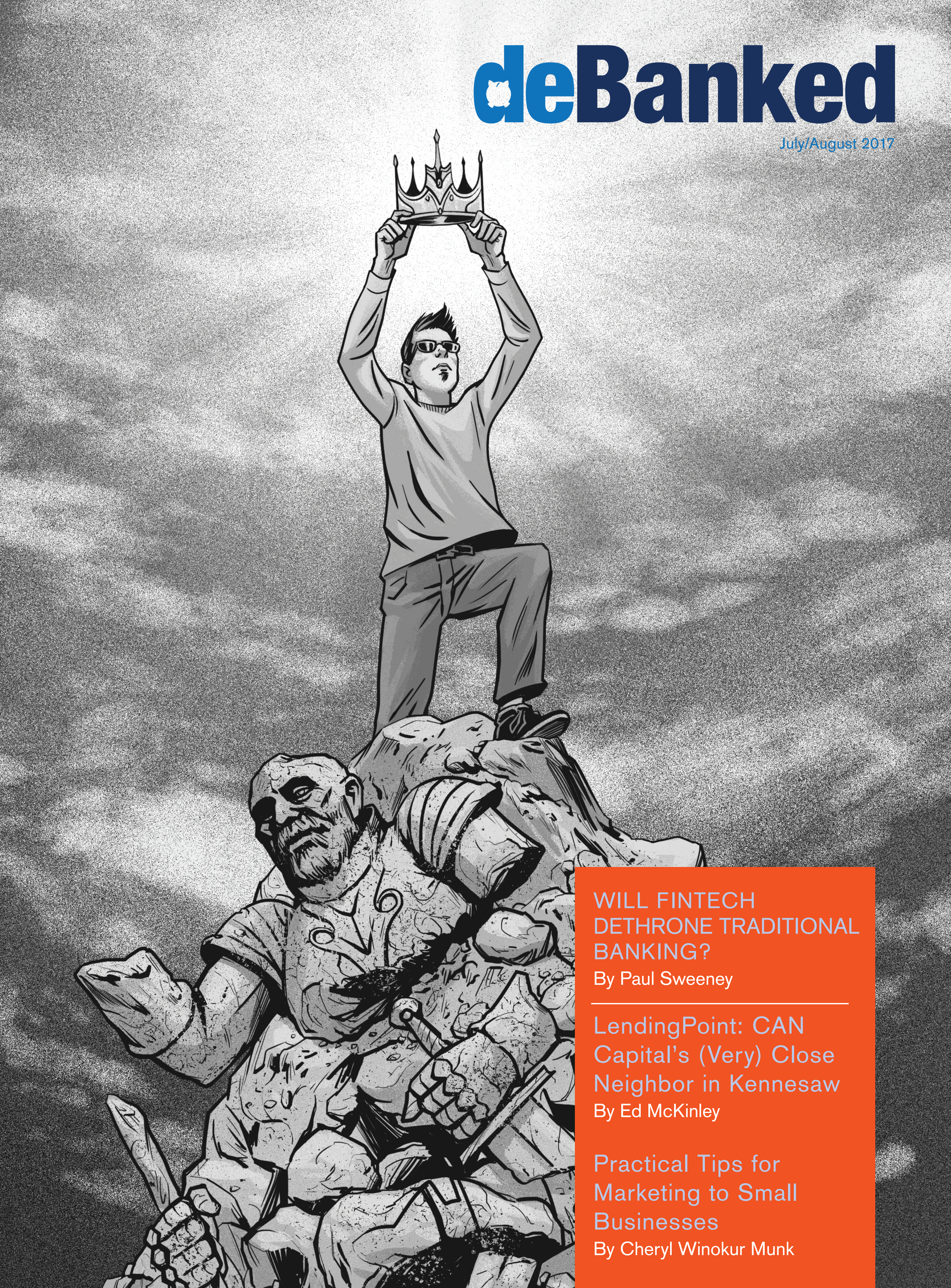
deBanked

July/August 2017



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By Ed McKinley

Practical Tips for Marketing to Small Businesses

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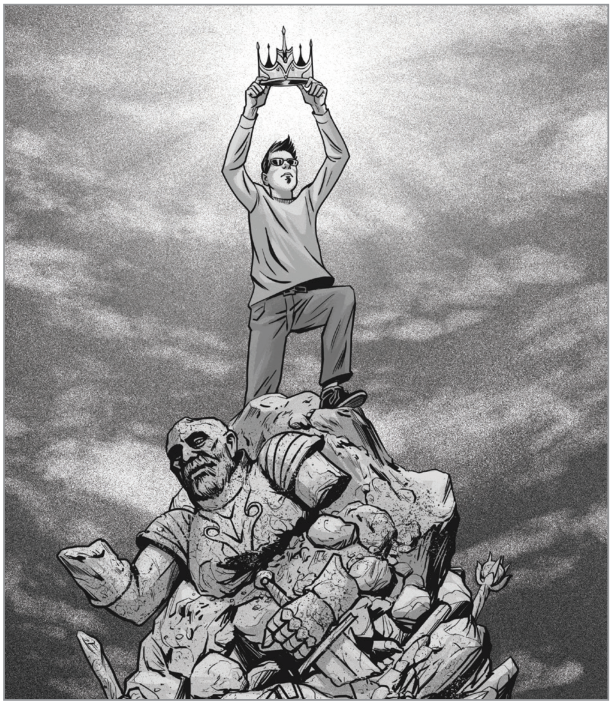

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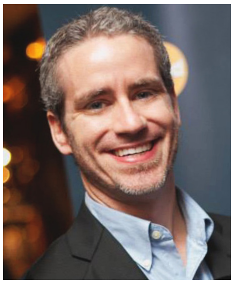
Letter From the Editor



BY
SEAN MURRAY

Happy end-of-summer. It's been a remarkable year so far.

In this issue, we talked to small business owners about what works and what doesn't. Several of them advocated for more personal attention and to shift away from old fashioned marketing tactics like cold calling. If you're a salesperson, you'll want to read what your clients told us.

On the bank side, the companies disrupting banking are... other banks, ones that have embraced digital technology and partnerships with online lenders. They're tech companies with bank charters, or at least that's how they appear. And it's working for them quite well. To become a better bank, these banks are taking an entirely different approach than their predecessors.

We've got a lot more of course and I want to thank everyone that has supported *deBanked* all these years, whether as a paying advertiser or as a regular reader. One of the most rewarding things for myself personally has been to see copies of this magazine appear in the lobbies of funding companies all over the country as reading material for visitors. That has given us incredible reach, but I think we can reach even farther. Stay tuned for plans we have in 2018. As the industry turns a page, I hope that you'll continue turning ours.

–Sean Murray

Featured Story

TECH BANKS: WILL FINTECH DETHRONE TRADITIONAL BANKING?

by PAUL SWEENEY

On Halloween, 2014, a largely unknown, Boston-based financial institution, First Trade Union Bank, embraced high-technology, went paperless, and officially adopted a new name: Radius Bank.

In reinventing itself, Radius did more than dump its dowdy moniker. It shuttered five of its six branches, re-staffed its operations with a tech-savvy team, instituted "anytime/anywhere" banking services, and offered customers free access to cash via a nationwide ATM network. And it teamed up with a fistful of financial technology companies to offer an impressive array of online lending and investment products.

