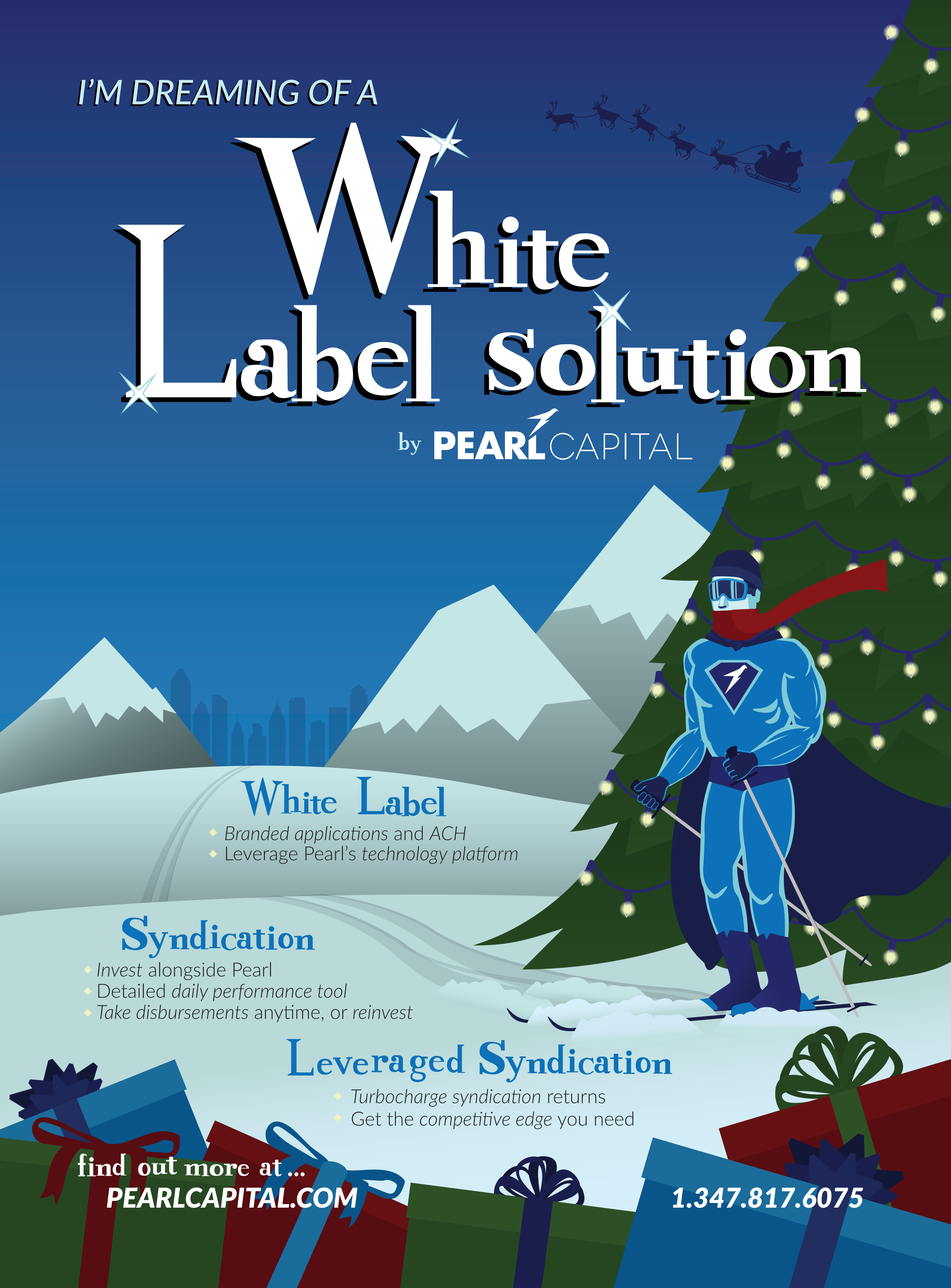
Meanwhile, the exhibition floor is becoming an increasingly important component of the show. The gathering attracted 18 exhibitors in 2013, followed by 47 in 2014, 112 in 2015, 177 last year and an expected 210 this year. "We're transforming from a conference-led event to an expo-led event," Jones says. This year, exhibitor booths will occupy a 120,000 square-foot hall in New York's Jacob K. Javits Convention Center.

The U.S. LendIt conferences alternate between San Francisco and New York City, renting larger spaces as the show has grown, Jones explains. Two years ago, the gathering seemed cramped in the gigantic New York Marriott Marquis near Times Square, he says, necessitating this year's move to the Javits Center. Javits is designed for conventions with at least 10,000 attendees so the show is a little small for that venue, he admits. But the facility could become LendIt's long-time New York home as growth continues, he predicts.

Jones traces some of the growth in exhibitors to the expansion of the fintech industry. "You have a meeting of the start-ups with the more traditional players who are rethinking their businesses and how to apply the new technology that's being developed into their businesses," he says.

Conferences that compete with LendIt in the fintech category are proliferating because of the nature of industry, in Jones' view. As soon as fintech companies are launched, the internet quickly makes them national or even international in scope, he says. At the same time, the anonymity of cyberspace creates a need for gatherings that provide face-to-face meetings, he maintains. "They live online," he says. "The spend their year online so there is a need for a convention to meet with their peers, their clients, their service-providers, their customers, their suppliers. There is a need for that physical connection."

The increase in fintech conferences is also driven by content-related companies that provide articles on fintech innovation. Those sites have regarded conferences as money-makers that complement their journalistic endeavors, Jones says. For example, TechCrunch, an online publisher of technology industry news, puts on the TechCrunch Disrupt conferences in San Francisco, New York City, London and Beijing. In another example, Business Insider conducts the IGNITION conference.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Those forces – the internet, globalization and web-based publishing – are making themselves felt in the convention business in general, not just in fintech, Jones notes. Event-related companies trade at roughly 12 times EBITDA (earnings before interest, tax, depreciation and amortization), he says, characterizing the convention business as "a very healthy category of our economy."

