



## RE-BANKED

By Cheryl Winokur Munk

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Text The Merchant,  
Close the Deal

By Ed McKinley

How Banks Are Coming  
Back to SME Lending

By Sean Murray





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By CHERYL WINOKUR MUNK

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# Letter From the Editor



**BY**  
**SEAN MURRAY**

Out of the many lenders and marketplaces that reported their 2016 earnings in the last month, several didn't look so good. If algorithms and branchless-finance was supposed to make lending so much more efficient, why is it that so many online lenders are struggling to make a profit?

As it would turn out, banks were not as doomed or as outdated as the technologists characterized them to be. Their cost of capital and brand name recognition (for most of them anyway) is proving very tough to compete with. In this issue we explore the latest trend, the drift back towards banking. That doesn't mean that we are returning to a purely bank-dominated lending universe, however. On the contrary, it's mainly the prime borrower market that banks are working to service better. There's an entire segment out there for which bank financing is not the answer, at least not yet, and there's plenty of exciting events taking place.

For small business owners, some still want a relationship with the person helping them obtain capital, they just want it in a different way. In the last few months, we spoke with several professionals who attest to having a text-based relationship with their clients, as in they communicate back and forth through their phones over text.

When I first heard about this, I assumed it had to be a one-off. "Wait, your applicants text you for updates with the underwriting process?" I asked a sales representative who seemed stunned that I would think that was odd. After a quick poll of other salespeople at a conference, the truth became clear to me. If you don't attempt to have a text relationship with your clients, you might be at a disadvantage. In this issue, we explore why that might be.

And on that note, RU ready 4 this issue? Cuz I g2g so ttyl. 🤔 😬 😊

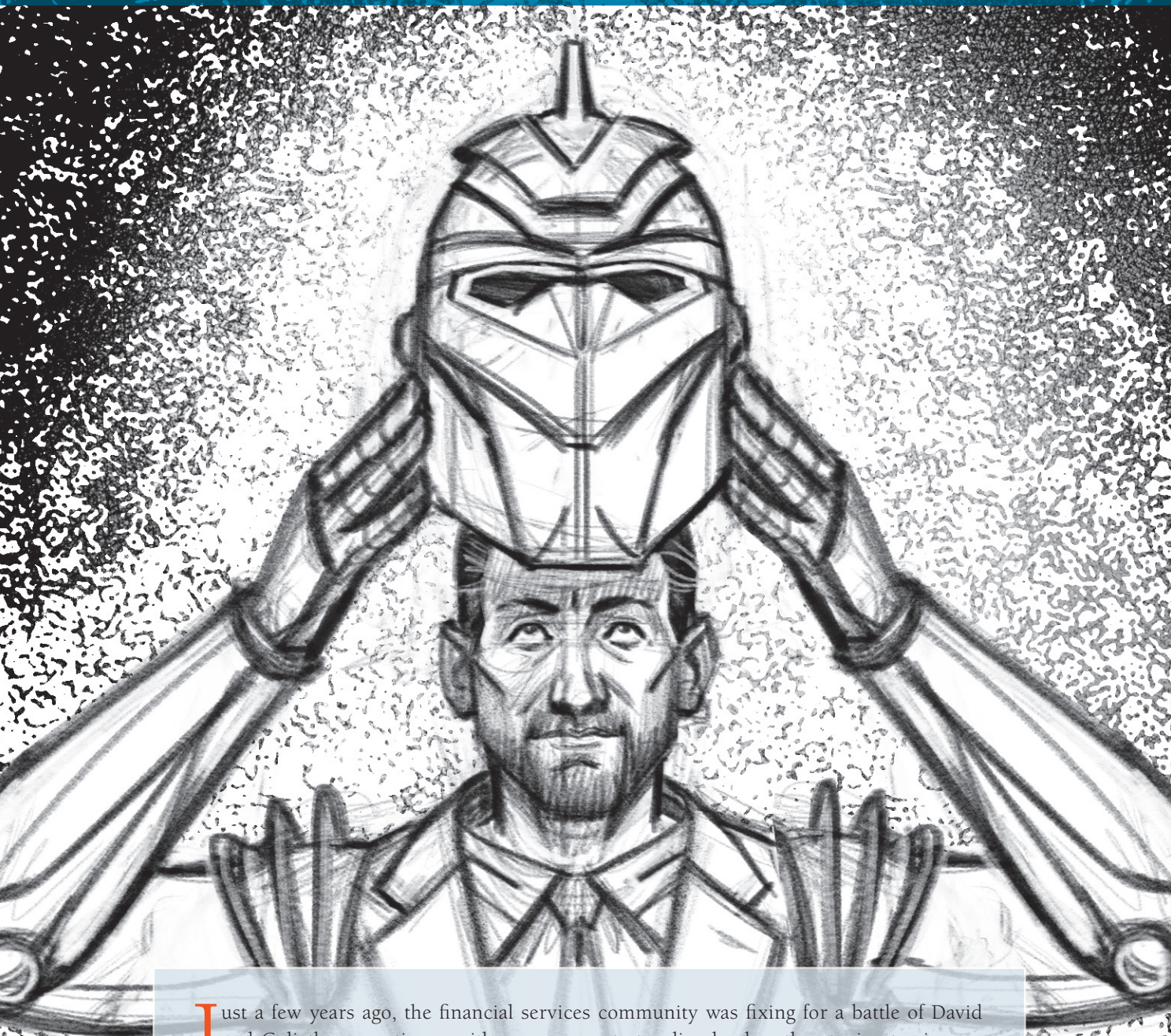
Thx,

—Sean Murray

**EDITOR'S CORRECTION:**

'The LendIt Story' that appeared in the January/February 2017 issue accidentally omitted the name of one individual who played a role in the lending conference's founding. That person is **Dara Albright**, who LendIt confirmed had a part in it coming together.





Just a few years ago, the financial services community was fixing for a battle of David and Goliath proportions—with scrappy, upstart online lenders threatening to rise up and vanquish the fearful and mighty brick and mortar banks.

Instead, the unexpected happened: a number of well-respected online lenders and banks set aside their battle arms and began looking for ways to collaborate with their rivals—offloading loans, making referral agreements and establishing more formal partnerships, for example.

“In the real world, sometimes David wins. Sometimes Goliath wins. Just as plausibly, sometimes both sides carve up a market and they often have different offerings that target unique customers,” says Brayden McCarthy, vice president of strategy at Fundera, a New York-based marketplace for small business lending that works with a variety of lenders, including traditional banks.

