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Letter From the Editor

BY
SEAN MURRAY

We're behind schedule, again, but still here. We've got something in the works that we hope to unveil by the end of the year that we think you'll like. In the meantime, we've all heard about PPP, but we talked to some folks that have dabbled with selling PPE, Personal Protective Equipment. The prolonged pandemic has created interesting opportunities in a field few thought little about previously.

This past summer, parents listened to exhaustive debate over how to reopen schools. But regardless of the outcome, universities seem to be betting on a new field of academia, fintech. deBanked spoke with several universities who are going long on fintech, whether by including it in the curriculum or by opening an entire student center dedicated to its development.

We've got more of course, including a Q&A with Kabbage co-founder & coo Kathryn Petralia, made all the more interesting because the company was just acquired by American Express. It's been quite a year.

I hope you enjoy this issue.

–Sean Murray

AMID PANDEMIC, SMALL BUSINESSES PIVOT TO SELL PERSONAL PROTECTIVE EQUIPMENT

by: CHERYL WINOKUR MUNK

A number of small businesses—including those in the merchant cash advance industry—faced with little or no way to make money for months—have pivoted to selling personal protective equipment.

It's no wonder businesses across the U.S. have shifted gears. With the pandemic raging, and consumers and businesses trying to return to some sort of normalcy, there's high demand for these products, causing even businesses that previously had no connection to them to spring into action.

"It's not my forte; I had to pivot just to make sure I could stay afloat before things turned around," says John DiCanio, founding partner of Direct Merchant Funding in Bethpage, N.Y.

Amid Pandemic, Small Businesses Pivot to Sell Personal Protective Equipment

This past spring, at a time when everything in the MCA business stopped, he heard from a merchant in the medical supply field that masks were becoming very important. The merchant connected him to a contact in Hong Kong from whom he was able to buy hospital-grade and non-medical grade masks and sell them to local hospitals, local businesses and others.

DiCanio says he did it for a short time only—two months—which was enough to tide him over under his regular business started coming back. Mask-making is still a big business and a lot of people are still doing it, but he prefers to stick to merchant cash advance, which he's been doing for around 15 years. He says business has picked up enough that he no longer has the need to do anything on the side—and he hopes it stays that way.

Many funding industry participants are still selling these types of products, but it's somewhat of a hush-hush business. Not everyone wants to talk about it for any number of reasons, including embarrassment and fear of looking weak to customers and business connections.

Even so, small businesses that pivoted say they are doing the best they can to stay afloat—and there's no shame in that.

Kat Rosati, founder of Apparel Booster in Riverside, Calif., a product development agency for luxury and socially conscious brands, began hand-sewing masks to help support her business that had been hit-hard by the pandemic.

She has manufacturing partners all over the world, and production was at a standstill for her various products. She couldn't import fabric needed for the company's various projects and a lot of production partners were forced to close. Luckily, she had a connection to a fabric mill in Pennsylvania that focuses on antimicrobial products that was willing to provide her with material.

She hired temporary workers to help her make masks, which she's producing at a rate of about 150 a week. She sells them to consumers and small businesses. The revenue has helped defray overhead expenses, among other things. "It hasn't been super profitable, but it's definitely helped keep the business alive," she says.

She had to furlough her four-person team because she can't afford to pay them without regular client work coming in. Her husband, who works in the restaurant industry, was also furloughed. So whatever money she can bring in, helps. "I'm watching small business owners around me that haven't made any kind of pivot close left and right," she says. "The fact that I can keep mine alive makes it worth it for me."

To be sure, small businesses pivot for all sorts of reasons, and it's not always because they are struggling.

Francis Perdue, a publicist and business consultant in Birmingham, Ala., began selling PPE products including gloves, kn95 masks, surgical masks, customizable cloth masks, child and adult-sized shields, suits, gowns and the Xenon Fever Defense machine which uses AI technology to measure skin temperature and detect potential fever. She says she saw a need for these types of products in local schools as well as in hospitals and clinics in predominantly black neighborhoods. She is still consulting, but doing this as a side gig while the need persists.

Another example is MORGAN Li, a retail and hospitality manufacturer in Chicago Heights, Ill. The company identified the need and opportunity to help businesses remain open or reopen to customers while abiding by new recommendations to support public health. Thus, the company began producing customized social distancing materials including sneeze guards, safety shields, signage and floor graphics for various businesses to remind employees and customers to comply with social distancing requirements, according to a spokeswoman.

More recently, Andy Rosenband, the company's chief executive, saw another opportunity to help communities prepare for another critical stage—reopening schools. He created a line of personal protective equipment that specifically addresses the challenge of social distancing in schools to keep students, teachers and staff safe.

For some small businesses, the shift is likely to be a permanent one.

JB Herrera, founder of Perceptive Insights a San Diego-based small and medium business consulting and mentoring company, says his firm was growing, but PPE products offer the ability to create a broader impact and are likely to be more profitable than merely a consulting business.