Still, the fintech field's crowded with more than 30 conferences, but LendIt is succeeding because of its early start and an emphasis on community, according to Jones. "We come from the industry," he contends. "People are happy with what we can produce. They love our content so they come to learn." Because the conference has become established, the media outlets focus on covering it, which encourages businesses to use it as a stage for introducing products or announcing mergers and acquisitions, he maintains.

Jones views LendIt and Money20/20 as the largest pure-play fintech conferences. The latter, which attracts 11,000 attendees, focuses on payments and contains a "layer" of fintech, while LendIt specializes in lending and likewise offers a "layer" of fintech, he says. Payments and lending represent the two biggest categories in fintech, so the structure of the shows makes sense, he suggests. By chance, Money20/20 occurs in the fall and LendIt takes place in spring, creating what he considers a "nice balance" that encourages prospective attendees to go to both shows.

LendIt USA 2016 conference in San Francisco, California, USA on April 12, 2016. (photo by Evans Vestal Ward)

Benny Yiu, Founder and CEO at Ziero Finance, makes his presentation for the PitchIt at LendIt USA 2016 conference in San Francisco, California, USA on April 11, 2016. (photo by Gabe Palacio)

Synovate holds a rival fintech conference that focuses more narrowly on innovation than do the LendIt and Money20/20 shows, Jones says. A competing bank securitization conference offers information on lending but doesn't address fintech in great detail, he says.

While LendIt has been coming of age in the U.S., it's also gained siblings in Shanghai and London. The Chinese edition of the show, which made its debut in 2014, ranks as the largest fintech show in Asia. The Chinese fintech market has grown to at least five times the size of any other market in the world, and it's home to four of the world's five largest fintech companies, Jones says. "We were completely blown away," he says of learning about the industry during a visit to China.

Despite the language barrier and the challenges of dealing with an unfamiliar culture, LendIt has managed to prosper in China. Through a joint venture with a local financial think tank, LendIt helped produce annual Chinese events known as the Bund Summit for two years with attendance capped at 500. For the third year, LendIt parted ways with its partner and recast the show as a larger event. After the change, the confab, now called the Lang Di Fintech Conference, attracted 1,200 attendees, making it China's largest. "There's a ton of future


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LendIt USA 2016 conference in San Francisco, California, USA on April 10, 2016. (photo by Evans Vestal Ward)

opportunity," Jones predicts of the China endeavor. "We want to be the annual convention for the Chinese fintech industry."

Although it's difficult to set up operations in China, cooperation has prevailed there in at least some areas. "The government has been quite supportive," Jones says of of Chinese officials. "They appreciate what we're trying to do there." In January, LendIt launched its Chinese language daily news feed.

Thousands of miles away, the European-based LendIt confab ranks second in size on that continent only to the European version of Money20/20, Jones says. Attendance at the London-based LendIt show numbered 450 in 2014, which was its initial year. It climbed to 800 in 2015 and reached 925 last year.

Putting on the European event requires much less effort than the Asian version because it's almost an extension of the U.S. original, he says. It's dominated by firms from the United Kingdom but draws a smattering of companies from other European nations. Crossing borders presents challenges for European fintech companies, which keeps the industry's companies smaller there than in the U.S. and China, but that may change, he believes. "There's a lot of innovation there, but they still have a ways to go," he says.

To handle its far-flung operations, LendIt relies on 20 full-time employees, 11 contractors and 10 people working in a joint venture in China for a total of 41 staff members. "These events are incredibly large shows, and we constantly feel understaffed," Jones says. That feeling prevails despite recent additions to the staff, he notes.

And additional opportunity beckons in myriad locations. "The challenge is, do you have a bunch of conferences all over the world, or do you do a beachhead and pull people to those three events?" Jones wonders aloud when asked about the future. "For the moment, we have made the strategic decision to stick with these three events and go deeper with them. But there are so many opportunities all around the world. We're constantly being asked to come to different countries." Then, too, LendIt could convene smaller, one-day events around the glove as feeders to the three main conventions, he allows. "That's something we're batting around now."

The established two-day conferences could also grow into three-day affairs – but not right away, Jones suggests. "We're totally running out of time," he says of trying to cram in all the speakers and exhibitors that LendIt would like to present. Stretching the format could create conflicts because some participants attend other events immediately before or after LendIt.

Notable LendIt speakers have included Larry Summers, who's served as Harvard president and U.S. Treasury Secretary; Karen Mills, former administrator of the U.S. Small Business Administration; John Williams, president and CEO of the Federal Reserve Bank of San Francisco; and Peter Thiel, venture capitalist and member of the Trump transition team. This year, attendees can look forward to meeting the robot that represents Watson, the IBM computer. Watson will take the stage to field questions about fintech. For Jones, however, creating a conference isn't just about the big-name speakers be they human or mechanical. "People who are lesser-known can be really fascinating," he says.

Whoever handles the speaking duties, the LendIt Conference executives vow that they're in it for the long run as the fintech industry's annual convention during both boom times and economic slumps. As Jones puts it: "We want to be a reflection of our industry."