Certainly, the change didn’t happen overnight. But over time, both online lenders and banks have been forced to tailor their expectations more closely to market realities. Despite their fast growth trajectory, several online lenders have come to realize that



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they lack several things many banks have, namely a strong, time-tested brand, a solid customer base and ample capital. Banks, meanwhile, have realized that their slow start out of the gate with respect to technology is a severe competitive disadvantage, and that they need more nimble, savvy partners to stay in the game.

Given these shifts, more and more online lenders and banks are taking the approach that if you can't beat 'em, join 'em. Although some industry leaders are actively pursuing strategies that put them in direct competition with banks, partnerships of varying degrees between traditional banks and alternative players are increasingly common. As a result, the lines separating the two are getting increasingly blurry.

"Market forces are acting as a shotgun at the wedding. Whether the two sides are entirely comfortable with the marriage is irrelevant, they need one another," says Patricia Hewitt, chief executive of PG Research & Advisory Services LLC in Savannah, Georgia. "They're stronger together than they are alone."

The evolution of Square is a prime example. The San Francisco-based company really packed a punch in the merchant services world with its mobile card reader designed for small businesses. From there, the payments company sought additional ways to diversify, eventually turning to merchant cash advance as a way to help small business customers obtain funds quickly. Then, in March of last year, Square moved into online lending, teaming up with Celtic Bank of Utah to offer small business loans online. The partnership got off to a running start. In its most recent earnings report, Square said it facilitated 40,000 business loans totaling \$248 million in the fourth quarter of 2016—up 68 percent year over year—while maintaining loan default rates at roughly 4 percent.

Even SoFi, the San Francisco-based online lender that has been pointedly outspoken in its anti-bank rhetoric, now has bank-like aspirations. In February, the lender acquired mobile-banking startup Zenbanx, giving it the ability to offer checking accounts and credit cards in 2017. Also in February, SoFi teamed up with Promontory Financial Group to enable community banks to purchase super-prime student loans originated by the online lender. Large banks have been buying SoFi loans for several years.

## **COLLABORATION IS THE WAVE OF THE FUTURE**

Many see collaboration between banks and online lenders as a logical step in the industry's evolution. Online disrupters have forever changed the face of lending—in the same way that online brokerage shaped the financial advisor industry, according to Bill Ullman, chief commercial officer of Orchard Platform.

"There's a tendency to want to view things as either black or white, online lenders vs. banks. The reality is that the entire financial services industry is undergoing a transformation with technology as the core driver," he says. "I am of the view that both traditional financial services companies and fintech players can survive and thrive," Ullman says.

For its part, Orchard recently inked a deal with Sandler O'Neill that provides access to the Orchard platform for the investment bank and brokerage firm's bank and specialty finance clients. The deal is expected to help small banks better evaluate their options with respect to online lending opportunities.

Partnerships between online lenders and banks take many forms. Some of them are behind the scenes, where marketplaces sell loans to banks or banks informally refer customers. Others are more public. For example, in September 2015, Prosper and Radius Bank of Boston teamed up to offer personal loans to certain customers through the bank's website using the Prosper platform. Customers can borrow from \$2,000 to \$35,000 in this manner.


Then in December 2015, JPMorgan Chase and OnDeck joined forces in order to dramatically speed up the process of providing loans to some of the banking giant's small business customers. In April 2016, Regions Bank and Avant announced a partnership to better serve customers who don't meet Regions' credit criteria.

Avant's customers typically have a credit score between 600 and 700, while Regions sets the bar higher. "The benefit for banks is that they do not need to worry about a platform taking away customers that meet their own credit criteria," according to Carolyn Blackman Gasbarra, head of public relation at Avant.

She notes that Avant expects to replicate this model with more banks in 2017. "Lately many platforms and banks have come to realize their counterparts are more friend than foe," she says.

Given the changing tides, industry watchers





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expect to see more relationships develop between online lenders and banks over time. These could include referral agreements, technology licensing arrangements, formalized revenue-sharing partnerships and perhaps even outright acquisitions.

### **PARTNERSHIP ADVANTAGES**

Certainly, working together can be mutually beneficial for both online lenders and banks. For new online lenders and other fintech players, partnering with an established bank allows them to bypass significant regulatory and compliance hurdles because the necessary requirements are already in place.

“Why jump through all the hoops when you can just have a buddy system with an existing lender?” says Kerri Moriarty, head of company development at Cinch Financial, a Boston-based company dedicated to helping people make smarter investment decisions.

Fintechs that license their technology to banks still have to meet the high standards of third-party vendors determined by bank regulators, notes Stan Orszula, co-head of the fintech team at the Chicago law firm Barack Ferrazzano Kirschbaum & Nagelberg LLP.

“But it’s still less onerous than being a direct lender,” says Orszula, who works closely with banks and fintech providers on legal, regulatory and corporate issues. “They are learning that they need banks. They really do.”

Even seasoned online lenders that have a regulatory framework in place can benefit from bank relationships by using banks’ established brands as leverage. “Everyone knows Chase, Bank of America and American Express,” says McCarthy of Fundera. “They have a solid name and a solid in-built customer base to be able to offer product to them,” he says.

Teaming up with a bank gives added credibility to an online lender, at a time when the public’s confidence has faltered due to highly publicized troubles at certain firms. “Partnering has a very important signaling effect that these online players are here to stay,” McCarthy says.

Banks, meanwhile, need the nimbleness and innovation that online lenders provide. “Banks realize they have to catch up with the fintech disrupters,” says Mark E. Curry, president and chief executive of SOL Partners, which provides strategic management

and information technology consulting services to financial services companies.

### **DIFFERENT TYPES OF PARTNERSHIP OPPORTUNITIES ABOUND**

When it comes to partnerships between banks and online players, there are numerous options. In the small business lending space, for example, McCarthy of Fundera says he expects banks to continue buying loans from online lenders, as they have been for many years. He also expects more banks will route declined applicants to online lenders or online loan brokers. “This is a partnership that will allow them to make up some incremental revenue by referring business,” he says.

In addition, McCarthy says he expects banks to make products available through online marketplaces and use an online lender’s technology for online loan applications. He also expects banks will use online lenders’ technology for underwriting and servicing loans.

Years ago, before John Donovan joined Bizfi, he recalls talking to a salesman for a large national bank. The bank didn’t offer a lending product that he could give to small businesses and the salesman was losing customers as a result. “That’s where we see a lot of those opportunities,” says Donovan, chief executive of the online marketplace for small business loans.