Today, the bank's management boasts that, using their personal mobile phones, some 2,700 people per week are opening up checking accounts, funneling $3 million in consumer deposits into the bank's virtual vault. That's a stark contrast from a decade ago when the financial institution was being rocked by the financial crisis and "we couldn't get anybody to walk into our branches," says Radius's chief executive, Mike Butler.

"We tried to leave that old bank behind," he says. "We're a virtual retail bank now, an efficiently run organization that offers high levels of customer service and Amazon-like solutions."

Radius Bank is not alone. At a moment when there is much discussion—and hand-wringing—over the future of seemingly outmoded, highly regulated community banks, a coterie of small but nimble banks is exploiting technology and punching above its weight. Almost overnight, this cohort is combining the skill and hard-won experience of veteran bankers with the lightning-fast, extraordinary power afforded by the Internet and technological advances. As a result, these small and modest-sized institutions are redefining how banking is done.

In addition to Radius Bank, independent banks winning recognition for their bold, innovative – and profitable -- exploitation of technology, include: Live Oak Bank in Wilmington, N.C., which adroitly parlays technology to become the No. 2 lender to business and agricultural borrowers backed by the U.S. Small Business Administration; Darien

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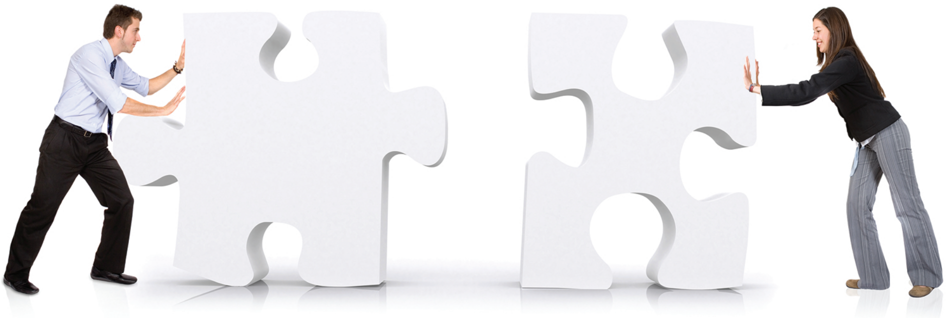

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Rowayton Bank in Darien, Conn., which is making a name for itself with coast-to-coast, online refinancing of student loans; and Cross River Bank in Fort Lee, N.J., which does back-end work for a passel of fintech marketplace lenders.

Interestingly, there's not much overlap. Each of the banks goes its own way. But what all the banks have in common is that each has struck out on its own, each hitting upon a technological formula for success, each experiencing superior growth.

"These are companies that understand the value of a bank charter," says Charles Wendel, president of Financial Institutions Consulting in Miami. "They have to work under the watchful eyes of state and federal regulators. But their cost of funds is low and they can offer more attractive rates. Because they're less likely (than nonbank fintechs) to disappear, run out of money, or get sold," the bank expert adds, "they also have the image of stability with customers."

These modest-sized banks are emerging as not only pacesetters for the banking industry. Along with making common cause with the fintechs—which had promised to disrupt the banking industry—they're even beating the fintechs at their own game.

"Classically, community banks have looked to technology partners to provide technological innovation," says Cary Whaley, first vice-president for payment and technology policy at the Independent Community Bankers of America, a Washington, D.C.-based trade group representing a broad swath of the country's 5,800 Main Street banks. "They still do. You're seeing more partnerships. But now you also see community banks building innovative products and services outside of that relationship. You see forward-thinking banks developing their own technology to support big ideas like marketplace lending, distributed ledger technology, and emerging payments technology."

With its extraordinary skill at exploiting technology, Live Oak Bank – which trades on the Nasdaq and is the only public company encountered in the cohort -- has become a Wall Street darling. "While several banks have adopted an online-only model, and nearly all banks are shifting more and more delivery through online channels, Live Oak was built from the ground up as a technology-based bank," Aaron Deer, a San Francisco-based research analyst at Sandler O'Neill Partners, wrote in a recent investment note.

Driving the success of Live Oak, which operates out of a single branch in the North Carolina seacoast town and has only been in business for a decade, is the explosive growth in its SBA lending, the bank's "core strategy," Deer notes. Last year, Live Oak lent out $709.5 million in SBA loans in increments of up to $5 million, the federal agency reports, making it the country's No. 2 SBA lender. It trailed only megabank Wells Fargo Bank, the third largest bank in the U.S. with $1.5 trillion in assets, which made $838.93 million in SBA-backed loans last year.

As its SBA lending has taken off, Live Oak, which qualifies as a "preferred lender" with the federal agency, boasts assets that have nearly tripled to $1.4 billion in 2016, up from $567 million two years earlier. Those are flabbergastingly fantastic growth numbers. But just as incongruously -- by nipping at the heels of Wells Fargo -- Live Oak has been challenging a bank more than a thousand times its asset size for dominance in SBA lending.

And, interestingly, the bank is able to book those outsized amounts of SBA loans while lending to only 15 industries out of 1,100 approved by the government agency, slightly more than 1% of the universe. That's up from 13 industries in 2015, and Live Oak is adding two to four additional industries yearly for its SBA loan portfolio, Deer reports. Included among the industries to which the bank made an average SBA loan of $1.29 million last year: Agriculture and poultry, family entertainment, funeral services, medical and dental, self-storage, veterinary, and wine and craft-beverage.

The bank has a team of financing specialists dedicated to each of the designated industries. Among Live Oak's current SBA borrowers are Martin Self Storage in Summerville, S.C.; Utah Turkey Farms in Circleville, Utah; Pinballz Arcade, Austin, Tex.; and Council Brewery Company in San Diego. Steve Smits, chief credit officer at the bank, told NerdWallet: "When you specialize in something, you become efficient. Because we do it every day and we have professionals and specialists, we tend to be more responsive and quicker."

The heady combination of technological sophistication and banking expertise has allowed the lender to slash its loan-origination time to 45 days, about half the three-month industry average for SBA loans. To speed up loan sourcing and generation,

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the bank developed its own in-house technology, which led to the formation of the Wilmington-based technology company nCino, which was spun off to shareholders in 2014.

Live Oak did not return calls to discuss its lending strategies, but in SEC filings bank management declared: "The technology-based platform that is pivotal to our success is dependent on the use of the nCino bank operating system" which relies on Force.com's cloud-computing infrastructure platform, a product of Salesforce.com.

Natalia Moose, a public relations manager at nCino told deBanked in an e-mail interview: "We work with Live Oak Bank, in addition to more than 150 other financial institutions in multiple countries with assets ranging from $200 million to $2 trillion, including nine of the top 30 U.S. banks. nCino was started by bankers at Live Oak Bank who found the logistics of shuffling paperwork among loan stakeholders to be unwieldy, inefficient and time-consuming.

"nCino's bank operating system," Moose adds, "leverages the power and security of the Salesforce platform to deliver an end-to-end banking solution. The bank operating system empowers bank employees and leaders with true insight into the bank, combining CRM (customer relationship management), deposit account opening, loan origination, workflow, enterprise content management, digital engagement portal, and instant, real-time reporting on a single secure, cloud-based platform."