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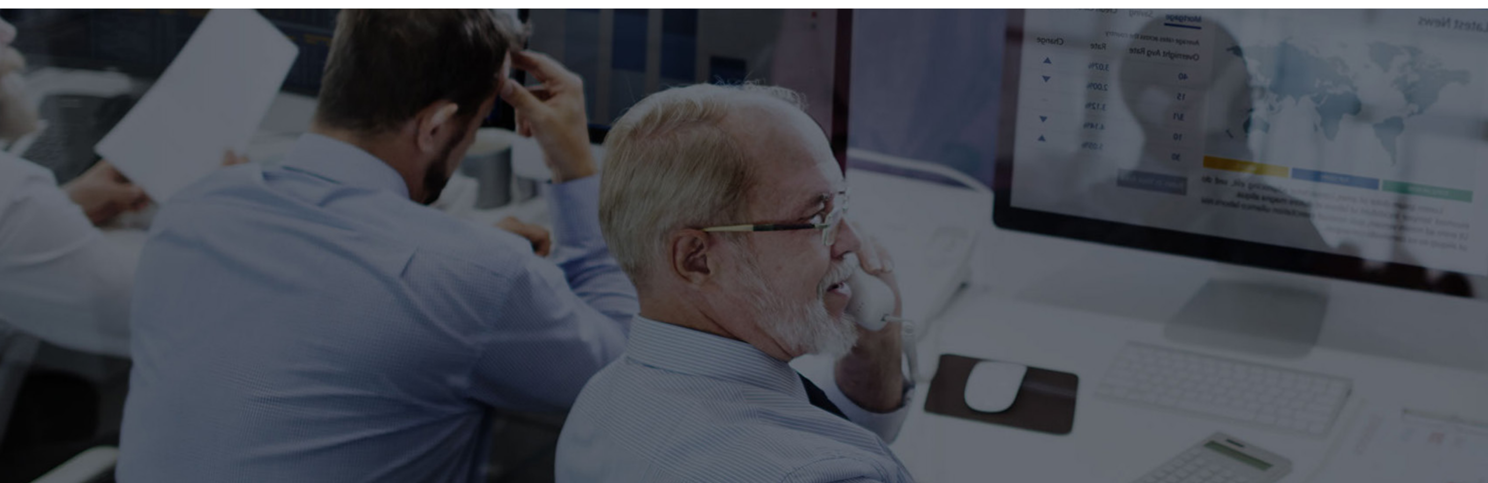

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NEW YORK GOVERNOR PROPOSES LICENSING REQUIREMENTS FOR ALL NON-BANK BUSINESS FINANCE

In New York, Governor Andrew Cuomo's budget proposal included a handful of edits to the state's existing banking law that would have serious implications for non-bank lending. Specifically it appears to call for anyone involved in soliciting, arranging or facilitating consumer loans under $25,000 or business loans under $50,000 to be a licensed lender in the state. It also expands the meaning of making loans at least for the purpose of licensure. If it passes, this would be one of the most significant regulatory events in the industry's history.

The bolded parts are the additions the proposal makes to the law:

Section 340 of the banking law, as amended by chapter 22 of the laws of 1990, is amended to read as follows:

Doing business without license prohibited.

1. *No person or other entity shall engage in the business of making loans in the principal amount of twenty-five thousand dollars or less or for any loan to an individual for personal, family, household or investment purposes and in a principal amount of fifty thousand dollars or less* ***to an individual or business*** *for business and commercial loans, [and charge, contract for, or receive a greater rate of interest than the lender would be permitted by law to charge if he were not a licensee hereunder] except as authorized by this article* ***or by regulations issued by the superintendent*** *and without first obtaining a license from the superintendent.*

2. *For the purposes of this section, a person or entity shall be considered as engaging in the business of making loans in New York, and subject to the licensing and other requirements of this article, if it solicits loans in the amounts prescribed by this section [within this state] and, in connection with such solicitation, makes loans,* ***purchases, or otherwise acquires from others loans or other forms of financing, or arranges or facilitates the funding of loans, to individuals then resident in this state*** *or to businesses located or doing business in this state, except that no person or entity shall be considered as engaging in the business of making loans in this state on the basis of isolated[,incidental] or occasional transactions which otherwise meet the requirements of this section.*

3. *When necessary to facilitate low cost lending in any community, the superintendent shall have the power to adopt regulations that provide an exemption from the licensure requirement in subdivision one of this section for a person or entity. The superintendent may also adopt any such additional rules or regulations that he or she deems necessary to implement the terms of this section including the exemption provision in this subdivision.*

4. *Nothing in this article shall apply to licensed collateral loan brokers*

This act shall take effect January 1, 2018.

You can learn about New York's existing rigorous license application and compliance process at: **http://www.dfs.ny.gov/banking/licensedlender.htm**

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SEAN MURRAY OF DEBANKED NAMED A FINALIST IN FIRST ANNUAL LENDIT AWARDS

Sean Murray, deBanked's President and Chief Editor, has been selected for Best Journalist Coverage

NEW YORK, Jan. 23, 2017 /PRNewswire/ -- LendIt, the world's largest show in lending and fintech, announced that they have selected Sean Murray of deBanked as a finalist in the Best Journalist Coverage category for the first annual LendIt Awards. The Best Journalist Coverage finalists were awarded to the journalists who have provided the most insightful and original coverage about lending innovation and fintech.

Murray was selected as a finalist out of hundreds of applicants worldwide and by more than 30 industry experts who judged finalists representing innovation, emerging talent and top performers. Murray will compete for top honors within his award category at The LendIt Awards Ceremony on March 7 at the LendIt conference in New York City.

"Having been on the front lines of emerging and later stage FinTech companies for the past five years, we wanted to unveil our own best of the best industry accolades," said Jason Jones, Co-Founder, LendIt. "We were positively overwhelmed with the high number and high caliber of entrees. These finalists represent some of the most innovative companies that are radically improving financial services through technology."

"I launched deBanked in 2010 to originally cover innovations taking place in alternative finance and payments," Murray said. "A lot has changed since then. I'm truly honored and humbled to be named a finalist for best journalist coverage," he added. "deBanked's stories are read by hundreds of thousands of people each year, suggesting that lending innovation and fintech have become mainstream."

For more information about deBanked, visit http://debanked.com. To view all LendIt Award finalists, visit **http://www.lendit.com/usa/2017/awards**.