He has clients in China and back in December when things were starting to get bad there, he realized that the problem could spread massively to the U.S., and if it did, 80 percent or more of businesses would be negatively impacted, in his estimation. Using his business expertise regarding supply chains and pre-existing and new contacts, his company shifted gears to introduce in March a line of FDA-registered products designed to create and maintain safe environments. The products include commercial and personal cleaning solutions, masks, light technology disinfectants, air filtration, and personal sanitizing kits.

Even before the pandemic, the PPE market was worth several billion, he says, and that's likely to grow exponentially over the next five to 10 years. So much so, that he expects the new business line to represent 90 percent of his revenue for the next three years—at least.

"Even after the spike goes away, it's still going to be a profitable business in its own right," he says.

UNIVERSITY OF DELAWARE, OTHER UNIVERSITIES GOING LONG ON FINTECH

By *KEVIN TRAVERS*

The University of Delaware recently received a $9 million tax incentive to construct a new Fintech Center on its premier Science, Technology, and Advanced Research (STAR) campus, with help from a community-building company Cinnaire. Slated for completion in 2021, the building marks yet another fintech-focused resource for higher education.

Financial technology programs have long been offered at prominent business schools such as Harvard, Stanford, and Columbia, international schools such as Oxford, and research institutions like MIT since the late 2000s.

University of Delaware Fintech Center

Now that fintech has become a long term value creator in the financial world, other institutions such as the University of Michigan, Fordham, and Delaware are excited to implement fintech opportunities on campus for undergraduate and graduate students alike.

Discover Bank and Cinnaire jointly funded the building, a $39 million project. According to Delaware plans, it will create a space on the Delaware STAR campus to host a new Financial Services Incubator to encourage research and collaboration between students and industry leaders.

"The FinTech building will bring together computer science, engineering and business experts in cybersecurity, human-machine learning, data analysis, and other emerging financial technologies," said Levi Thompson, Dean of the College of Engineering. "These collaborations will allow us to provide our students with a very unique experience that prepares them to excel in the workforce. Furthermore, our Fintech discoveries will benefit people throughout Delaware and the world."

Cinnaire is a national nonprofit that focuses on improving communities' financial health by creating capital solutions to revitalization projects: lending funds, managing, and building housing structures.

Funding communities is what Cinnaire does best: in this case, utilizing a New Markets Tax Credit to fund an addition to the Delaware campus.

The nearby University of Fordham at Lincoln Center has also been trending toward preparing students for a fintech world. Undergrad and graduate students pursuing an MBA through the Gabelli School have the option of a fintech concentration.

Fordham at Lincoln Center

The course work not only incorporates data science and machine learning skills into the worlds of credit lending and risk management but facilitates relationships between students and a wealth of industry partners.

Sudip Gupta, professor, and Director of the MS Quantitative Finance program, spoke about the courses' popularity there. The program is ranked in the top 20 of its kind in the world by Risk Magazine.

He has seen a revolution in fintech in the past few years that has recently received a big push by pandemic forces, introducing the wholesale adoption of fintech techniques into traditional financial institutions.

"The fintech revolution in the industry- big data, machine learning techniques, storage capacity, and cloud computing has been going on for the last couple of years," Gupta said. "The pandemic provided the big push to move toward that direction."

Gupta has been following the development of alternative credit closely, recently publishing an award-winning paper studying machine learning to create alternative consumer credit scores using mobile phone and social media data.

"The idea of my research- let's look at people who do not have a credit history or enough traditional credit you could get from a FICO score," Gupta said. "Using this data, it turns out they are better predictors, and better to judge than FICO, and can reach out to more people."

Gupta is excited for the adoption of big data techniques into alternative and traditional consumer loans because it offers a win-win for consumers and institutions alike, he said. Echoing the findings of many successful alternative finance companies, Gupta said his research showed that collected data could offer better insight for lending than "stale FICO scores."

Up north at the Univerisity of Michigan, Professor Robert Dittmar at the Ross School of Business heads the Fintech Initiative. He is working on adding even more fintech classes. Recently, through a partnership with PEAK, a Chicago fintech lending company, Michigan launched a fintech initiative that incorporates undergrad and grad classes, faculty research, and a fintech entrepreneurial club that connects students to industry leaders.

Michigan Ross is adding fintech classes for a variety of reasons.

"The simplest reason: students are interested in learning more about this kind of space," Dittmar said. "And we're seeing more demand from the industry side for students that know more."

For years Dittmar said tech companies and startups in silicon valley were pioneering innovations in the industry. Through talking with alumni and contacts in the industry, Michigan found that fintech has gotten to the place where there is an excellent supply of data engineers. Still, there is a demand for professionals with the financial business expertise to implement these technologies.

"What we are trying to do at Ross is fill in that gap," Dittmar said. "what we'd like is for [students] to know enough about the technology that they can provide the insights of finance and business to the people that are doing that technical work."

At Ross, they are organizing what will one day be like a fellowship program. The program will feature a combined learning experience: students will learn data analytic finance, apply their computing skills in credit decision making classes, and then connect with the industry in experiential learning classes.