Live Oak, meanwhile, is not resting on its technological laurels. According to Deer's report, the bank's parent company, Live Oak Bancshares, has formed a subsidiary to inject venture capital into fintech companies. It's already taken a small equity stake in Payrails and Finxact, "the latter of which is developing a completely new core processor to compete against the old legacy systems used by most banks," the Sandler O'Neill analyst writes. "Quite simply," he asserts elsewhere in his report, "the company is far beyond any other bank we cover in its technical capabilities and the growth outlook remains outstanding."

Five hundred and thirty-three miles due north along the Atlantic coast in southeastern Connecticut, Darien Rowayton Bank is also experiencing tremendous success as a lender using a home-grown technology platform. State-chartered by the Connecticut Department of Banking and regulated as well by the Federal Deposit Insurance Corp., the $600 million-asset bank is winning attention in banking circles for its online student-loan refinancing.

A few years ago, DRB, as it is known, was looking to go beyond mortgage and commercial lending—"the bread and butter for most community banks," bank president Robert Kettenmann explained to deBanked in a telephone interview—and was somewhat at a loss. The bank considered but then rejected the credit card business. Finally, DRB struck paydirt refinancing student loans. "Our chairman really seized on the opportunity," Kettenmann says, adding: "It's a $35 billion market."

Thanks to the National Bank Act, it's able to operate in all 50 states. As a regulated commercial bank with a strong deposit base, DRB can also offer low rates well below any state's usury prohibitions.

What is most striking about DRB's program is its nationwide targeting of upwardly mobile, affluent young professionals. According to a PowerPoint presentation obtained by deBanked, all of the bank's super-prime borrowers, who are mainly in the 28-34 age bracket, have a college degree and a whopping 93% have graduate degrees. Average income is $194,000.

Forty-eight percent of those refinancing student loans with DRB are doctors or dentists and another 22 percent are pharmacists, nurses or medical employees; only about 20% are paying off their law degrees or MBAs. The heavy concentration of refinancing in the medical field reduces economic risk in an economic downturn. Forty-three percent of the borrowers are home-owners, the rest are renters—and prime candidates for an online, DRB-financed mortgage.

(Once known as "yuppies" today this cohort is "known by the acronym 'HENRY,'" remarks Cornelius Hurley, a Boston University banking professor and executive director of the Online Lending Institute, explaining the initials stand for "High Earners Not Rich Yet.")

The Connecticut bank partnered with a third-party on-line vendor, Campus Door, when it commenced making student loans in 2013. In the fall of 2016, however, DRB built out its own, proprietary loan-origination system, Kettenmann reports,

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emphasizing that CampusDoor had been an excellent partner but that the bank wanted to exercise end-to-end control over the process. DRB employs a seven-pronged, "omni-channel" marketing approach that includes interactive marketing, affinity partnerships, digital/online advertising, direct mail, mass-media advertising, and public relations/brand awareness campaigns.

DRB's online enrollment provides "pre-approved rates" in less than two minutes with final approval on rates in 24-48 hours. Refinancers can

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complete the online application at their own speed. Through May, 2017, DRB had made $2.48 billion in refinancing to 20,000 student-loan borrowers, with only ten defaults, five of which were attributed to deaths or "terminal illness."

On Yelp! the bank has received a batch of reviews ranging from very favorable, five-star ("I had a truly wonderful experience") to one-star ("awful" and "truly a nightmare"). Many fault the application process as laborious, describing it as "time-consuming." But for those who have succeeded, like the reviewer who counseled "patience," the result can be "the lowest rate with DRB...my loan payments went down $100 a month."

Just about an hour's drive south and taking its name from its proximity to New York city just over the George Washington Bridge is New Jersey-based, state-chartered Cross River Bank, which has a reputation as a partner-in-arms to fintech companies. "We're both users and producers of technology," declares Gilles Gade, the bank's chief executive.

The bank provides "back-end" and infrastructure support to 17 marketplace lenders that offer a suite of lending products including personal loans, mortgages and home-equity loans. Following loan origination by a fintech company – Marlette Funding, Affirm, Upstart, loanDepot, SoFi, and Quicken Loan, among other partners—Cross River does the actual underwriting. Last year, Gade reports, the bank underwrote 1.9 million loans valued at $4-4.5 billion, about 10% of which Cross River kept on its books. The bulk of the loans are sold "back to the marketplace lenders" or to a third party. "We've created a high-velocity automated system," he says.

Gade is manifestly unapologetic about the bank's role in assisting fintechs in their competition with the banking establishment. "We're a banking infrastructure services provider for those who want to disrupt the banking system," he says. "Consumers expect a lot better than they've been getting from traditional banking services."

Back in Boston, Radius Bank's chief executive reports that forging partnerships with fintechs to provide the full panoply of online banking services was no easy proposition. In its mating ritual, Radius not only had to determine that a fintech company's offerings were sound and that it had the right characteristics – most especially "a long-term, sustainable business model"—but that its corporate culture meshed comfortably with Radius's.

After meeting with as many as 500 fintechs and after a fair amount of trial and error, Radius formed partnerships with LevelUp, which enables customers to make mobile payments; with online lender Prosper, for refinancing consumer debt and "credit rehabilitation"; with SmarterBucks, for refinancing student loans; and with online investment firm Aspiration Partners—which allows investors to name their own fees and markets itself to a predominately middle-class audience as the firm "with a conscience."

Radius employs advertising on social media websites and employs "psychographics" to appeal to "anyone who is zealous about using technology, not necessarily millennials," Butler says. The data show that 65% of adults in the U.S. would prefer to use a traditional bank and have face-to-face interactions with a teller, he notes, leaving the remaining 35% as Radius's target audience.

Christopher Tremont, executive vice-president for virtual banking, told deBanked that a typical Radius customer is 42 years old, lives in Boston, New York, Chicago "or one of the bigger cities in the West," is a "technophile," earns $75,000 a year, and has $100,000 in personal assets.

Radius's performance since it went paperless has been stellar. The bank has seen a rapid rise in deposits, spurting to $782 million through the first quarter of 2017, up from $565 million at year-end 2014. With little fee income but ample deposits and low-cost funds, Radius realizes the bulk of its revenues—and profits—on the interest-rate spread generated from its loan portfolio.

The bank booked $43.5 million in SBA loans last year, ranking it in the top 50 banks on the SBA's league tables, while carrying another $105 million in its commercial leasing business at the end of the first quarter this year. Loan generation is driving asset growth, which is currently at $973 billion, up more than a third from $726 million in 2014, and Butler expects the bank's assets to top $1 billion sometime this year.

"Community banks love that part of the business—lending money," Butler says.

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CAN CAPITAL IS BACK

On July 6th, 2017, CAN Capital announced that they were coming back from the dead, thanks to a capital infusion from Varadero Capital. According to an email obtained by deBanked, CAN reached out to their former brokers to say that their singular focus will be on the partner sales channel. That could mean that their previous direct sales business will not be the same as what it once was.

AN EXCERPT OF THAT EMAIL IS BELOW:

Dear Sales Partner,

After a seven month hiatus we are excited to share the press release (https://www.cancapital.com/news-press/can-capital-returns-funding-following-recapitalization-varadero-capital/) issued this morning stating our recapitalization and reentry into the market. As one of our sales partners, we want to give more context on how this will affect your business with CAN Capital as we move forward. Our singular focus for new business will be through the partner sales channel.