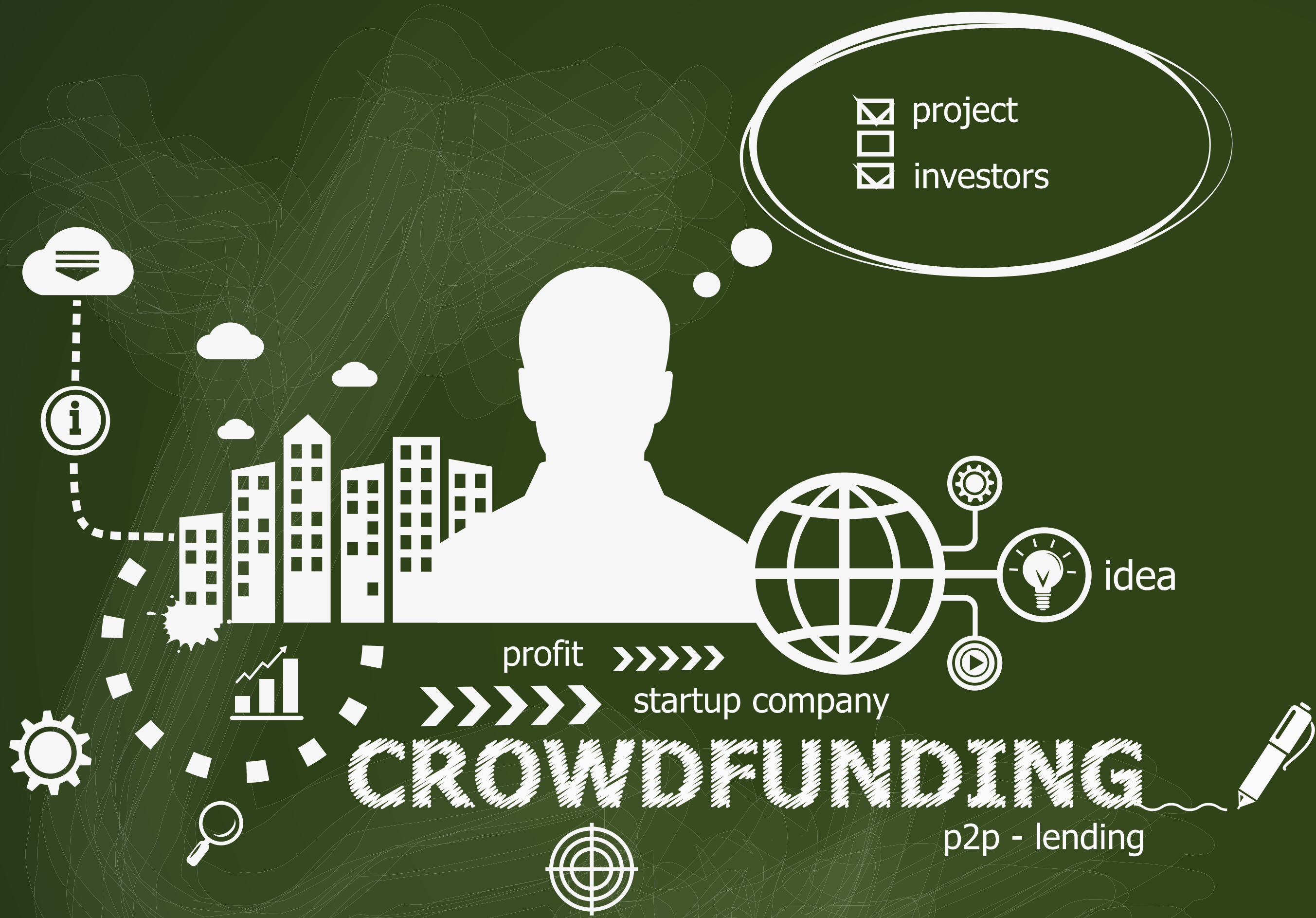
About deBanked

deBanked® is a registered trademark of Raharney Capital, LLC. Launched in 2010, the company publishes a print magazine, email newsletters and an online blog. In conjunction with CounselorLibrary®, deBanked introduced the merchant cash advance industry's first training and certification course, Merchant Cash Advance Basics. Through joint surveys conducted with investment bank Bryant Park Capital, deBanked also publishes a quarterly confidence index of small business financing CEOs.

About LendIt

LendIt is the world's largest event series dedicated to connecting the fintech and lending community. Our conferences bring together the leading lending platforms, investors, and service providers in our industry for unparalleled educational, networking, and business development opportunities.

LendIt hosts three conferences annually: our flagship conference LendIt USA as well as LendIt Europe in London and LendIt China in Shanghai. LendIt USA 2017 will be held in New York from March 6 - 7. Learn more at http://www.lendit.com/.



EQUITY CROWDFUNDING TO MASSES SLOW OUT OF THE GATE, BUT PICKUP EXPECTED

By *CHERYL WINOKUR MUNK*

After a lackluster start, spectators are betting on more promising times ahead for equity crowdfunding to the masses.

Although it's been talked about for years, it wasn't until last May that the general public could buy shares of their favorite companies through equity crowdfunding. Before then, only accredited investors could be part of the crowd.

The new crowdfunding regulation, known as Reg CF, has been talked about for several years as a potential game-changer for small businesses seeking growth capital. But so far, it hasn't gotten the fast-track reception that some industry watchers had hoped for. Between inception and January 16 of this year, 75 companies have run successful equity crowdfunding campaigns, raising $19.2 million, according to statistics compiled by Wefunder, an online funding portal for equity crowdfunding.

Even so, industry watchers aren't discouraged, saying it takes time for any new product to catch on and to gain traction.

"Equity crowdfunding is in its infancy. It's got to be a toddler before it can be a teenager, and it's got to be a teenager before it can be grown up. I think in three to five years, equity crowdfunding will be all grown up," says Kendall Almerico, a partner

with the law firm DiMuroGinsberg in Washington, who represents numerous clients in Jobs Act-related offerings.