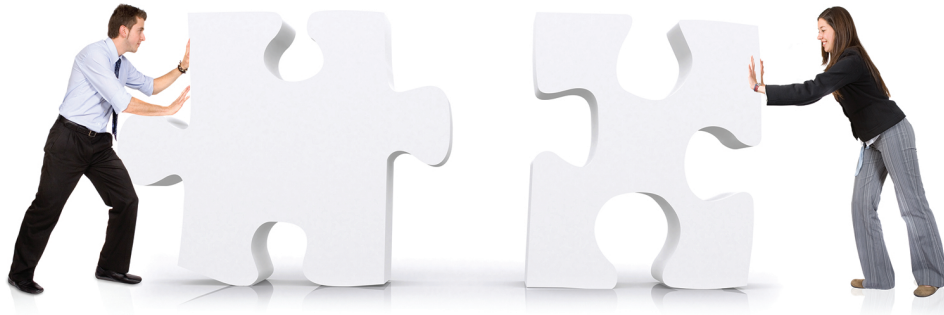
For instance in March 2016, Bizfi partnered with Western Independent Bankers, a trade association, for over about 600 community and regional banks, to link small business clients to financing options through Bizfi. Many banks don’t offer small business loans below \$150,000, whereas the average loan Bizfi does is \$40,000, Donovan says, adding that the company would like to develop additional relationships similar to its agreement with Western Independent Bankers.

In the future, he predicts fintechs will continue to be more receptive to the idea of working with banks and vice versa, as the industry digests the impact of deals that are still in their early days.

### **FINDING STRATEGIC GROWTH OPPORTUNITIES**

As banks and online lenders become increasingly accustomed to working together, there may be more opportunities for strategic acquisitions. For instance, Sandeep Kumar, managing director of Synechron, a global consulting and technology firm, expects to see





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banks—especially mid-tier players that don't have the resources to innovate like big banks—buying lending-related start-ups. He says banks will likely be most interested in companies that can help them with AI and other techniques to pinpoint where they should spend more efforts on cross-selling and customer profiling, for example. "There are many start-ups in this area that have very compelling technology," he says.

On the other hand, Chris Skinner, an independent commentator at The Finanser Ltd., a research and consulting firm in London, points out that the two cultures don't always mesh. "Quite a few startups have young, entrepreneurial founders that would loath the idea being acquired by a bank. So it really depends on the circumstances," he says.

Valuation differences between large banks and leading online lenders may also be a sticking point for some deals, Ullman of Orchard points out. Banks' concern over their valuation "will place a certain amount of restraint and discipline on the tech M&A activities they pursue," he says.

#### **ANTICIPATING TROUBLE IN PARADISE**

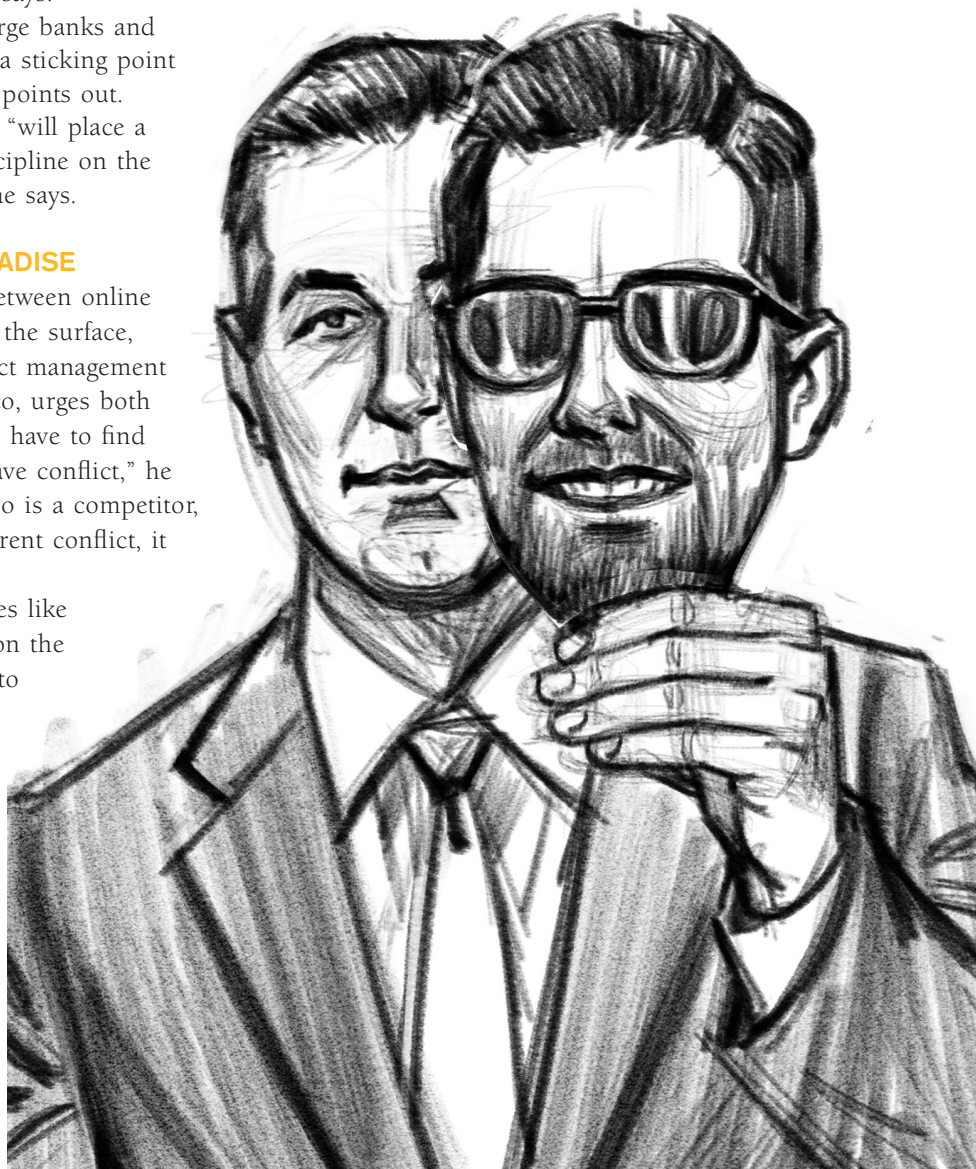
While increased collaboration between online lenders and banks sounds good on the surface, John Zepecki, group head of product management for lending at D+H in San Francisco, urges both sides to proceed with caution. "You have to find an arrangement where you don't have conflict," he says. "If your innovation partner also is a competitor, it's a challenge. If you have an inherent conflict, it doesn't get better over time."