We are taking a systematic approach to our return to funding. We will start immediately with renewals handled by our experienced Renewal team working through the queue of thousands of potential merchants over the next several months. For new business, we will soon begin reaching out to groups of partners at a time, as the opportunity for new business increases.

Over the next several months, the Partner Sales Team, led by Kevin Duffy and Les Falke, will be reaching out to you to discuss the potential of reengaging with us. And, we hope you will be as excited as we are, as we come back into the market to help you and the SMBs you serve achieve ongoing success.

Varadero began working with CAN Capital as part of its efforts to pay down syndicates. Varadero bought certain assets from CAN Capital last year and provided enough funding to allow CAN Capital to recapitalize. "The recapitalization enabled us to pay off the remaining amounts owed to our previous lending syndicate and provided us with access to additional capital to resume funding operations," CAN Capital CEO Parris Sanz said. He declined to be more specific.

"We were impressed with the overall value proposition of CAN's offerings as evidenced by the strength of its long standing relationships, the company's core team, sound underwriting practices, technology and the strong performance of their credit extension throughout the cycle," said Fernando Guerrero, managing partner and chief investment officer of Varadero Capital, in a prepared statement. "We're confident the company's focused funding practices will allow it to serve small business customers for many years to come."

The company will still be called CAN Capital. "We feel that that brand has a recognition in the market, in particular with our sales partners," Sanz said.

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FINTECH CARRIES THE TORCH IN NORTHERN DELAWARE

By *GERELYN TERZO*

Delaware's history in financial services is rich. The Financial Center Development Act of 1981, for instance, which rolled back the limits on how much lenders could charge as interest on consumer credit, attracted some of the biggest names in banking to the state over the past several decades. Now fintech companies are carrying the torch, evidenced by alternative lender SoFi's recent expansion into the region.

Glen Trudel, Partner, Ballard Spahr

Glen Trudel, a partner at Ballard Spahr who specializes in fintech, described the view from the rooftop of his downtown Wilmington, DE office as evidence of Northern Delaware's banking influence. "Many of the large buildings bear the name of a bank. Bank of America. Capital One. Citi. Chase. Barclays. They are all here. And it isn't just the Financial Center Development Act that makes Delaware a financial services haven. In consumer lending and in certain other financial industry areas, Delaware law provides flexibility that the laws of other states do not. That has drawn a lot of companies from those industries here," he said, adding that this includes fintech startups in some cases.

SoFi is among them, evidenced by its expansion plans in Claymont, Delaware, which is the home of its recent acquisition, Zenbanx. The alternative lender joins a fintech community that is already flourishing there. J.P.Morgan and Capital One, both of which are partners of Wilmington, Delaware-based non-profit school for coding, Zip Code Wilmington, similarly have an expanding presence in the region.

"That's why we were created, as a result of that increasing demand for software developers. That increase is the genesis of Zip Code," said Melanie Augustin, head of school at Zip Code Wilmington.

Rob Meck, SoFi's senior vice president of operations, told deBanked that Delaware is key to the company's growth.

"[Delaware is] a great talent bed for financial services, and with the acquisition of Zenbanx we have a team in the state and executives with ties here," said Meck. Among those executives is Arkadi Kuhlmann, SoFi's head of banking products, Zenbanx president and former chief executive of ING Direct USA, which brings Kulhmann full circle and plays into SoFi's recent hand of applying for a bank charter in Utah, another business friendly state.

Rob Meck, SVP Operations, SoFi

"One bank that used to be here [in Delaware] that was bought by Capital One was ING Direct. Their European parent ran into some issues and needed to restructure, so they sold their U.S. online banking arm to Capital One. Guess who ran ING Direct here before?" said Ballard Spahr's Trudel, pointing to SoFi's Kulhmann.

In fact it is the presence of banking veterans like Kulhmann in addition to the placement of former Citi chief Vikram Pandit on Wilmington, Delaware-based fintech startup Fair Square Financial's board that tie the fintech theme all together for Trudel, who spent more than a decade of his career as an in-house counsel at MBNA America, one of the banks that established themselves in Delaware as a result of the Financial Center Development Act.

"I don't think it's surprising that startups are getting into the fintech space or that SoFi is expanding here given the Kulhmann connection and given the management and people who are trained in various functions as a result of the history of banking here in Wilmington and other parts of Delaware,"

said Trudel. "He has worked here. And there is a large labor pool of very experienced business and consumer lending people in all aspects – from marketing, to collections, to operations. This has been going on for many years," he adds.

FINTECH & THE FIRST STATE

SoFi is hiring across many different departments including engineering, business development and finance, with the bulk of the new jobs being in customer service and operations roles. "We're hiring aggressively to be able to have 100 people in the office by the end of July and to scale from there over the next few quarters to several hundred," Meck said.

Fortunately for SoFi and other fintech companies in the region, the talent pool from which they have to select is widening thanks to Zip Code. The coding school, which James Spadola, Zip Code's director of business development describes as a nonprofit software development boot camp, trains people who might not have had the opportunity to learn to code before sending them out to the local workforce.

"We have 200-300 applications in each cohort and three cohorts per year. And our process is selective. We only accept 12 percent of applicants," Spadola said.

The process seems to be working, evidenced by applicants from as far away as Wisconsin and Zip Code's 93 percent job placement rate for students within three months of graduating.

INCORPORATE VS. OPERATE

Delaware is the leading state for registering corporations, LLCs and other structures, evidenced by more than 1 million businesses domiciled there. Nonetheless most entities that incorporate in Delaware don't actually operate there. Still there are benefits, such as generous tax savings including no state income tax for Delaware companies not operating in the state, as Zip Code Wilmington's Augustin points out.

Melanie Augustin, Head of School, Zip Code Wilmington

Another feature is the non-jury Delaware Court of Chancery that focuses on corporate legal issues using judges who are well versed in corporate legal issues and the generally favorable laws for corporations.

"The state of Delaware's corporate law is cutting edge. There is a sort of partnership between the Delaware State Bar Association and the legislature. The Delaware corporate attorney bar keeps an eye on what is going on nationally and every year a panel of them recommend amendments to the corporate code and other entity codes to the legislatures. And the legislatures will typically pass those," said Trudel.

Of course there are also a host of reasons for businesses to not only incorporate but also operate in the state.

"We're in close proximity to I-95, which runs from Maine to Florida, there's no sales tax and the residents are a microcosm of America. We have beaches, deep country and cities as well, so you get a little bit of everything. There is a general appeal to any employer," said Spadola, who is also a University of Delaware alum.

Zip Code's Augustin points to Delaware's lower cost of living versus New York or the West Coast as another reason why companies don't only want to incorporate but also operate in the state.

Spadola came to Zip Code Wilmington following a stint in politics including a recent run for State Senator. "Zip Code from the launch has been neat to watch. I've always attended civic events, including the launch of Zip Code. They did a boot camp in 2015, and I've been following the success of it. Through relationships and community outreach, this opportunity arose at the right time," he said.

Prior to her role at the nonprofit, Augustin was working as an employment attorney in Washington, D.C. "I was looking for work I was passionate about. Zip Code filled that need," she said

Meanwhile, although SoFi is not currently a Zip Code partner, their paths have crossed albeit indirectly.