A YEAR OF TRIAL AND ERROR

Some industry watchers had hoped equity crowdfunding to the general public would take off immediately, on the heels of successful rewards-based crowdfunding sites like Kickstarter and Indiegogo. Consider that since Kickstarter launched on April 28, 2009, 12 million people have backed a project, $2.8 billion has been pledged, and 118,362 projects have been successfully funded, according to company statistics from Jan. 16.

People looked at Kickstarter's accomplishments and projected that from day one, equity crowdfunding to the public would be an immediate success, Almerico explains.

Instead, Almerico says 2016 was a year of trial and error, in which companies seeking equity funding tested out the market and learned the process. Initially, there were several funding failures, where companies set fundraising goals that were too lofty and came away with nothing. Other companies have been hesitant to dip their toes into a market that's still very new and unchartered.

"I'm not surprised that it has taken a little bit of time for companies to raise money this way," Almerico says.

However, industry participants say that every success story encourages others and the market will continue to build on itself.

"We are very optimistic that 2017 will be the year it goes more mainstream in the U.S." says Nick Tommarello, founder and chief executive of Wefunder, who expects crowdfunding levels in 2017 to reach three to four times what they were at the end of 2016.

WADING THROUGH UNCHARTERED TERRITORY

Certainly, Reg CF is still very new in practice. On October 30, 2015, the Securities and Exchange Commission adopted final rules to permit companies to offer and sell securities through equity crowdfunding for non-accredited investors. But it wasn't until May 16, 2016 that this new type of investing actually became permissible.

Companies that want to raise money from the general public have to do it through a funding portal that is registered with the SEC. As of mid-January, there were 21 funding portals, according to a listing on Finra's website. The bulk of the funding thus far has come through the portals Wefunder, StartEngine and NextSeed, according to statistics compiled by Wefunder. Indiegogo, best known as a leader in perks-based crowdfunding, has also gotten a fair amount of business. Indiegogo launched an equity crowdfunding portal late last year through a joint venture with MicroVentures, an online investment bank.

There are significant rules when it comes to members of the general public investing in equity deals; how much you can invest per year depends on your net worth or income. Everyone can invest at least $2,000, and no one may invest more than $100,000 per year, according to SEC rules.

Meanwhile, companies are limited to raising $1 million in a 12-month period using Reg CF. Also, they must raise enough to hit their funding target or the fundraising round is a bust. They can, however, use other avenues to raise money simultaneously, such as through accredited investors or venture capitalists. This can be an advantage for companies because it allows them to tap their customer base—a great marketing and customer-retention tool—and yet still seek growth financing from investors with deeper pockets.

Over time, as equity crowdfunding gains traction, Almerico predicts the SEC and Congress will revisit some of the regulations and tinker with the laws to make them even more user-friendly. And that too, will help crowdfunding gain ground with investors and companies, he says.

For instance, under current rules, a company can't market its offering until it goes live, at which point additional marketing restrictions set in. Congress and the SEC will likely change some of these restrictions to make the rules more similar to Regulation A, which covers offerings of larger sizes, Almerico says.

A CONSUMER-FACING PROPOSITION

For the most part, companies that are consumer-facing as opposed to B2B will have the most luck with equity crowdfunding. For one thing, consumer-facing companies often have an easier time explaining their story to the public. Also, there's real benefit for consumer-based businesses to get their customers to sink money not only into a company's product, but

behind the scenes as well. Thus far companies that have sought funding under Reg CF run the gamut from breweries to tech startups, Wefunder data shows.

When it comes to equity crowding, investment levels tend to be small. Wefunder stats shows that 31 percent of investments made through its own platform are $100 and 76 percent of investments are under $500. "The whole point is to have lots of investors investing small amounts of money and together they add up," Tommarello explains.

One of Wefunder's largest offerings was Hops and Grain Brewing, a microbrewery based in Austin, Texas. The company is one of three businesses to raise $1 million on Wefunder, and more than 70 percent of the money came from its own customers, according to Tommarello. "Equity crowdfunding allows customers an opportunity to back things they really care about—and it's great marketing for the company too," he says.

Another company, Snapwire Media Inc., a start-up in Santa Barbara, California, also believes in the power of the crowd to raise funds and gain marketing traction. Chad Newell, the company's chief executive, says Snapwire wasn't at a point where it felt ready to solicit venture capital money, but felt confident that its users, who were already passionate about its services, would become their biggest advocates.

The company, which connects a new generation of photographers with businesses and brands that need on-demand creative imagery, was launched in 2014. It previously raised $2 million from accredited investors before raising $179,065 from the general public on the funding portal StartEngine. In December 2016, the company launched a campaign to raise additional funds on Wefunder.

"Because we had a strong community and such a large one, we felt it was a good way to raise funds. Why not raise it from the people that care about the product the most?" Newell says.

OVERCOMING THE HURDLES OF NEWNESS

Because equity crowdfunding to the general public is so new, there's still a lot of uncertainty about how the process works—both among companies looking to raise money and potential investors.

"The biggest hurdle today is that equity crowdfunding is still underground versus rewards-based crowdfunding," says Howard Marks, co-founder and chief executive of the online portal StartEngine. "It's tiny. It's small. It's nothing. It's not even a dot in the grand scheme of things," he says.

At this point, many people still don't realize they can invest, or how to invest. He likens equity crowdfunding to index funds or junk bonds that were once completely unknown products. Over the years, however, they gained broad acceptance and are now widely used investment vehicles. "Every time there's a new financial product that comes out, it takes time," he says.

In December, five new companies used StartEngine for equity crowdfunding. In January, he expects there to be more than 10. By the middle of next year, he

predicts there could be 20 a month, and in two years from now he's hopeful to be doing about 500 equity deals a month.

"Within five years, our plan is to have 5,000 companies on the platform," he says. "The demand for capital is pretty large."

At this point, Wefunder is the largest platform for Reg CF offerings in terms of dollars funded, successful offerings and number of investors.

According to data through January 16, forty-six of the seventy-one companies that listed on its platform, or 65 percent, had successful offerings, meaning they reached their investment goals.