University of Michigan, Ross School of Business

"In the last couple of years, I have been taking students to London to work at fintech startups in the UK," Dittmar said. "And we are hoping to expand that program so that most or all graduate students have the opportunity to participate in something like that."

Last year Ross hosted a "Fintech Challenge" competition to design a banking service to reach customers in a "banking desert" in rural Michigan. The program is hoping to host another challenge this year, despite complications of COVID-19.


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The PPP Rearview – How It Went

By: Paul Sweeney

Kristy Kowal, a silver medalist in the 200-meter breast stroke at the 2000 Olympic games in Australia, had recently relocated to Southern California and embarked on a new career when the pandemic shutdown hit in March.

After nearly two decades as a third-grade teacher in Pennsylvania, Kowal was able to take early retirement in 2019 and pursue her dream job. At last, she was self-employed and living in Long Beach where she could now devote herself to putting on swim clinics, training top athletes, and accepting speaking engagements. "I've been building up to this for twenty years," she says.

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But fate had a different idea. The coronavirus not only grounded her from travel but closed down most swimming pools. At first, she tried to collect unemployment compensation. But after two months of calling the unemployment office every day, her claim was denied. "'Have a great day,' the lady said, and then she hung up," Kowal reports. "She wasn't rude; she just hung up."

Then, in June, the former Olympian heard from friends about Kabbage and the Paycheck Protection Program. Using an app on her smart phone, Kowal says, she was able to upload documents and complete the initial application in fewer than 20 minutes. A subsequent application with a bank followed and within a week she had her money.

"I was down to ten cents in my checking account," says Kowal, who declined to disclose the amount of PPP money for which she qualified, "and I'd begun dipping into my savings. This gives me the confidence that I need to go back to my fulltime work."

Kowal is one of 4.9 million small business owners and sole proprietors who, according to the U.S. Small Business Administration, has received potentially forgivable loans under the Paycheck Protection Program. The PPP, a safety-net program designed to pay the wages of employees for small businesses affected by the coronavirus pandemic, is a key component of the $1.76 trillion Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Since the U.S. Congress enacted the law on March 27, the PPP has been renewed and amended twice. It's now in its third round of funding and Congress is weighing what to do next.

Kowal's experience, meanwhile, is also a wake-up call for the country on the prominent role that both fintechs like Kabbage as well as community and independent banks, credit unions, non-banks and other alternatives to the country's biggest banks play in supporting small business. Before many in this cohort were deputized by the SBA as full-fledged PPA lenders, a significant chunk of U.S. microbusinesses – especially sole proprietorships—were largely disdained by the brand-name banks.

"After the first round," notes Karen Mills, former administrator of the U.S. Small Business Administration and a senior fellow at the Harvard Business School, "more institutions were approved that focused on smaller borrowers. These included fintechs and I have to say I've been very impressed."

Among the cadre of fintechs making PPP loans – including Funding Circle, Intuit Quickbooks, OnDeck, PayPal, and Sabre—Kabbage stands out. The Atlanta-based fintech ranked third among all U.S. financial institutions in the number of PPP credits issued, its 209,000 loans trailing only Bank of America's 335,000 credits and J.P. Morgan Chase's 260,000, according to the SBA and company data. Kabbage also reports processing more than $5.8 billion in PPP loans to small businesses ranging from restaurants, gyms, and retail stores to zoos, shrimp boats, beekeepers, and toy factories.

To reach businesses in rural communities and small

towns, Kabbage collaborated with MountainSeed, an Atlanta-based data-services provider, to process claims for 135 independent banks and credit unions around the U.S. The proof of the pudding: Eighty-nine percent of Kabbage's PPP loans, says Paul Bernardini, director of communications at Atlanta-based Kabbage, were under $50,000, and half were for less than $13,500.

The figures illustrate not only that Kabbage's PPP customers were mainly composed of the country's smaller, "most vulnerable" businesses, Bernardini asserts, **but the numbers** serve as a reminder that "fintechs play a very important, vital role in small business lending," he says.