"Speakers from Zenbanx have talked with our students before. We're connected with them and are impressed with what they're doing. We're excited that they're growing here," said Augustin.

LENDINGPOINT: CAN CAPITAL'S (VERY) CLOSE NEIGHBOR IN KENNESAW

By *ED MCKINLEY*

LendingPoint, a consumer lender staffed largely by former CAN Capital employees, may have something to teach the alternative small-business finance industry about creditworthiness. Three-year-old LendingPoint claims to go beyond FICO scores to bring each applicant's sense of fiscal responsibility into sharper focus.

But first, let's examine the CAN Capital connection. Four or five members of LendingPoint's top management team came to the company after lengthy tenures at CAN Capital, a LendingPoint official says. That includes Tom Burnside, LendingPoint's CEO and founder, and Franck Fatras, the company's president and chief operating officer. Both worked 13 years for CAN Capital, with Burnside leaving as chief operating officer and Fatras departing as chief technology officer, according to biographies posted online.

All told, about 30 of LendingPoint's 100 or so employees – a total that includes outsourced positions – formerly labored at CAN Capital, according to Fatras. Many put in considerable time at CAN Capital, holding jobs there in management, corporate governance, legal affairs, risk, sales, operations, IT, marketing, analytics, design, customer service, partner success and success delivery, online reports say.

Geography no doubt encourages CAN Capital employees to consider LendingPoint when it's time to move on to another job. Both companies maintain headquarters in office parks in the Atlanta suburb of Kennesaw. In fact, the two companies operate half a mile apart, both of them just off of Cobb Place Boulevard Northwest, according to Google Maps and Directions.

The way Fatras tells it, LendingPoint hasn't raided CAN Capital's workforce. "We post the job, and they end up responding," he says. "When they're known quantities and people we have a lot of respect for, we just end up making it work."

> **WE POST THE JOB, AND THEY END UP RESPONDING ... WHEN THEY'RE KNOWN QUANTITIES AND PEOPLE WE HAVE A LOT OF RESPECT FOR, WE JUST END UP MAKING IT WORK.**

Moreover, LendingPoint's connections with other companies don't begin or end with CAN Capital. Some of the people in top management met when they worked at First Data Corp. and Western Union, Fatras recalls. Juan E. Tavares, co-founder and chief strategy officer, and Victor J. Pacheco, chief product officer, came from those relationships, he says.

Regardless of where they became acquainted, LendingPoint's leadership team has come together to form a direct balance-sheet consumer lender specializing in what they call a "near prime" clientele. The company defines the phrase "near prime" to include personal-loan applicants with FICO scores from 600 to 700, Fatras says, adding that the segment's not sub-prime and not prime. The company has even trademarked "NEARPRIME" as a single word in capital letters, and it appears that way on the company website. It regards those consumers as "deserving yet underserved," Fatras notes.

To qualify those applicants for credit, LendingPoint considers "behavior," such as work history, education, and timeliness with paying rent, utility bills and cell phone bills, Fatras says. "A lot of what we do is identify patterns," he says. "It's all about asking the right questions." The process requires tapping into multiple sources to collect the data, he observes.

In a blog published online soon after LendingPoint was launched, executives Burnside and

Tavares claim that most credit models search for ways to say no to applicants, while their company uses big data to find ways of saying yes. LendingPoint algorithms predict risk with great precision, they say.

In a newspaper opinion piece that ran about the same time, Burnside and Tavares maintain that their model examines cycles in an applicant's life to pinpoint upward and downward trends. A consumer on the way up deserves a loan, according to the theory.

The company's willingness to study information that resides outside credit scores did not originate with the CAN Capital connection, Fatras says. "The model is unique and the data structure we are using is unique," he says. "It's all about understanding the credit story of the person."

Latin American lending practices had some influence on LendingPoint, Burnside and Tavares write in one of their editorial pieces. Lenders there review factors other than credit scores because the scores aren't readily available in some countries, they write.

To analyze that type of non-FICO information, LendingPoint has developed its own internal scoring model and then automated the process, spending a lot of time to develop the technology, Fatras continues. Once again, asking the right questions determines the meaning that the company can extract from the data, he emphasizes. Otherwise, the information's just not that beneficial, he says.

When consumers come to the LendingPoint website and answer five or six questions, they can receive a firm offer of credit in an average of seven seconds and sometimes as quickly as four seconds, Fatras maintains. The offers are contingent upon the company underwriting department's validation of income and other figures, ne notes, adding that "we're pretty happy with the infrastructure we've built."

LendingPoint collects on the loans with automatic payments from customers' savings or checking accounts twice a month, according to the company website. Deducting the payments twice a month helps customers with budgeting, the site says. Consumers can borrow up to $20,000 and pay it back in 24 to 48 months.

The system was devised by top management with combined experience of more than a century in credit and risk, Fatras says. When those executives with so much commercial lending experience gather around the conference table to talk about the business, the possibility of lending to small businesses occasionally comes up in the conversation.

But Fatras doubts the company will make that move to the commercial side anytime soon because companies in the alternative small-business finance industry are competing for 5 million to 6 million potential customers while the country has 50 million near-prime consumers. "The space is so big where we are," he says. "The demand could be over a billion dollars a month. We have a lot of room in front of us for growth."

With that seemingly infinite market, LendingPoint has been growing at a healthy pace, Fatras says. The company, which was self-funded for the first year, made its initial loan in January 2015. In 2016, it did $150 million in business, he notes. By the middle of this year, the company had made a total of $250 million in loans to 25,000 consumers, he says.

It's a business model that members of the alternative small-business finance community might do well to emulate, Fatras suggests. "There could be a lot of cross-pollination," between consumer and commercial loans when it comes to going beyond FICO, he says.

YOUR TIME IS NOW

By: Sean Murray

About 5 years ago, I wrote down a great marketing idea to store away for a later date. I never acted on it, and you know what? Nobody has ever attempted to do what I dreamed up. Industry acquaintances too have shared some excellent ideas with me, either in emails, at conferences, or after a few drinks. Many of those ideas, which were never acted on, could've been game changing.

It's a sad thing to see all these ideas never come to be. Might it be fear that prevents us from being bold? Are you secretly waiting for someone else to execute your vision just so you can sit back one day and say, "see, I knew something like that would work," while reaping none of the rewards?

This industry is full of creative geniuses. That is fortunate considering that creative change is needed right now to reduce acquisition costs across the industry. Could you be the one to reshape acquisition costs?

Maybe you have some far-fetched ideas. Maybe you're scared to see the execution of them fail. Maybe you just don't think you're the guy or gal that's supposed to zig when everyone else is zagging.

But what if your idea is destined to succeed? What a cruel fate it would be to let it linger on the sidelines for weeks, months, or years, going to waste out there in the universe until someone else eventually formulates the same idea on their own and takes off with it. You don't want that to happen.

Change the game. Your time is now.

COMING SOON? NEW YORK'S ONLINE LENDING TASK FORCE

On May 22, 2017, the New York State legislature held a joint hearing to address online lending (you can watch a recording of that hearing here: http://dbnk.news/6). On June 2nd, the consequences of that hearing became clear when the State Assembly introduced a bill to form an online lending task force.