That's one reason why companies like Chicago-based Akouba have come on the scene. In Akouba's case, its goal is to provide banks with the technology such that they don't have to partner with an online lender that has the potential to compete for business. "We don't compete with the bank in any way whatsoever," says Chris Rentner, the company's founder and chief executive.

Akouba's business lending platform—which the American Bankers Association endorsed in February—provides banks with leading edge technology that integrates the bank's own unique

credit policies into a convenient, online process—from application to documentation—all the way to closing and funding. The bank uses its own credit policies, originates its own loans and owns the entire brand and customer relationship.

Rentner says he started the business with the idea in mind that the online lending model wouldn't be sustainable long-term and that working alongside banks—as opposed to competing head to head—was the direction to go. "The idea that they could somehow get all of the consumers out of the banking world and onto their platforms was never going to happen. That's why we exist today," he says.





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# HOW BANKS ARE COMING BACK TO SME LENDING

## SUMMARY OF A LENDIT CONFERENCE PANEL

By SEAN MURRAY

The banks are no longer sitting on the sidelines of small business lending. At LendIt on March 6th, a panel featuring representatives from two of the biggest banks in the country, reminded young upstarts that they intended to be the primary capital sources for small businesses.

Unlike JPMorgan Chase, which partnered with OnDeck, Bank of America (BoA) decided to build the technology to deliver loans easily and quickly on their own. BoA SVP Nadeem Tufail said that reputational risk had held them back from partnering with a platform back when they were considering it years ago. “We couldn’t make that leap,” he explained, citing factors like cost, which they saw as simply being too high on some platforms to feel comfortable with.

But that doesn’t mean that the opportunity has passed them by. “A Bank of America customer can get funded in 48 hours,” Tufail proclaimed, while adding that a business that doesn’t bank with them can get a loan from them in about 7 days. The bank is also now doing fully automated approvals on a very small scale with a sliver of their best clientele to test the concept.

Meanwhile, Julie Chen Kimmerling, Senior Manager at Chase, made it a point to say that they were also really worried about things like reputational risk but that they found OnDeck to be a perfect fit. The maturity of their management team

and platform really impressed them, she said. Still, Chase governs how the loans are underwritten and keeps the customers on their balance sheet. So they haven’t exactly handed the keys over to OnDeck but obviously trust their brand to be affiliated.

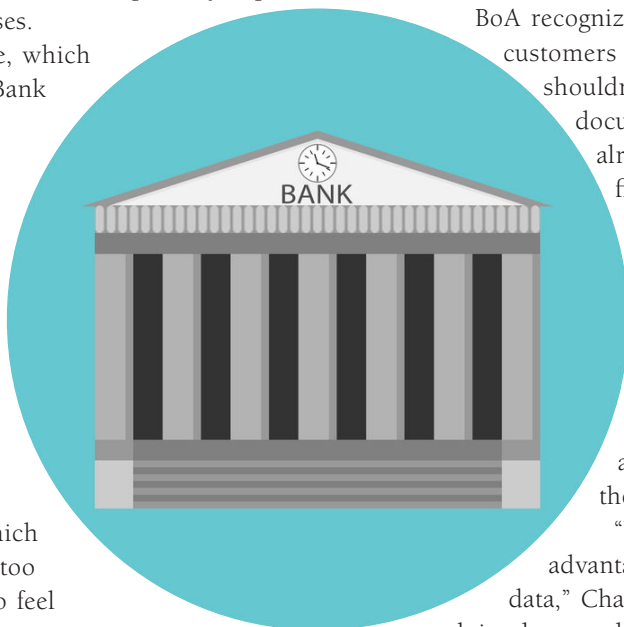
BoA recognized that some of their customers were telling them that they shouldn’t have to submit all these documents when the bank should already have access to their financial histories, particularly their cash flow. Tufail said that this was one of the most important factors in their underwriting. “Does the business have cash flow?” he said. “Does the business have liquidity?” The bank should already be able to evaluate these metrics.

“We certainly have an advantage with transactional level data,” Chase’s Kimmerling said of banks doing loan underwriting. And Chase is no amateur in this market. Kimmerling said that her bank had provided \$24 billion of credit to US small businesses last year alone, a figure prominently displayed in their last earnings report.

To boot, both banks retain brick & mortar presences around the country, an advantage with small business customers, who they say are pretty likely to visit a branch.

The banks it seems are coming back. Lendio CEO Brock Blake moderated the panel.

*Quotes and paraphrases were derived from the panel. The summary is my own analysis of it.*





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# INDUSTRY NEWS

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**2/17**

Prospa, an online small business lender based in Australia, was valued at \$235M (AUD) in a \$25M (AUD) capital raise

Square announced funding \$248 million worth of business loans in Q4 2016

**2/21**

A Massachusetts state court vacated a merchant cash advance COJ

**2/24**

SoFi raised \$500M in a financing round led by Silver Lake Partners that reportedly gave SoFi a \$4.3B valuation

**2/27**

Prosper Marketplace closed a loan purchase agreement with a consortium of lenders for up to \$5 billion of loans that has a provision that also enables the lenders to buy up to 35% of the company

**2/18**

BlueVine secured a warehouse line of up to \$75M from Fortress

**3/1**

Lendio launched a new franchise program, allowing local offices around the country to become Lendio franchisees

**3/3**

Citing *Madden v Midland*, Colorado regulator brought a federal lawsuit against Marlette Funding for violating the state's usury cap

**3/5**

Two trade associations, the Innovative Lending Platform Association (ILPA) and the Coalition for Responsible Business Finance (CRBF), joined forces. The merged company will continue to be known as ILPA

**3/6**

Upstart raised \$32.5M

**3/7**

It's reported that former CAN Capital CFO Aman Verjee is now the COO of 500 Startups

Kabbage priced a \$525M securitization. It was oversubscribed

**3/9**

Citing *Madden v Midland*, Colorado regulator brought a federal lawsuit against Avant for violating the state's usury cap

**3/13**

Melvin Chasen, the founder of Rewards Network (originally Transmedia Network, Inc.) passed away. He was 88.