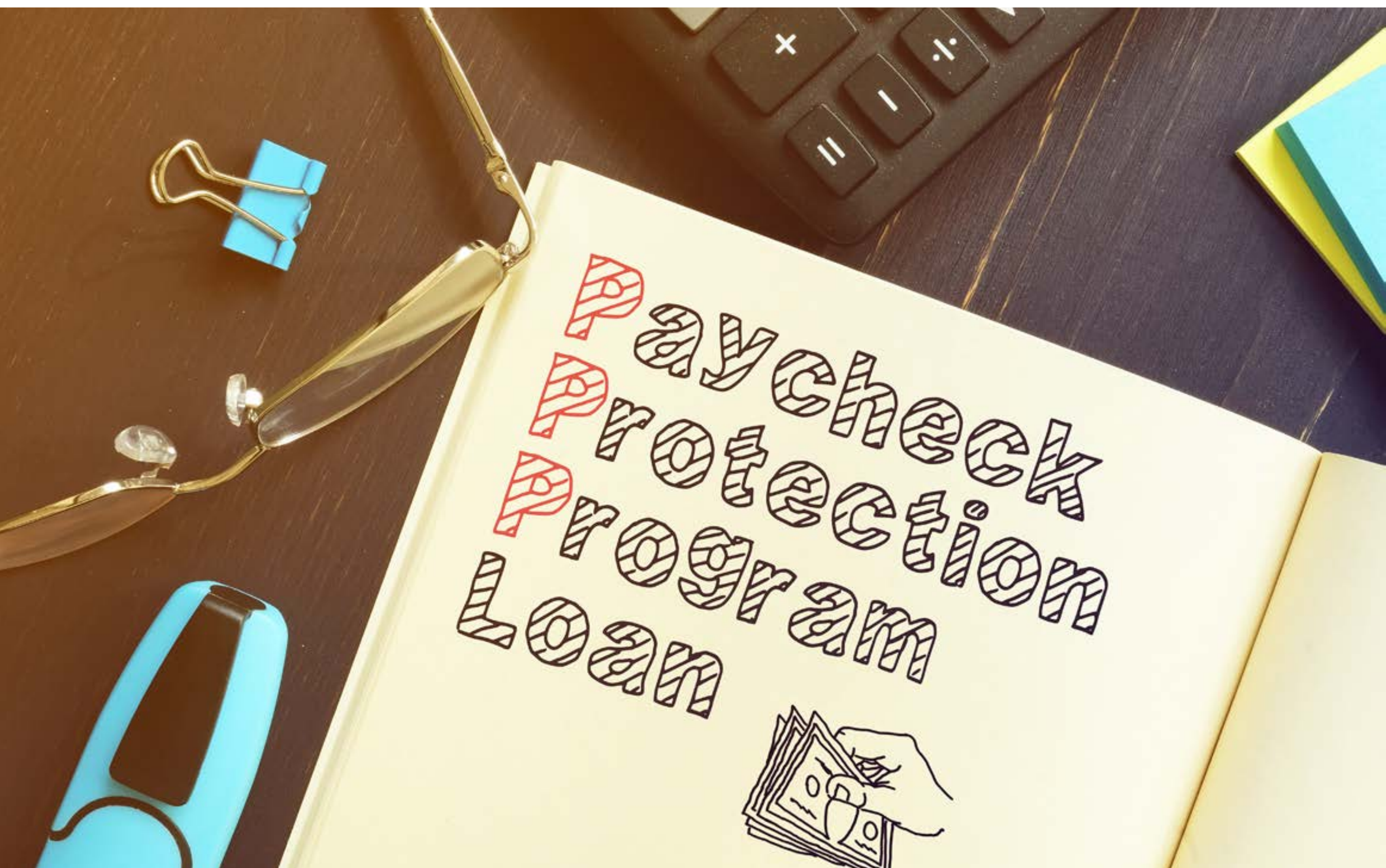
The helpfulness of such financial institutions contrasts sharply with what many small businesses have reported as imperious indifference by the megabanks. Gerri Detweiler, education director at Nav, Inc., a Utah-based online company that aggregates data and acts as a financial matchmaker for small businesses, steered *deBanked* toward critical comments about the big banks made on Nav's Facebook page. Bank of America, especially, comes in for withering criticism.

"Bank of America wouldn't even take my application," one man wrote in a comment edited for brevity. "I have three accounts there. They are always sending me stuff about what an important client I am. But when the going got tough, they wouldn't even take my application. I'm moving all my business from Bank of America."

Lamented another Bank of America customer: "I was denied (PPP funding) from Bank of America (where) I have an individual retirement account, personal checking and savings account, two credit cards, a line of credit for $20.000, and a home mortgage. Add in business checking and a business credit card. Yesterday I pulled out my IRA. In the next few days I'm going to change to a credit union."

Many PPP borrowers who initially got the cold shoulder from multi-billion-dollar conglomerate banks have found refuge with local—often small-town—bankers and financial institutions. Natasha Crosby, a realtor in Richmond, Va., reports that her bank, Capital One, "didn't have the applications available when the Paycheck Protection Program started" on April 6. And when she finally was able to apply, she notes, "the money ran out."

Crosby, who is president of Richmond's LGBTQ Chamber of Commerce, is media savvy and was able to publicize her predicament through television appearances on CNN and CBS, as well as in interviews with such publications as Mother Jones and Huffington Post. A "friendly acquaintance," she says, referred her to Atlantic Union Bank, a Richmond-based regional bank,



where she eventually received a PPP loan "in the high five figures" for her sole proprietorship.

"It took almost two months," Crosby says. "I was totally frozen out of the program at first."
Talibah Bayles heads her own firm, TMB Tax and Financial Services, in Birmingham, Ala. where she serves on that city's Small Business Council and the state's Black Chamber of Commerce. She told *deBanked* that she's seen clients who have similarly been decamping to smaller, less impersonal financial institutions. "I have one client who just left Bank of America and another who's absolutely *done* with Wells Fargo," she says. "They're going to places like America First Credit Union (based in Ogden, Utah) and Hope Credit Union (headquartered in Jackson, Miss.). I myself," she adds, "shifted my business from Iberia Bank."