Some funding portals have felt the pangs of being new to the industry and are trying to get their bearings to compete more effectively.

Vincent Petrescu, chief executive of truCrowd Inc, a funding portal based in Chicago, says his company got registered in May 2016 and spent the rest of the year learning the lay of the land. Ultimately, truCrowd decided it would be better off specializing in a few verticals than going after all types of companies. Its plan now is to focus on the cannabis industry and the HR space.

"I think that the potential is huge. There are lots of good companies out there that need capital," he says.

THE SNOWBALL EFFECT

Wefunder data shows that investors who buy into one deal tend to do another deal shortly after, so it's a compounding effect, Tommarello says. "It's a snowball rolling down a hill. We're developing a whole new class of mini angel investors," he says.

In terms of future growth, Petrescu of truCrowd says the biggest hurdle for the industry is exposure. Lots of people still don't know about it, and they are still in the mindset that it's illegal because it was for so long.

He says he's not too concerned, though, because the UK had a similar experience when equity crowdfunding to the general public first started there a few years back. As soon as the success stories start to become more publicized and people see the returns that are possible, he predicts interest will grow. "The potential is there. No doubt about it," he says.

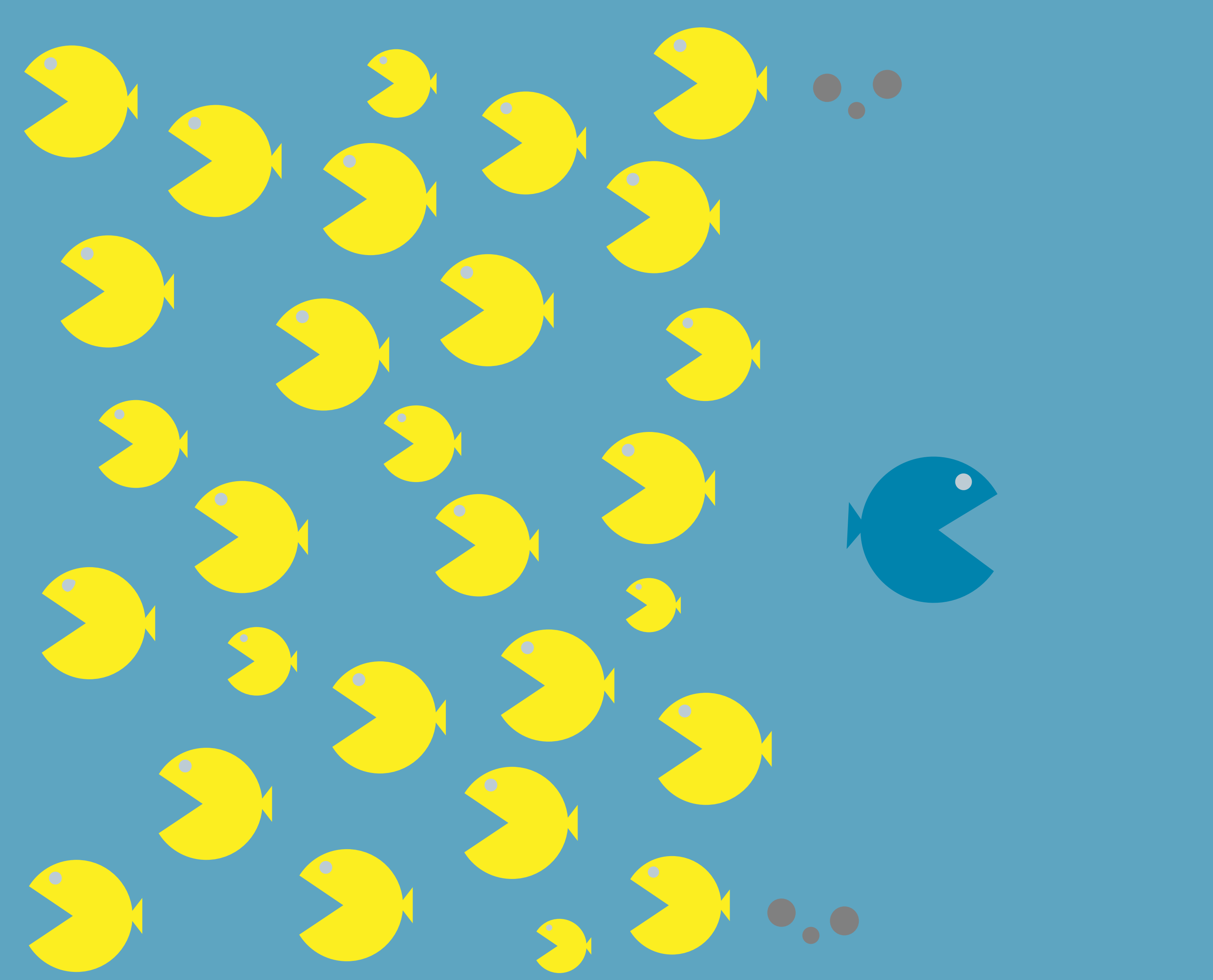
For companies that are giving more thought to equity crowdfunding, it may help to seek out advice from others that have already traveled this road. Newell of Snapwire says he gets calls every week from company founders to ask about his experience with equity crowdfunding and to discuss in further detail whether it might be the right option for them.

Newell tells companies that ask him about equity crowdfunding that it's an effective way to raise funds, with certain caveats. For instance, you really have to understand the rules of what you're allowed to do and what you can't do because there are many more restrictions when marketing to the general public versus accredited investors. You also have to be good at marketing—or hire a company to do it on your behalf—and have a sizable group of users that you think will want to invest in your future.

"It's been a great source of capital for Snapwire because of our passionate community. I caution any company that doesn't have a large community to be careful about spending time and resources and have realistic expectations," he says.

He also says companies should have realistic fundraising goals since it is unusual—at least at this juncture—to raise a million dollars from small investors through equity crowdfunding. It's more realistic to expect to raise $200,000 to $500,000, he says.