The New York State Assembly rejected the Governor's proposal to grant the Department of Financial Services (DFS) regulatory authority over any online lender doing business in the state

**3/15**

The New York State Senate also rejected the proposal to further regulate lending

The OCC published a manual on how it will evaluate charter applications from fintech companies

The New York DFS published a statement rejecting the OCC's plans

The WSJ reported that Marlette Funding was cutting nearly 1/5th of its workforce

**3/16**

WebBank announced that it had a net income of \$29.2M for 2016 and that it had a market valuation of \$319.4M

**3/20** - Prosper Marketplace announced that it had originated \$2.2B in loans in 2016, down from \$3.7B in 2015, and had a net loss of \$119M.

**3/21**

It's reported that Kabbage will set up its European headquarters in Ireland

**3/22**

OnDeck expanded its credit facility with Deutsche Bank by \$52M to a total of up to \$214M

**3/27**

IOU Financial wins Gold Stevie Award for Best Use of Technology in Customer Service

**3/30**

In Advance Capital announced that they had secured access to an additional \$50M

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By ED MCKINLEY



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About a year ago, Cheryl Tibbs, general manager of Douglasville, Ga.-based One Stop Funding, was having trouble getting in touch with one of her clients. The merchant in question runs a lawn care service and is usually out on the job, so he isn't quick to return phone calls or respond to email messages.

"I just got the idea to send a text," Tibbs recalls. She typed a message expressing her regret for intruding but letting her client know that he needed to take certain steps to advance the funding process for his loan application. He texted right back.

After that initial success, the texting continued between Tibbs and the lawn care provider. "He's been a customer for us for a while, and that's just how we communicate," she says. "It's easy for him to stop and shoot me a text as opposed to having a full conversation with me."

Tibbs isn't alone in her appreciation for text messaging as a part of the sales process. Quick responses to texts are making the medium increasingly important in the alternative small-business funding business, maintains Gil Zapata, CEO of Miami-based Lendinero. "Text messaging is more powerful than emailing nowadays," he declares.

One reason for that shift is that texts are easy to use, according to Tibbs. "It's a matter of convenience for the merchant," she contends. "In this business, any way you can make it easier for the merchant to facilitate the transaction with you is the method you have to use."

Besides the convenience, there's the sense of urgency people feel when they receive a text, asserts Jeb Blount, a sales trainer who's written eight sales-oriented books, including the bestselling *Fanatical Prospecting*. "When you send a text message you move to the top of a person's priority list," he says. In fact, people who are talking face-to-face often disengage from the conversation to respond to a text message, he notes. "It's treated as something that's urgent."

As texting becomes more commonplace in the alternative-finance business, some industry salespeople are beginning to view the medium in the same way they regard email, telephones and fax machines. "I use them as another tool for follow-up communications," John Tucker, managing member of 1st Capital Loans in Troy, Mich., says of text

messages. "In addition to sending them an email, I'll shoot them a text."

Texting has become almost standard procedure at Florida-based Financial Advantage Group LLC, according to Scott Williams, the firm's managing member. He prefers that sales associates make the initial contact by phone to get a sense of what the merchant is looking for in a funding deal. After gathering information and getting approval, it's best to send the offer by email so the merchant has "all the numbers in black and white" and more details than a text message can hold, he notes. After that, text messages can deliver requests for additional documentation and provide updates on the progress of the funding process. "We can tell them, 'Hey, everything got cleared this morning – we should be able to do the funding this afternoon,'" he says.



Texting expedites communication regarding renewals, too, Williams observes. "If a merchant is 50 percent paid back, you can check in and see if they need some additional capital right now," he says. "It's really good for that."

Clients can use messaging to convey images of documents needed in the funding process, Tibbs says. "I had a merchant yesterday who sent me over her IRS tax agreement through picture message," Tibbs says by way of example. Often, funders request color images of both sides of an applicant's driver's

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license, she notes. To fulfill such requirements, it's generally easier to snap a photo with a phone and send it as a picture message than to scan pages of paper into a computer to create an electronic document and then send the resulting file by email. "We do a lot with picture messaging," she observes.

But as useful as text messaging can become for contacting phone-shy clients or helping clients share an image to document a key cancelled check, companies should exercise care when using the medium for prospecting, warns Zapata. He and just about everyone else deBanked consulted emphasizes that sending unsolicited text messages can violate Federal Trade Commission regulations. "Just because our industry isn't regulated doesn't mean there aren't regulations out there on the side," he says.

Most say they learned of the regulations from third-party vendors who specialize in sending batches of text messages simultaneously. The key to sending those groups of messages legally is to get permission from the recipients in advance, notes Ted Guggenheim, CEO of TextUs, a Boulder, Colo., company specializing in multiple-texting services. "If you're (randomly) contacting people you got off a list somewhere, that's a pretty bad idea," he maintains.

The feds heavily regulate five-digit short-code texts but tread lightly with long-code texts – the ones sent from 10-digit phone numbers, Guggenheim says. The latter would apply in alternative finance, and if a text recipient calls back on the phone number associated with a long-code text, someone will answer, he notes.

Citing guidelines from the Cellular Telecommunications Industry Association (CTIA), Guggenheim stipulates that consumers should have the ability to opt out of additional messages after receiving the first one. Members of the industry who want to send groups of text messages can post conditions on their websites that compel users to grant permission to contact them by text if they submit their contact information, he suggests.

After ensuring everything's legal, Tucker reports 1st Capital Loans nets a good response when he uses a vendor to blast multiple identical text messages to lists of prospective clients who have already granted permission for his company to contact them by text message. The strategy has helped bring in a reasonable number of deals because the prospects were "already in the pipeline," he notes.

Remember, though, that cell phone numbers change more often than land line numbers, Tucker cautions. That means a call to a number that's

been reassigned could inadvertently fall into the unsolicited text message category that violates federal rules, he says. "You could be texting a 14-year-old," instead of a small business, he warns.

When mounting a mass text campaign, marketers are wise to avoid lengthy missives, according to Tibbs. "Keep it simple," she says. A typical message from her might read: "Looking for funding? Looking for capital? Give us a call," she notes.

In business texts, avoid acronyms like "LOL" and write in complete sentences with proper punctuation and capitalization, Blount suggests. "Begin by typing out the message somewhere other than in the text box, read it, make sure it makes sense and then send it," he says. Put your name with the word "from" at the top of the message so the recipient knows who sent it, he emphasizes.

Keep messages conceptual rather than marketing-oriented, Guggenheim advises. Messages should directly address the customer's situation to avoid seeming they were sent by a robot, he says. As with any response a salesperson receives, getting back to customers quickly pays off in better results, he adds.