At the time this issue went to print, both the Assembly and the Senate were preparing to send the bill to the governor. Sources say the bill will probably go through. The mission of the task force will be to examine the credit gap in the State, analyze the activities of online lenders, review applicable laws governing this area and determine if any new measures are needed to address it. Their work would culminate in a report being delivered to the governor.

The bill can be tracked in New York legislative records under S06593A.

CAN CAPITAL RESUMES FUNDING

By *CHERYL WINOKUR MUNK*

THIS STORY ORIGINALLY APPEARED ON THE DEBANKED WEBSITE ON JULY 6TH WHEN CAN FORMALLY MADE THEIR ANNOUNCEMENT.

CAN Capital is back in business, thanks to a capital infusion by Varadero Capital, an alternative asset manager. Terms of the capital arrangement were not disclosed.

CAN Capital stopped funding late last year and removed several top officials after the company discovered problems in how it had reported borrower delinquencies. The discovery also resulted in CAN Capital selling off assets, letting go more than half its employees and suspending funding new deals, among other things.

Now, however, the company has a new management team and its processes have been revamped and staff retrained in anticipation of a relaunch, according to Parris Sanz, who was named chief executive in February. He was the company's chief legal officer before taking over the helm after then-CEO Dan DeMeo was put on leave of absence.

As of today (7/6), CAN Capital has resumed funding to existing customers who are eligible for renewal. Within a month, the company plans to resume providing loans and merchant cash advance to new customers. It will have two products available in all 50 states—term loans and merchant cash advances with funding amounts from $2,500 to $150,000.

To be sure, getting back into the market after so many months will be a challenge. "I think we're absolutely going to have to work hard, no doubt about it. In many ways, given our tenure and our experience, the restart may be easier for a company like us versus others. Based on the dynamics in the market today, I see a real opportunity and I'm excited about that," Sanz said in an interview with *DeBanked*.

INDUSTRY *NEWS*

5/17 – Funding Circle surpassed Zopa in cumulative lending to become the UK's biggest marketplace lender

5/18 – Breakout Capital announced appointment of Douglas J. Lanzo as EVP and General Counsel

5/22 – The New York State legislature held a joint hearing on online lending

5/25 – OnDeck had the maturity date of its $100M credit facility extended

China Rapid Finance reported Q1 net revenue of $10.5M

Prosper Marketplace closed $495 securitization transaction

SoFi co-founder Dan Macklin announced his departure from the company

5/31 – IOU Financial reported Q1 results, had $1M loss on $4.3M in revenue and lent (CAD) $22.1M

6/2 – Zopa began allowing investors to sell loans that have previously been in arrears

New York State legislators proposed the formation of an online lending task force

6/6 – deBanked and Bryant Park Capital published their Q1 confidence index in which industry CEOs scored their confidence in the continued success of the MCA and small business lending industry at 73.8%, the lowest level since the survey started in Q4 2015. It peaked at 91.7% in Q1 2016.

6/8 – Amazon surpassed $3 billion in loans made to small businesses since their lending program launched

6/9 – RealtyMogul announced that they had exited the residential fix-and-flip market

6/12 – The US Treasury published a report that called for the repeal of Section 1071 of Dodd Frank

6/13 – SoFi applied for a bank charter, specifically an Industrial Loan Company charter

Lendio announced a pilot agreement with Comcast business

6/14 – Patch of Land expanded its debt facility from $10M to $30M

6/19 – Goldman Sachs' online lender Marcus surpassed $1 billion in loans made since inception

6/20 – Former Lending Club CFO Carrie Dolan joined Metromile, an insurance company, as CFO

LendingTree acquired MagnifyMoney

6/21 – Pearl Capital secured $15M in financing from Chatham Capital Management

6/27 – Square Capital announced that it will pilot a consumer loan program

Former RapidAdvance CFO Rajesh Rao became the CFO at Beyond Finance, Inc.

6/29 – Funding Circle hired Joanna Karger as US Head of Capital Markets and Richard Stephenson as US Chief Compliance Officer

Pave suspended lending operations

Ron Suber, president of Prosper Marketplace, announced that he was stepping down from the company

The SEC announced that all companies will now be able to submit draft IPO registrations confidentially, a perk previously only reserved for businesses designated as "emerging growth companies" under the JOBS Act.

6/30 – PayPal Holdings Inc announced that it had invested in LendUp

Yellowstone Capital announced that they had funded $47 million to small businesses in the month of June

7/3 – Funding Circle announced that Sean Glithero had joined the company as its new global CFO

7/5 – Lending Club appointed Ken Denman to its Board of Directors

7/6 – CAN Capital announced that they had been recapitalized and were resuming funding operations

Orchard Platform and Experian announced a strategic collaboration on data

7/7 – CFPB announced that it was extending the deadline of its small business lending RFI from July 14th to September 14th

7/10 – China Rapid Finance announced that they had made 20 million cumulative loans since inception

CFPB announced new arbitration rule that effectively bans class action waivers from consumer finance contracts

Former OnDeck VP of External Affairs and Associate General Counsel Daniel Gorfine, was appointed by the Consumer Future Trading Commission to be Director of LabCFTC and Chief and Innovation Officer

7/11 – dv01 and Upgrade (Former Lending Club CEO Renaud Laplanche's new company) announced a strategic reporting partnership

PayPal hired former Amazon executive Mark Britto to lead its lending business

Fora Financial expanded its credit facility led by AloStar

Since its founding in 1998, CAN Capital has issued more than $6.5 billion in loans and merchant cash advances. It's one of the oldest alternative funding companies in existence today, and, accordingly, it shook the industry's confidence when the company's troubles became public late last year.

The new management team includes Sanz, along with Ritesh Gupta, the chief operating officer, who joined CAN Capital in 2015 and was previously the firm's chief customer operations officer. The management team also includes Tim Wieher as chief compliance officer and general counsel; he initially joined the company in 2015 as CAN Capital's senior compliance counsel. Ray De Palma has been named chief financial officer; he came to CAN Capital in 2016 and was previously the corporate controller. The management team does not include representatives from Varadero.

Varadero is a New York-based value-driven alternative asset manager founded in 2009 that manages approximately $1.3 billion in capital. In the past five years, Varadero has allocated more than $1 billion in capital toward specialty finance platforms in various sectors including consumer and small business lending, auto loans and commercial real estate. In 2015, for instance, Varadero participated in separate ventures with both Lending Club and LiftForward.

Varadero began working with CAN Capital as part of its efforts to pay down syndicates. Varadero bought certain assets from CAN Capital last year and provided enough funding to allow CAN Capital to recapitalize. "The recapitalization enabled us to pay off the remaining amounts owed to our previous lending syndicate and provided us with access to additional capital to resume funding operations," Sanz says. He declined to be more specific.

"We were impressed with the overall value proposition of CAN's offerings as evidenced by the strength of its long standing relationships, the company's core team, sound underwriting practices, technology and the strong performance of their credit extension throughout the cycle," said Fernando Guerrero, managing partner and chief investment officer of Varadero Capital, in a prepared statement. "We're confident the company's focused funding practices will allow it to serve small business customers for many years to come."

Guerrero was not immediately available for additional comment.

DLA Piper served as legal counsel for, and Jefferies was the financial advisor to, CAN Capital, while Mayer Brown was legal counsel to Varadero Capital, L.P.