Main Street bankers acknowledge that they are benefiting from the phenomenon. "In speaking to our industry colleagues," says Tony DiVita, chief operating officer at Bank of Southern California, an $830 million-asset community bank based in San Diego, "we've seen that many of the big banks have slowed down or stopped lending small-dollar amounts that were too low for them to expend resources to process."

At the same time, DiVita says, his bank had made 2,634 PPP loans through July 17, roughly 80% of which went to non-clients. Of that number, some 30% have either switched accounts or are in the process of doing so. And, he notes, the bank will get a second crack at conversion when the PPP loan-forgiveness process commences in earnest. "Our guiding spirit is to help these businesses for the continuation of their livelihoods," he says.

Noah Wilcox, chief executive and chairman of two Minnesota banks, reports that both of his financial institutions have been working with non-customers neglected by bigger banks where many had been longtime customers. At Grand Rapids State Bank, he says, 26% of the 198 PPP applicants who were successfully funded were non-customers. Minnesota Lakes Bank in Delano, handled PPP credits for 274 applicants, of whom 66% were non-customers. "People who had been customers forever at big banks told us that they had been applying for weeks and were flabbergasted that we were turning those applications around in an hour," says Wilcox, who is also the current chairman of the Independent Community Bankers of America, a Washington, D.C.-based trade group representing community banks.

Noting that one of his Gopher State banks had successfully secured funding for an elderly PPP borrower "who said he had been at another bank for 69 years and could not get a telephone call returned," Wilcox added: "We've had quite a number of those individuals moving their relationships to us."

For Chris Hurn, executive director at Fountainhead Commercial Capital, a non-bank SBA lender in Lake Mary, Fla., the psychic rewards have helped compensate for the sometimes 16-hour days he and his staff endured processing and funding PPP applications. "It's been relentless," he says of the regimen required to funnel loans to more than 1,300 PPP applicants, "but we've gotten glowing e-mails and cards telling us that we've saved people's livelihoods."

Yet even as the Paycheck Protection Program – which only provides funding for two-and-a-half months – is proving to be immensely helpful, albeit temporarily, there is much trepidation among small businesses over what happens when the government's spigots run dry. The hastily contrived design of the program, which has relied heavily on the country's largest financial institutions, has contributed mightily to the program's flaws.

"The underbanked and those who don't have banking relationships were frozen out in the first round," says Sarah Crozier, director of communications at Main Street Alliance, a Washington D.C.-based advocacy organization comprising some 100,000 small businesses. "The new updates were incredibly necessary and long overdue," she adds, "but the changes didn't solve the problem of equity in access to the program and whom money is flowing to in the community."

Professor David Audretsch, an economist at Indiana University's O'Neill School of Public and Environmental Affairs and an expert on small business, says of PPP: "It's a short-term fix to keep businesses afloat, but it missed in a lot of ways. It was not well-thought-out and a lot of money went to the wrong people."

The U.S. unemployment rate stood at 11.1% in June, according to the most recent figures released by the Bureau of Labor Statistics, about three times the rate of February, just before the pandemic hit. The BLS also reported that 47.2% of the U.S. population – nearly half –was jobless in June. Against this backdrop, SBA data on PPP lending released in early July showed that a stunning array of cosseted elite enterprises and organizations, many with close connections to rich and powerful Washington power brokers, have been feasting on the PPP program.

In a stunning number of cases, the program's recipients have been tony Washington, D.C. law firms,

influential lobbyists and think tanks, and even members of Congress. Many businesses with ties to President Trump and Trump donors have also figured prominently on the SBA list of those receiving largesse from the SBA.

Businesses owned by private equity firms, for which the definition of "small business" strains credulity, were also showered with PPP dollars. Bloomberg News reported that upscale health-care businesses in which leveraged-buyout firms held a controlling interest, were impressively adept at accessing PPP money. Among this group were Abry Partners, Silver Oak Service Partners, Gauge Capital, and Heron Capital. (Small businesses are generally defined as enterprises with fewer than 500 employees. The SBA reports that there are 30.7 million small businesses in the U.S. and that they account for roughly 47% of U.S. employment.)

Boston-based Abry Partners, which currently manages more than $5 billion in capital across its active funds, merits special mention. Among other properties, Abry holds the largest stake in Oliver Street Dermatology Management, recipient of between $5 million and $10 million in potentially forgivable PPP loans. Based in Dallas, Oliver Street ranks among the largest dermatology management practices in the U.S. and, according to a company statement, boasts the most extensive such network in Texas, Kansas and Missouri.

Meanwhile, the design of the program and the formula for the looming forgiveness process is proving impractical. As it currently stands, loan forgiveness depends on businesses spending 60% of PPP money on employees' wages and health insurance with the remaining 40% earmarked for rent, mortgage or utilities.