When sending a batch of texts, vendors of the bulk service can ensure every text bears the same phone number that the sales rep uses to call the client, thus avoiding the possible confusion of using more than one number, says Guggenheim. The



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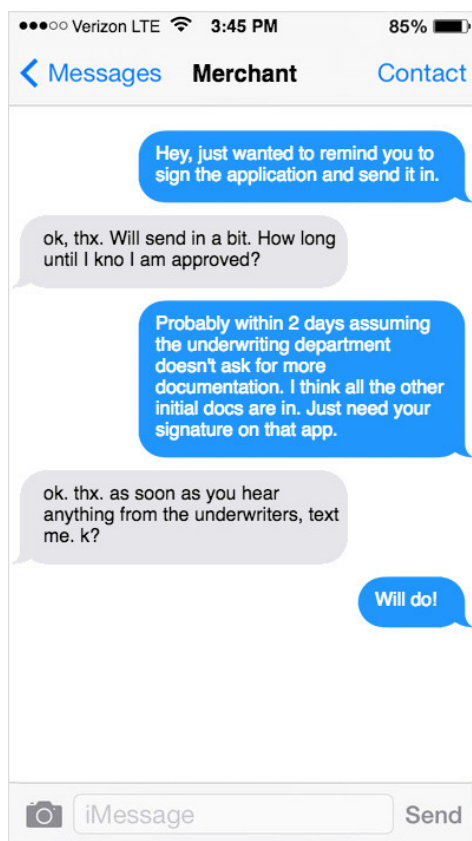
system he offers can trigger a pop-up on the computer screen of a specified salesperson when a text recipient responds, he says. It also keeps management informed of the volume of texts and the response rate, he says. That helps managers determine which types of text messages are working, he maintains.

Users can also rely on Guggenheim's TextUs system to schedule messages for delivery in the future to remind clients of meetings. The system detects land-line numbers and informs the user that the phone will not receive text messages, and it integrates with customer-relationship management systems to exchange information, he says.

So used properly, texting can offer benefits for everyone involved. But some unscrupulous players still insist upon using the medium to mislead prospective clients, says Zapata. His customers have shown him texts from competitors who make initial contact or early contact by sending text messages that might look like offers but are really just marketing letters, says Zapata. That approach, which might tout the availability of \$50,000, can cause problems when it turns out that the merchant qualifies for only \$25,000, he explains. "Trust me, you're not going to look like the good guy," he says of the firms that send what he considers objectionable text messages.

Sensitivity comes into play with text messaging, according to Blount. He and other sources say a great number of people regard email as business-oriented and texts as personal. That leads them to nonchalantly delete unwanted email messages but to become angry when they receive a text they didn't want, he says. "You can't send text messages to customers if they don't know you," he counsels.

Once a relationship is established, however, text messages can nurture it, Blount maintains. Suppose two businesspeople meet at a networking event and exchange business cards, he says. He advises noting the cell number on the card and sending a LinkedIn invitation immediately after meeting the potential client. Twelve hours later he would send a text message mentioning the encounter. If the salesperson



can get the potential client to respond to a text message, that prospect is granting permission to receive texts, he says.

Blount's example seems to suggest the line between business and personal may be blurring when it comes to texting. People often check their email messages on phones these days – instead of on a laptop or desktop computer – which also minimizes the difference between texting and emailing, says Tibbs. "Everybody does everything with their phone these days," she notes.

Communicating through a more personal channel such as texting has advantages, too, Williams contends. That's because some merchants consider their financing to be personal and don't want to broadcast the details to

employees, he says. To protect their privacy, merchants often provide financial institutions with their cell phone number instead of their office number or toll-free line, he notes.

Meanwhile, the world continues to become more comfortable with texting. When Williams and his sales associates began messaging clients about four years ago, they found younger customers receptive and older ones reluctant, he remembers. In the intervening years, however, the 50-plus crowd has warmed to the medium, he observes.

An advantage that accrues with text messaging – compared with email – arises from the fact that spam filters and spam folders don't seem to have a place in the world of texting. Several sources cite that as a big advantage with using texts. "If you send someone a text message, they're going to see it," notes Zapata.

Asked about a downside to the proper use of text messaging in business, most sources could not name one. However, Williams has discovered one area where the mode of communication comes up short. "I would not deliver bad news over text-messaging," he advises. "If the merchant is upset or frustrated by the news, it would be better-handled in a phone call so you could explain the reason for the negative news. A text message leaves too many things unsaid."



# Smart

## Business Funding



# ALTERNATIVE LENDING IS DEAD

At LendIt, Kabbage co-founder & CEO Rob Frohwein, blew the roof off the house with his presentation. Titled, “Alternative lending is dead, long live data,” he explained what he believes the industry should really be about.

“

*On why the term alternative lending  
doesn't make sense*

Think about Uber, when they talk about their business. Their tagline is ‘when you don’t feel like taking a taxi.’ They don’t call it alternative transportation at its best.

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## ***On how most companies have been answering the wrong question***

The question answered by most online lenders is, 'can you fill the void left by banks?' I will tell you right now that the question that should've been answered by folks going into online lending would be 'why aren't banks filling this void?' When you ask a different question, you get a different answer.

Most online lenders tried to disrupt banks by proving they could grow fast and they could acquire capital, but there is only one problem with that approach. You don't disrupt banks by focusing on the advantage that banks have over you. Banks have customers and money. That is mostly what they have. They have customers and money. So why disrupt the space with the two items that they actually have? The question that should've been asked and answered is, 'why aren't banks filling this void?'

**I'm not trying to prove that small businesses need capital. That is blatantly obvious. I'm trying to prove that there is a better way to do it.**

The answer to that is, because they can't profitably, for our industry, they can't profitably serve small business customers. When you ask that question and you figure out the reason, you start building your business a little bit different.