"I think everyone gets attracted to the top number. But that's not necessarily what happens. Equity crowdfunding should be complementary to any funding strategy. By itself, it's not some magic bullet," he says.



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THE ROAD TO TRAINING THE BEST SALES REPS

By *ED MCKINLEY*

Alternative-finance industry executives tend to agree on at least two basic rules for building a successful sales team: Hire people who know how to sell and never stop training them. Following the second rule requires knowledge and perseverance. The first one takes a leap of faith.

To obey Rule No. 1, companies have to find ways of determining who possesses that elusive quality known as salesmanship, even among inexperienced job candidates. To that end, most firms make an educated guess based on experience, intuition, common sense, high hopes and the good graces of Lady Luck.

"We look at personality traits," says Zach Ramirez, a World Business Lenders vice president and manager of the company's Costa Mesa, Calif., branch. "We're looking for an outstanding person – the highest-caliber person we can find. They should be hard-working and competitive. You can underline 'competitive.' They should have a fire inside them."

"We want someone who's hungry for money and is going to be a go-getter, says Chad Otar, CEO and executive funding manager at Excel Capital Management Inc. "It's a feeling that you get when you talk to them. You can tell when a person is going to sit back and not do anything." In addition, good candidates aren't intimidated by the challenge of learning how the industry works, he notes.

"It's really about how you connect with someone," according to Amanda Kingsley, who owns Options Capital and also works as a sales training consultant. "Even over the phone, you need to treat people with understanding. You need to inspire the trust that you could provide the advisory help they need." Small details, like remembering a potential client's daughter just got married, mean a lot, she says.

"It comes down to drive and personality," says John Celifarco, sales manager at Sure Funding Solutions. He finds there's not much room for the thin-skinned and it takes a certain kind of person to succeed. "When you find the right people, it usually clicks pretty quick," he says. "For the people who don't work out, it usually falls apart pretty quick."

"I look for strong personalities," says Isaac Stern, CEO of Yellowstone Capital. "I don't believe you can necessarily teach someone to sell," he asserts. "This isn't an easy sell, so you have to have a Type A personality. They're on the phone and they're confident whether they know the product or not in the beginning." The interview process can "weed out" candidates who aren't going to find success, he says.


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Don't expect someone with a background in outside sales to find happiness spending eight hours a day on the phone as an inside salesperson, warns Stephen Halasnik, managing partner at Financing Solutions. As a direct financing company, his firm hires salespeople different from those an ISO or broker employs, he says. His company expects salespeople to act as consultants who are knowledgeable about finance and empathetic to small-business owners.

Nearly every company prefers candidates with selling experience, possibly in telemarketing. Some seek reps with a background in selling financial services, but others prefer prospective employees who are new to the industry. "I don't want to hire someone else's problem child," Stern asserts. "I'd like them to learn the way we do things from start to finish."

"Different offices have different cultures, so someone who has worked well in one office might not work well in another," Celifarco says. People hired from other companies may bring bad habits, he says. They may approach the job in a variety of ways they've learned elsewhere and thus prevent the company from presenting a consistent face to the public, he says. "Every company has an identity," he contends.

Applicants without a sales background sometimes rise to the occasion and succeed, says Ramirez. In fact, one of his top sales managers joined the company with no sales experience. Former entrepreneurs, even those without a sales background, often have a lot in common with other small-business owners and that helps them do well, he notes.

Excel Capital Management seeks salespeople with differing backgrounds for two different types of roles in its sales force, says Otar. Openers work on salary and should have phone sales experience so they're comfortable on the telephone. Closers, who work for commissions, should have experience at selling financial services products or something closely related, such as stocks or mortgages, he says.

While good hiring practices bring good employees into the company, they also guard against inviting bad ones into the fold. World Business Lenders uses several third-party companies to perform background checks and pre-employment screening, but most often calls upon ADP, says Alex Gemici, the company's chief revenue officer. ADP performs evaluations that comply with the laws of the states where the employees are located, he says.

Eliminating unsavory candidates carries special significance in the alternative-finance business, notes Ramirez. "It's critically important that they have no background issues," he says. "In this industry there a lot of bad apples out there. It's important that they don't infiltrate our organization."

"It's very difficult to find loyal guys," Otar laments. "They come in and utilize all your systems and then you catch them stealing." In other words, they pass deals along to other companies. Otar has caught three of his closers doing exactly that. "You've got to be very careful," he warns, adding that it's difficult to spot bad actors because they're skilled at selling themselves.

Once a company chooses the best candidates, the training can begin. New salespeople always start on Mondays at World Business Lenders, and the company's corporate headquarters conducts sales training nationwide that day, says Gemici. The full day of instruction originates at headquarters, and new hires at branch locations participate on Skype. Subjects include the industry in general, specific company products and sales tips.

On Tuesdays, the World Business Lenders branches take over the training for a day or more, Gemici notes. That instruction, which lasts as long as the branches decide, can include having the new

employees "shadow" more-experienced workers and having crack salespeople listen in on the phone calls of the new staffers as they make their pitches.

In the World Business Lenders office in California, Ramirez continues the training every day of a new employee's first two weeks on the job. Tuesday and Wednesday of the first week, he spends the full eight-hour day with them. After that, he sets aside at least two or three hours of instruction each day. "I want to err on the side of over-training," he explains.

From there, education continues as long as employees work for the company, Ramirez says. That can include spot training that he institutes anytime he sees a problem or an opportunity for improvement. Ongoing training also helps salespeople keep up with changes that occur in the industry, he notes.

The sales staff in the California office of World Business Lenders also assembles in a conference room for regular sales meetings. Ramirez picks a rep who's outstanding at some aspect of the job to deliver a short lecture on the subject at those meetings. A star at prospecting, for example, could explain tricks of that part of the trade and then field questions on the subject. "That way, everybody can learn what everybody else knows," he says.