Many businesses such as restaurants and bars, storefront retailers and boutiques – particularly those that have shut down—are preferring to let their employees collect unemployment compensation. "Business owners had a hard time wrapping their heads around the requirement of keeping employees on the payroll while they're closed," notes Detweiler, the education director at Nav. "They have other bills that have to be paid."

The forgiveness formula remains vexing for businesses where real estate costs are exorbitant, particularly in high-rent cities such as New York, Boston, Washington, D.C., San Francisco, and Chicago. Tyler Balliet, the founder and owner of Rose Mansion, a midtown Manhattan wine-bar promising an extravagant, theme-park experience for wine enthusiasts, says that it took him a month and a half to receive almost $500,000 from Chase Bank. Unfortunately, though, the money isn't doing him much good.

"I have 100 employees on staff, most of whom are actors," he says. "We shut down on March 13. I laid off 95 employees and kept just a few people to keep the lights on."

At the same time, his annual rent tops $1 million and the forgivable amount in the PPP loans won't even cover a month's rent. "I haven't paid rent since March and I'm in default," Balliet says. "Now I'm just waiting to see what the landlord wants to do."

Like many business owners, Balliet financed much of his venture with credit card debt, which creates an additional liability concern, notes Crozier of the Main Street Alliance. "It's very common for borrowers to have nextwave FUNDING

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5757 Blue Lagoon Dr. Suite 170, Miami, FL 33126 • 844-306-6398 • www.nextwavefunding.com signed personal guarantees in their loans using their credit cards," she says. "As we get closer to the funding cliff and as rent moratoriums end," she adds, "creditors are coming after borrowers and putting their personal homes at risk."

Mark Frier is the owner of three restaurants in Vermont ski towns, including The Reservoir—his flagship—in Waterbury. In toto, his eateries chalked up $6.5 million in combined sales in 2019. But 2020 is far different: the restaurants have not been open since mid-March and he's missed out on the lucrative, end-of-season ski rush.

Consequently, Frier has been reluctant to draw down much of the $750,000 in PPP money he'd secured through local financial institutions. "We could end up with $600,000 in debt even with the new rules," Frier says, adding: "We live off very thin margins. We need grants not loans."

As the country recorded 3.7 million confirmed cases of coronavirus and more than 141,000 deaths as of mid-July, PPP money earmarked by businesses for health-related spending was not deemed forgivable. Yet in order to comply with regulations promulgated by the Occupational Safety and Health Administration and mandates and ordinances imposed by state and local governments, many establishments will be unable to avoid such expenditures.

"What we really needed was a grant program for companies to pivot to a business environment in a pandemic," says Crozier. She cites the necessity businesspeople face of "retrofitting their businesses, buying masks, gloves and sanitizers and cleaning supplies, restaurants' taking out tables and knocking down walls, installing Plexiglass shields, and improving air filtration systems."

Meanwhile, as Covid-19 was taking its toll in sickness and death, the economic outlook for small business has been looking dire as well. The recent U.S. Census's "Pulse Survey" of some 885,000 businesses updated on July 2 found that roughly 83% reported that Covid-19 pandemic had a "negative effect on their business. Fully 38% of all small business respondents, moreover, reported a "large negative effect."

Amid the unabated spikes in the number of coronavirus cases and the country's grave economic distress, PPP recipients are faced with the unsettling approach of the PPP forgiveness process. As Congress, the SBA, and the U.S. Treasury Department continue to remake and revise the rules and regulations governing the program, businesses are operating in a climate of uncertainty as well. Currently, the law states that the amount of the PPP loan that fails to be forgiven will convert to a five-year, one-percent loan—a relaxation in terms from the original two-year loan which is not necessarily cheering recipients.

"One of biggest problems with PPP is that the rule book has been unclear," frets Vermont restaurateur Frier, glumly adding: "This is not even a good loan program."

Ashley Harrington, senior counsel at the Center for Responsible Lending, a research and policy group based in Durham, N.C., argued in House committee testimony on June 17, that there ought to be automatic forgiveness for PPP loans under $100,000. Such a policy, she declared, "would likely exempt firms with, on average, 13 or fewer employees and save 71 million hours of small business staff time."

She also said, "The smallest PPP loans are being provided to microbusinesses and sole proprietors that have the least capacity and resources to engage in a complex (forgiveness) process with their financial institution and the SBA."

William Phelan, president of Skokie (Ill.)-based PayNet, a credit-data services company for small businesses which recently merged with Equifax, sounded a similar note. Observing that there are some 23 million "non-employer" small businesses in the U.S. with fewer than three employees for whom the forgiveness process will likely be burdensome, he says: "Estimates are that it will cost businesses a few thousand dollars just to get a $100,000 loan forgiven. It's going to involve mounds of paper work."

The country's major challenge now will be to re-boot the economy, Phelan adds, which will require massive financing for small businesses. "The fact is that access to capital for small businesses is still behind the times," Phelan says. "At the end of the day, it took a massive government program to insure that there's enough capital available for half of the U.S. economy" during the pandemic.