## ***On why an online application doesn't make you a technology company***

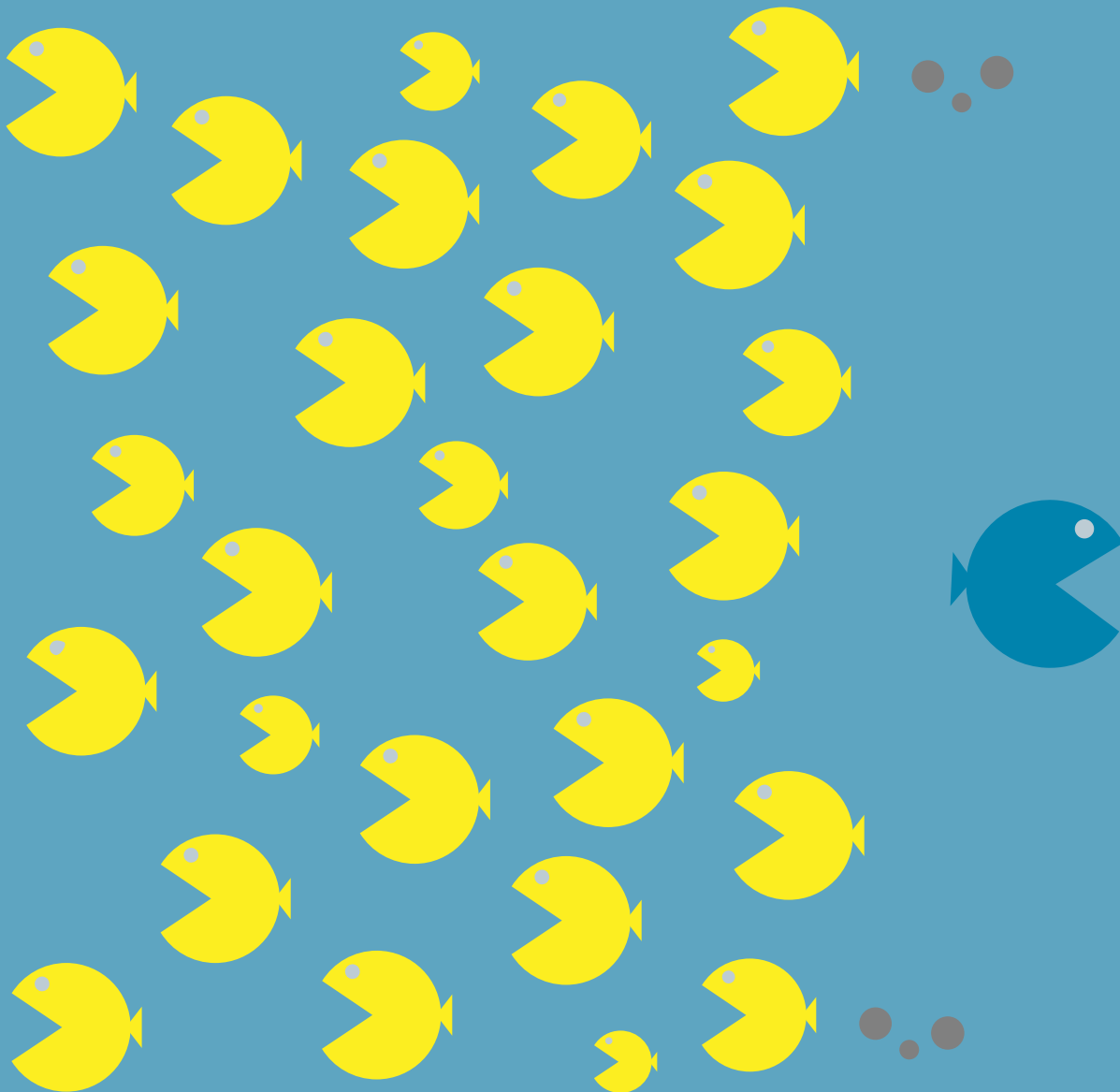
Most online lenders thought that by calling themselves a technology company, that they were one, but that wasn't the case. The biggest piece of technology that most of them promote, is an online application. That's it. If you think about it, it's an online application. Everything else is manual. There is nothing, nothing special about an online application.

And outside the US, we've already launched in Australia, Spain, the UK, Canada and Mexico. And we're going to be announcing two other territories in the next several weeks. And by the way, we have no employees in those markets, because we're able to operate everything remotely because we're a technology company.

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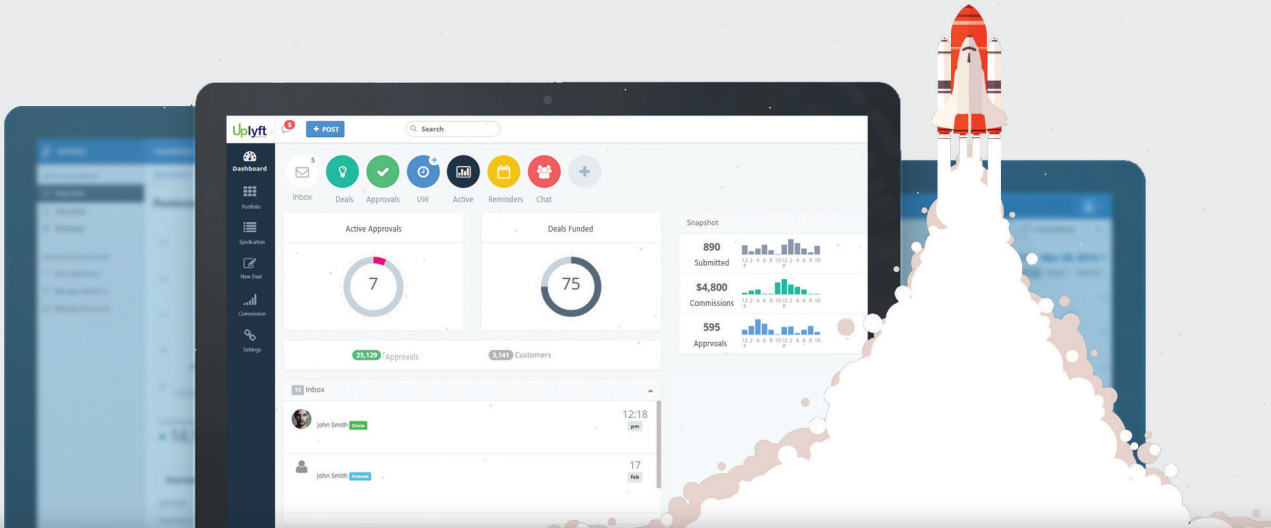
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# STOLEN DEALS? HOW ONE FUNDER USED TECHNOLOGY TO SAY 'NO MORE'

By SEAN MURRAY

It's another chapter in the saga of stolen deals, a problem that shops all over the country seem to be grappling with. For Miami-based Greenbox Capital, company CEO Jordan Fein hoped it was something that they didn't have to worry about. But believing it was better to be safe than sorry, Greenbox launched a 90-day probe to review all

controls and personnel to see if theft existed in their organization and how it was being done. They weren't too happy with the results, which determined that there was indeed employee theft taking place.