For ongoing training at Financing Solutions, Halasnik calls his staff into a "huddle" for 10 minutes every day. They review what deals are pending so that salespeople know what management is seeking and can use that knowledge when they're gathering data from customers. "We're looking for reasons to give someone financing that doesn't fit the cookie cutter approach a bank would use," he notes. The team also use the huddle to share information about the industry.

At Sure Funding Solutions the sales staff meets every couple of weeks for ongoing training. They talk about some aspect of the sales process, such as opening, closing, dealing with banks, what's working and what's not working, says Celifarco. "I've been in this business since '08, and I'm still learning new things," he notes, adding that changing one phrase in a pitch could get better results.

Ongoing training at Excel hinges on monitoring phone calls to ensure openers are asking the appropriate questions to qualify leads and that closers are working effectively, Otar emphasizes. "It's a never-ending process to learn what to say at the right time," he says of his company's training policies. Salespeople who have mastered the basics can bring their own personalities into their presentations to avoid sounding as though they're reading from a script and thus foster an organic conversation, he notes. "That's perfect – it's golden," he exclaims.

Kingsley agrees. "Don't be too 'salesy,'" she counsels. "That's the best sales advice I can give."

Nobody enjoys receiving a telemarketing call, she reminds her trainees. Larger companies probably won't heed that tip because they're focused on volume, but smaller companies can avoid the "salesy" trap, she says.

Training should also teach originators to avoid industry jargon on their calls because prospects simply may not know the lingo, Kingsley cautions. Closers should learn from their training that knowledge of the customer's industry can help build a relationship, she says. And knowing the customer's industry also helps salespeople convey a deeper understanding of creditworthiness to underwriters, she maintains.

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salespeople to reveal information to clients through a string of questions instead of merely throwing out statements about the company's products, Halasnik says. The questions can include how the customer's business works and how he'll use the money. That can allow the client to sell himself, and it can help the salesperson explain the client's situation to the underwriters, he says.

Salespeople should learn to present themselves as professionals and avoid sounding like used car dealers, Halasnik maintains. "They have to understand business," he notes, adding that training must convey that sensibility because "they don't really come in that way." In fact, he maintains that financing Solutions has to persevere in continuing to help the sales staff understand how small-business owners think.

Even though training never ends, it eventually pays off, Halasnik contends. He looks forward to the time – possibly in six months or so – when the roles reverse because his salespeople are picking up so much information that they're training him. The fact that sales reps are making contact with customers keeps them in touch with the pulse of the industry, he notes.

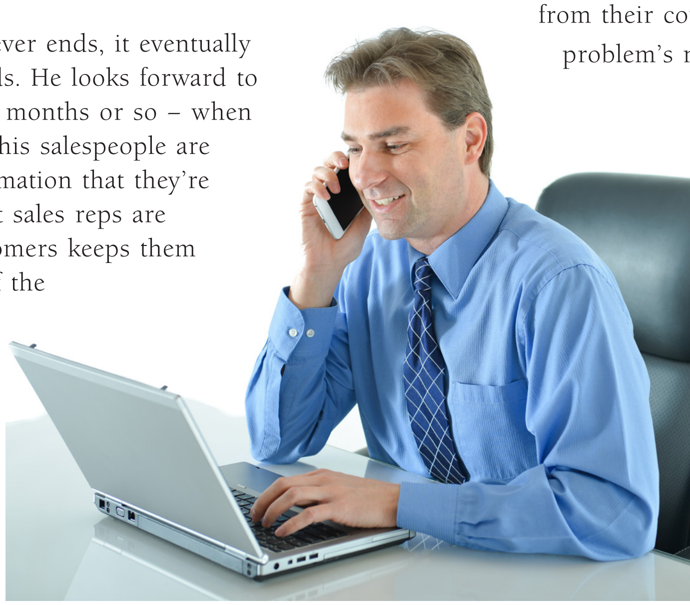
But problems can arise even with the most persistent training efforts, so it's also vital to begin the process with employees who are trainable, Kingsley suggests. "Some people listen to you, but then they don't act on the advice," she maintains. Others don't want to expend the effort necessary to research their customers' industries. "If you're going to make $10,000 off of a sale, put in the work for it," she admonishes.

Some companies are hiring lots of salespeople and putting them to work quickly as part an effort to achieve sheer volume, Kingsley says. Instead, she recommends training a smaller number of reps to conduct themselves in a transparent manner that promotes repeat business.

World Business Lenders allows for a 90-day period to determine whether a new salesperson and the company are a good fit, says Gemici. Turnover occurs during that period, often because the company is growing so quickly that it's necessary to take on a few inexperienced employees, he says. For salespeople who complete the 90 days, the success rate is high, he notes.

"We like to say six weeks," Otar says of his company's probationary period. By then, a closer should be making four to seven deals a week, he suggests, noting that openers should generate 15 to 25 leads weekly and five to seven should be getting funded.

Salespeople can require four months to really catch onto their jobs, according to Halasnik. He finds that he can gauge their progress by the quality of the questions they ask, not by what they say. As they learn the business, their questions improve, he notes.



The effort required to find and train salespeople can tempt some companies to steal good employees from their competitors, but the problem's no more severe in the alternative-finance industry than in other businesses, according to Ramirez. "I never intentionally poach someone else's employees, although people have tried to recruit mine," he says. "Most of these people are clients. These competitors of ours send deals to us so I don't want to do anything to jeopardize that relationship nor do I think that's a good business tactic."

So where are those prospective employees hiding? World Business Lenders employs a full-time in-house recruiter to ferret them out. Excel finds candidates on industry blogs or through general employment websites. Kingsley urges companies to contact colleges to seek out finance majors. Stern says he puts up a post and receives "tons of resumes."

Wherever the employees come from, one of the keys to their success lies in understanding the customer's business, Halasnik maintains. "If you only think of your business as money, it could be a little bit boring," he says. "If you think about who the clients are and how they got there and who their customers are, that's the fun part of the job."

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