For his part, Professor Audretsch fervently hopes that the country has learned some profound lessons about the need to prepare for not just a rainy day, but a rainy season. The pandemic, he says, has exposed how decades of political attacks on government spending for disaster-preparedness and safety-net programs have left the U.S. exposed to unforeseen emergencies.

"We're seeing the consequence of not investing in our infrastructure," he says. "That's a vague word but we need a policy apparatus in place so that the calvary can come riding in. This pandemic reminds me a lot of when Hurricane Katrina hit New Orleans,' he adds. "The city paid a heavy price because we didn't have the infrastructure to deal with it."

KEEPING UP WITH KABBAGE

For many small and medium-sized businesses, the past few months have been tumultuous. The struggle to survive has been palpable, and the road ahead is still unclear for many of the hardest-hit enterprises.

Many owners remain disillusioned by the Paycheck Protection Program, which was designed to support them during the pandemic. The program was a reprieve for some, while for others the benefit was short-lived, leaving many owners angry, fearful and uncertain about their ability to maintain their livelihood.

Amid this backdrop, and in the wake of the recent announcement that American Express was purchasing Kabbage, DeBanked recently caught up with Kathryn Petralia, co-founder of the online financial technology company. In the edited excerpts to follow, she discusses challenges ahead, the potential impact on alternative lenders and funders and how the dynamic of banking is poised to change.

Q:

How specifically do you think the pandemic will change the way SMEs bank?

a: The pandemic will first change with whom they bank, and that choice will change the way they bank. For perspective, one hundred percent of Kabbage customers have a bank account, but very few of them can get a loan from their bank. We launched Kabbage Checking earlier this year to serve the smallest of businesses without sacrificing the features they expect and offering other products banks don't. We're focused on making cash flow tools accessible to the businesses traditionally underserved and overlooked, and the pandemic has been a catalyst for businesses to find new solutions.

Q:

How might the dynamic of banking change after the crisis?

a: It was well-reported that businesses without an existing credit relationship with their bank were turned away from applying for PPP loans. We've heard directly from many of our PPP customers that this will compel them to change banks, and the demand for Kabbage Checking has reflected that sentiment since its launch. In the short term, businesses of all sizes and ages will seek out and sign up for new, tech-forward banking partners. In the long term, that shift will change customers' expectations of what banks should offer. For example, prior to the PPP, Kabbage had issued well over a billion dollars to customers during non-banking hours. On-demand, 24/7 access to funding and cash flow insights, or faster settlements and money transfers will soon become commonplace, and large retail banks will need to adapt if they want to capture or reclaim these customers.

Q:

How are these changes likely to impact alternative lenders and funders?

a: For starters, single-product lending companies will realize they must diversify their offerings in order to compete in the new financial-services marketplace. I would expect to see lenders launch new products to more resemble a bank. Conversely, traditional banks will need to begin adopting automated ways to serve customers with a tech-forward experience. Especially in the new normal where customers may be apprehensive about in-person banking meetings, they must adapt online to acquire and serve customers.


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Q:

What's still needed to help Main Street recover?

a:

The PPP was only the first phase; we're not out of the woods yet. Businesses now need to restart and eventually grow. The crisis made business owners realize they need tighter controls over their cash flow, as many found themselves on the back foot and ill-equipped to withstand a long-term crisis such as the one through which we are all muddling.

Q:

How can alternative lenders and funders best play a role in this recovery?

a:

Much of what we're already doing is exactly what our economy needs. For the most part, fintech companies serve the customers banks won't or can't. That reality is unfortunately unchanged today. That's why during the pandemic Kabbage made every effort possible to provide products that helped SMBs through this crisis. With respect to PPP, we helped nearly 300,000 small businesses access over $7 billion, helping preserve an estimated 945,000 jobs. Our payments product saw a near 4X spike in adoption as businesses sought contactless payment options. We built **www.helpsmallbusiness.com** in three days to allow any small business to generate needed revenue by selling online gift certificates. We also launched Kabbage Checking, giving small businesses a new banking option, and Kabbage Insights remains available and free to access for any small business.

Q:

What changes do you expect to see in the alternative lending and funding industry as a result of the pandemic?

a:

Everyone will expand their services. Whether it's larger companies expanding their solutions through acquisitions, or start-ups investing beyond their primary product, everyone will aim to enhance their offerings to give customers more data-driven products that help them rebuild.

Q:

Kabbage just agreed to be purchased by American Express. Should we expect to see more consolidation in the alternative lending/funding space? If so, over what time frame and why do you expect this to happen?

a:

I would not be surprised if we saw more deals announced before the end of the year.

Q:

Tell us a little about why Kabbage decided to sell and why the timing was right?

a:

For us, it has always been about finding the right company with the right mission and intentions. We just happened to be in the middle of a crisis when the conversations started, despite having the financial capacity to support operations for multiple years. American Express shares our vision to be an essential partner to small businesses, and we couldn't be more excited at the opportunity to continue the important work of providing solutions and innovative capabilities that address a range of small business cash flow needs alongside AmEx.