Since its troubles last year, CAN Capital had been working with restructuring firm Realization Services Inc. for assistance negotiating with creditors. It also worked with investment bank Jefferies Group LLC for advice on strategic alternatives.

Sanz declined to discuss other options CAN Capital considered, noting that the Varadero deal provides the firm the opportunity it needs to jump back into the market—this time with "tip top" operations in place.

He declined to say how many employees the firm still has, other than to say it is now "appropriately staffed." In addition to getting rid of the prior management team, CAN Capital reduced staffing in numerous parts of its business. That includes nearly 200 positions at its office in Kennesaw, Ga, according to published reports.

The company will still be called CAN Capital. "We feel that that brand has a recognition in the market, in particular with our sales partners," Sanz says.

PRACTICAL TIPS FOR MARKETING TO SMALL BUSINESSES

By *CHERYL WINOKUR MUNK*

Small business owner Jim Moseley is inundated with calls from online funders—and he hates it.

They frequently use unscrupulous tactics to try and get his attention. More than one has claimed to be a close friend so his assistant transfers their call. Then they try to reel him in with stories they've concocted about past personal connections. The unprofessional-sounding calls also irk him—where a salesman insists he's local, but his voice sounds muffled and distant. In these instances, Moseley usually hangs up within a few seconds.

"The layer of sleaze is as thick as lard in the calls that I get," he says.

Like many small business owners, Moseley, the chief executive of TransGuardian Inc., a shipping solutions company based in Petersham, Massachusetts, finds these types of calls extremely off-putting. In fact, it's what made him hesitant to do online funding to begin with—until it became absolutely necessary since he couldn't get a bank loan.

He's not alone. As online financing proliferates, several small business owners say they are increasingly being bombarded with stacks of snail mail, multiple cold calls a day and numerous unsolicited emails offers—many of which they don't understand and therefore won't accept. Rather, small business owners say they prefer to work with companies that are forthcoming, provide sound advice and have taken steps to prove their credibility. They offer several tips on how funders can win more of their business.

TIP NO. 1:
CAN THE COLD-CALLS

Several small business owners say they don't mind when lenders follow up with them after a legitimate interaction. But they could do without the boiler-room tactics.

"It feels like a loan shark situation," says Sean Riley, co-founder of DUDE Wipes, a Chicago-based company that makes flushable wipes for men. Riley, who has several good experiences obtaining loans through Kabbage, finds the constant phone calls from firms he doesn't know particularly vexing. He suggests lenders drop the high-pressure routines and find more effective ways to promote their services to small businesses. "These companies could be very credible. I don't know. But I don't perceive them as credible—and perception is reality," he says.

TIP NO. 2:
STEP UP LEGITIMATE MARKETING EFFORTS

Donna Cravotta chief executive and founder of Social Pivot PR, a Bedford, New York social media and marketing communications firm, says online funders should seek out simple, cost-effective ways to get their name in front of small businesses. For relatively little money they can sponsor local small business events. She also suggests that online lenders volunteer to speak at small business events and teach small businesses how to leverage online lending opportunities. They could also appear as guests on financial podcasts or broadcast Webinars to the small business community, says Cravotta, who has taken a few loans to fund her business, two of which were with Lending Club.

R.T. Custer, co-founder and chief executive of Vortic Watch Company in Fort Collins, Colorado, offers some additional advice: Customers don't believe when you self-publish your testimonials. When he sees a review on a website, he wants to know how much a company has paid for that review. Instead, he relies on third party confirmations of a company's worth. "When it's clearly something that is not paid for, that is the best kind of advertising," says Custer, an OnDeck customer whose business turns antique pocket watches into wrist watches.

TIP NO. 3:
DELIVER PERSONAL ATTENTION

As much as they hate aggressive salespeople, small businesses love personal attention from their lenders. Dana Donofree, founder and chief executive of AnaOno Intimates, a Philadelphia-based company that designs and sells apparel for breast cancer

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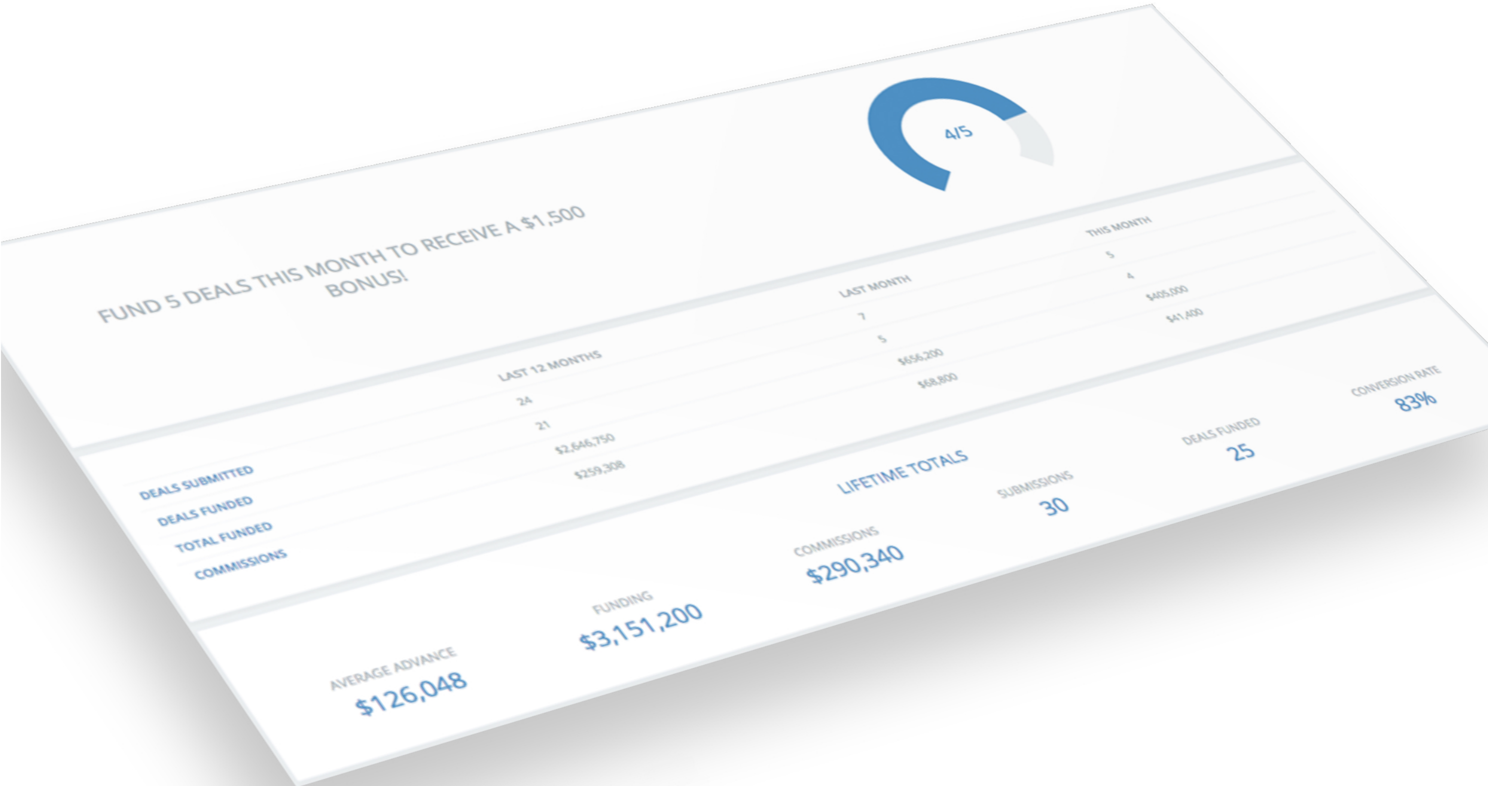

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survivors, appreciates the stellar customer service she gets with OnDeck. The sales rep follows up appropriately to make sure everything is going well, but doesn't bombard her constantly. She gets an occasional email asking if she needs more funds—but the communications aren't overly aggressive. "Some institutions can really be sales pushy and call you several times a day. I've blocked more numbers than I would like to admit," she says.