THE 2020 **SHAKEUP**

OnDeck -	acquired by Enova
Kabbage -	acquired by American Express
Radius Bank -	acquired by LendingClub
Plaid -	acquired by Visa
Credit Karma -	acquired by Intuit
Borro -	acquired by Luxury Asset Capital
Bitty Advance -	acquired by Craig Hecker
Prosperity Funding -	acquired by eCapital
Quarterspot -	stopped lending
PAR Funding -	placed into receivership

INDUSTRY NEWS

6/19/20

- Affirm secured a $250M revolving asset-backed credit facility led by Ares Management Corporation
- Germany-based fintech payments company Wirecard announced that it could not publish its 2019 financials because its auditors could not locate $2.1 billion of cash on its balance sheet.
- Robinhood announced it will make changes to its platform after a user misinterpreted the meaning of his account performance data and committed suicide.
- BFS Capital appointed Raif Barbaros as Chief Technology Officer

6/23/20

- Zopa, a 15 year-old peer-to-peer lender, was granted a full bank license in the UK

6/30/20

- Lendified, a Canadian small business lender, announced the hiring of Pratik Bhandari as CFO, as the company wrangles with survival

7/1/20

- Lendio announced that it had facilitated $8 billion in PPP loans
- eCapital Corp acquired 100% of Prosperity Funding Inc.

7/2/20

- Prashant Fuloria became CEO of Fundbox. The previous CEO, Eyal Shinar, became executive chairman

7/6/20

- Uber announced it would acquire Postmates, a food delivery service, for $2.65B in an all-stock transaction.

7/7/20

- First Associates (now Vervent) co-founder Larry Chiavaro announced his official retirement. He is staying on until the end of 2020.

7/9/20

- SoFi applied for a national bank charter

7/12/20

- NYC recorded its first day without a single COVID death since March 13th

7/16/20

- LendingPoint announced a first of its kind Lending Operating System that creates an instant consumer credit pre-approval platform for businesses of all sizes

7/20/20

- Alchemy Technologies announced the launch of the world's first hybrid branch and Mobile Lending Operating System that combines brick and mortar operation with the online experience

7/22/20

- Kabbage announced the launch of its business checking account service
- Jonathan Gould, the Senior Deputy Comptroller and Senior Counsel of the OCC, said that any national bank could hold onto the unique cryptographic keys for a cryptocurrency wallet

7/23/20

- Ascentium Capital reported $2.5B in managed assets, a new record for the Kingswood, Texas-based alternative funder

INDUSTRY *NEWS CONT'D*

7/27/20

- Alchemy Technologies launched a new white labeled, fully customizable line of credit platform for banks, fintechs and financial services companies

7/28/20

- Enova announced the acquisition of OnDeck at the price of $1.38 per share

7/29/20

- Intuit announced the introduction of QuickBooks Cash, a new business bank account with a 1% interest rate

7/29/20

- Bethesda, MD-based Rapid Finance, a small business lender, announced that it had resumed lending again
- The States of California, Illinois, and New York sued the OCC over the "Madden fix" rule it had recently issued to address ambiguities to the "valid when made" doctrine

7/30/20

- Congresswoman Nydia M. Velázquez re-introduced a bill called the "Small Business Lending Disclosure and Broker Regulation Act"
- Poynt, an open commerce platform, announced that it had chosen Fundomate as its partner to bring automated business funding to its US-based customers

7/31/20

- The SEC unsealed a lawsuit it had brought against Complete Business Solutions Group dba Par Funding, a small business finance provider, for allegedly unlawful securities practices. The Court ordered the company be placed in receivership.
- Varo officially became the first nationally chartered digital consumer bank

8/3/20

- Equifax introduced a new COVID Response Recovery Solution Suite to help consumers and businesses
- FTC Commissioner Rohit Chopra said that the Commission intends to closely examine practices in the merchant cash advance industry
- ZenBusiness announced that it was acquiring Joust
- It's reported that Robinhood doubled its Q2 trading revenue, hitting $180M

8/4/20

- LendingClub, the online consumer lender, reported a 90% decline in originations in Q2 due to COVID. The company also reported a net loss of $78.5M.

8/5/20

- eBay partnered up with LendingPoint to provide seller financing

8/8/20

- It's rumored that Million Dollar Listing TV star / real estate broker Ryan Serhant was the agent on a listing as far away as New Zealand, a quirk resulting from the devastation in the NYC luxury real estate market

8/10/20

- Rumors leaked that American Express was in talks to acquire Kabbage
- Facebook announced Facebook Financial, a financial unit that would be run by Libra head David Marcus

8/11/20

- Brendan Ross, the owner of the now defunct Direct Lending Investments, at one time the largest online lending hedge fund, was indicted on 10 counts of wire fraud

8/17/20

- American Express officially announced that it was acquiring Kabbage. The purchase price was undisclosed
- Robinhood announced a $200M Series G Round and a valuation of $11.2B, up from $8.6B. The investment came from New York-based D1 Partners

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