TIP NO. 4:
BE A RESOURCE FOR SMALL BUSINESS OWNERS

Online lenders can also gain traction by helping customers better understand the financing process; many small business owners often don't know much about financing and would appreciate getting sound advice from lenders, according to Sandy Lieberman, who co-owns Artemis Defense Institute in Lake Forest, California.

She and her husband started the business a few years ago to offer reality-based training to law enforcement, military personnel and civilians. When the business needed cash, Lieberman began searching online for a bank loan, but wound up taking a merchant cash advance instead. After a few rounds, she started getting bombarded with solicitations. "I think the stacks of mailings from companies must have been four-inches thick," she recalls.

After additional research, she reached out to Lendio to broker an $85,000 term loan; she later took another loan for $204,000 through Lendio. While these funds have brought her business to a better place—and she has learned a lot in the process—she feels online lenders are missing out on a prime teaching opportunity.

"Some lenders think business owners know more than they already do. Some really don't know a lot and could use more hand-holding," she says.

In hindsight, Lieberman—who nearly destroyed her personal credit while trying to run her business—wishes a funding company had offered her a short class on financing; she would have attended, even for a small cost. Access to a finance coach—someone at the lending company who could help business owners plan proactively without ruining their personal credit—would also be a boon, she says.

"Small business owners are wearing many hats—customer service, payroll, financing, strategic planning. In the midst of all that they don't know necessarily know how to make wise funding decisions," she says.

TIP NO. 5:
ADVERTISE

There are plenty of small businesses that need funds, but many simply don't know where to turn. Consider a TD Bank survey of 553 small business owners in late March that found 21 percent have or will seek a loan or line of credit in the next 12 months. While the majority of these businesses plan to try their bank first, a sizeable number—11 percent—don't know how to seek credit when they are ready. While many small businesses have found lending partners by Googling for information, others simply feel stymied by the process.

Take the case of Scott Deuty, who is having trouble obtaining funds for Coolbular Inc. in Cheyenne, Wyoming, which serves as an umbrella for his kiddie ride business and his writing and publishing services. He wants to raise funds but has bad credit and doesn't meet the revenue requirements for certain lenders. There are so many lenders; he doesn't know how to find the right one—or one that might be willing to take a chance on him. "It's very difficult," he says.

Deuty's case is an example of the paralysis that can happen when small businesses don't know where to turn. It's an opportunity for alternative funders to gain a leg up by marketing more appropriately to small businesses that may not know they exist—or how to find them.

Custer, of Vortic Watch, reached out to OnDeck for a bridge loan after seeing a television ad that ran during an episode of Shark Tank. He also suggests funders use online advertising to gain broader exposure. "If a business owner is trying to find a loan, they are going to Google, 'I need a loan,'" he says.

TIP NO. 6:
RAMP UP BUSINESS REFERRALS

Another way small businesses hear about lending opportunities is through business referrals. Azhar Mirza, founder of SomaStream Interactive, an e-learning solutions provider in Berkeley, California, says funders should actively seek out more referral partnerships. In 2015, his company couldn't afford

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its online marketing costs. Then a lifeline came its way. Mirza received an offer from Google telling him his company was eligible for a loan to help finance the online advertising it was doing through the Google AdWords program. The offer was part of a new pilot program between Google and Lending Club to extend credit to smaller companies that use Google's business services. SomaStream got access to the funds it needed, but in lieu of cash, the company received advertising credits with Google.

The pilot program between Google and Lending Club ended in the first quarter of 2016, but Mirza believes similar partnerships would be a great tool for online lenders. Certainly for Mirza, the timing was precipitous, he says.

Push notifications from trusted business partners can also be an effective marketing tool, when used in moderation. When Yvonne Denman-Johnson, co-founder of HootBooth Photo Booth, a Lago Vista, Texas, manufacturer of photo booth kiosks, needed money, she happened to receive a notice from Shopify, the company's e-commerce software and hosting provider, talking about its merchant cash advance services. She has one outstanding advance through Shopify, which she is working to pay off.

TIP NO. 7:
BE TRANSPARENT

Denman-Johnson got the funds she needed, but she feels MCA providers need to be more transparent about the effective interest rate—at the advertising stage, not at the approval stage—so small businesses can make more informed decisions without having to do all the calculations themselves. Otherwise, some small businesses might decide not to pursue this form of funding because of the unknowns. Her company almost walked away, but decided to go through the full application process. At this point, Shopify provided the effective interest rate, which was in the 12 percent range. Other funders she researched were in the 30 percent range—which she describes as "outrageously" expensive.

Indeed, small business owners want to work with funders that outline the terms clearly and offer comparisons. Lisa Ayotte, founder of Soul'y Raw, a specialty pet food provider in San Marcos, California, has had good experiences with Kabbage, OnDeck and Fundbox.

She wishes, however, that all online lenders offer more detailed information about the loan programs they offer on their website—so small businesses can weigh their options before they go through the actual application process. Small businesses want to know, for instance, whether a lender offers debt consolidation. They also want funds to spell out clearly on their websites the various types of loans offered and the underwriting criteria. Ayotte also suggests lenders provide links to online loan calculators so small businesses can understand what the terms mean to them.

Small business owners want to be told like it is. That's one major appeal of online lending—if you're going to be turned down, you typically know right away says Ricardo Picon, the co-owner of The Sandwich Shop, a restaurant and catering business in Williamsburg, New York.

He took an $88,000 loan in February issued by Excelsior Growth Fund, a U.S. Treasury-certified Community Development Financial Institution, but in the future, he says he would consider using a different type of online lender. It would depend on the rates, the economic times, monthly payments and closing fees, among other things. "I want transparency. I want to know if they are going to give me the money or not so I can move on. This way there are no false hopes," he says.

TIP NO. 8:
MAKE THE PROCESS AS EASY AS POSSIBLE

Small business owners also prefer to work with online lenders that make the process seamless. AJ Saleem, founder of Suprex Learning, a Houston-based private tutoring and test prep company, was proactive about searching for online lending options. He chose a loan with Lending Club in part because the process was so easy. Some applications he started, but never finished because the process was too onerous. With Lending Club, the process was quick, there were fewer questions asked and the funder asked for less documentation than some competitors, Saleem says.

To be sure, rates are really important to small businesses, but they also want to work with funders they feel are on the up-and-up. "We want a square deal," says Moseley, the chief executive of TransGuardian. "Tell us what the deal is in an honest and professional way and if we like it we'll do business."

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