Sources across the industry have told deBanked that some employees will do things that make it easy to catch them, while others say that their tactics are constantly evolving. Disabling the USB ports isn't enough, they say, since personal smart phones can be used to covertly steal data by simply taking pictures of a computer screen. Some say that apps like Snapchat are even making it increasingly easy for them to erase the evidence trail.

For Greenbox Capital, the probe convinced them that being a funding company meant they also needed to become a top-notch security company, especially since they are being entrusted with sensitive information. It's their ISOs' deals they have to protect, they say. Understanding how important



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that is, the company designed proprietary software to monitor the actions of all users on their system, which allows them to know who clicked on what when, and for how long. But that wasn't enough, they insist. They also developed algorithms to detect suspicious behavior and their security team receives an alert whenever it gets triggered.



And it's not just what someone clicked on or downloaded, they say, since their system also analyzes phone call activity, texting activity, wifi activity and the number of absences from one's desk. The implication from that, of course, is that they must be incorporating video surveillance, which they confirmed they are.

They're not alone. Chad Otar, CEO of Excel Capital Management, an ISO based in New York City, says that when it comes to their office, they have "eyes and ears everywhere." Otar explains that because commission payouts can be so high, even experienced salespeople can feel tempted to risk their jobs to get their hands on good leads. Some will try to use different emails accounts on the office computer, using their private ones to transact information they're not supposed to. To prevent that, they're using Google Vault. "It allows us to monitor all emails going out and coming in from everyone's account that is linked to the server," he explains. "And if they try to access another email account, it blocks them."

But even while threats like Snapchat exist, Otar says some employees will take a low-tech approach and hide valuable information in the trash bin and then offer or attempt to "take out the trash."

For Greenbox, thanks to their new platform, they were actually able to catch two employees who were stealing data and actually selling deals on the black market.

### *A black market?*

To put such behavior in perspective, 3 years ago, the name and phone number for someone qualified and interested in working capital could fetch \$200 through normal lead channels. These days, sources say it can cost several thousand dollars in marketing just to fund a single deal and that a good lead is worth more than gold.

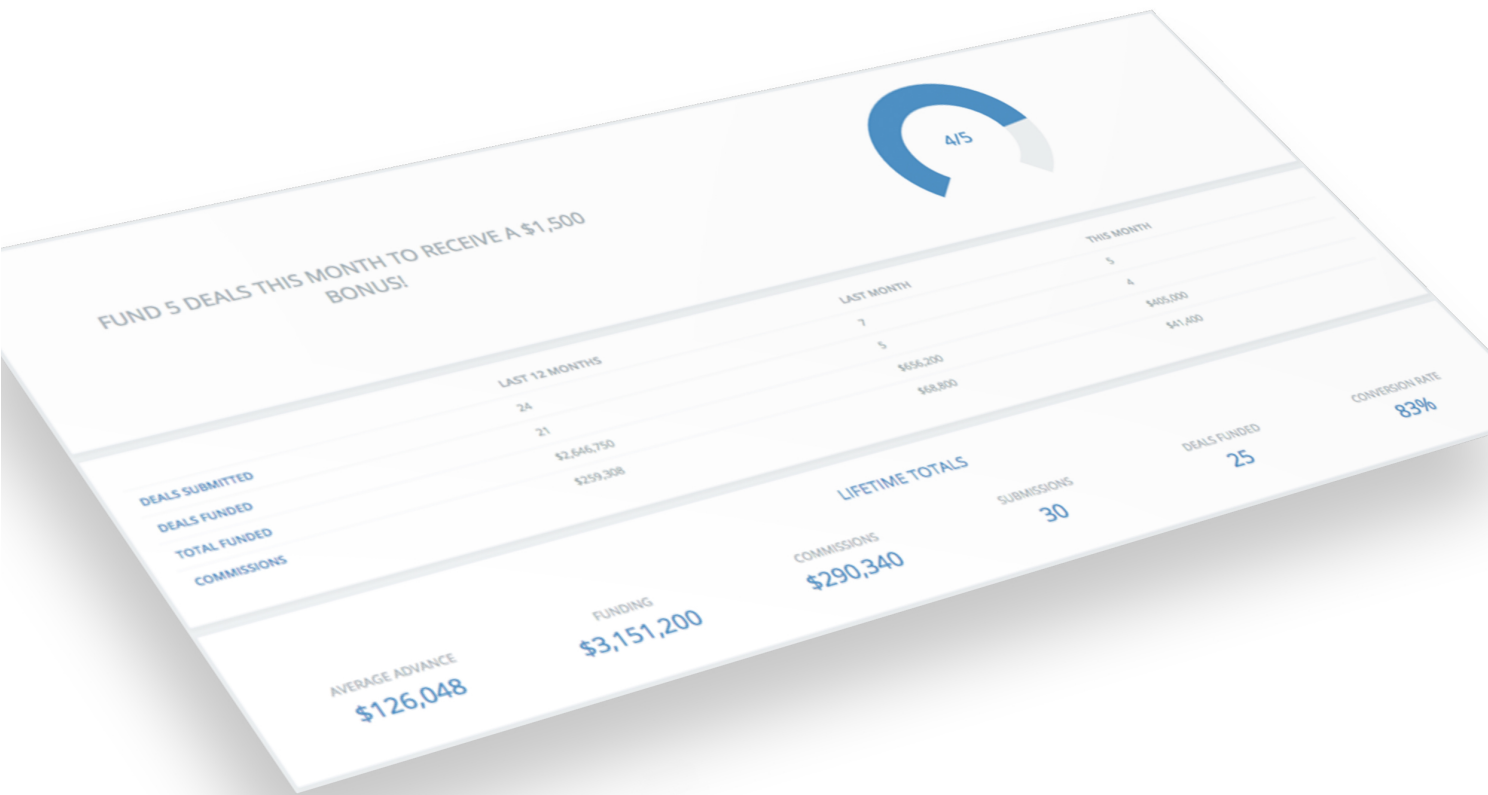
Greenbox believes that all companies should stop and take a close look at the controls they have in place to catch internal theft. Determined to prevent what they found from ever happening again, they say they now have the tightest internal controls in the industry and advise all businesses to rethink their approach to data security. "As it stands today there is no safer place to send your deals," company CEO Jordan Fein says.

Of note, readers should stand to realize that getting caught might not just mean embarrassment or termination. Last year, a former MCA sales rep pled guilty to attempted criminal possession of computer related material for being on the receiving end of stolen deal information and using it. Since then, other companies have privately suggested that this was not the only deal-stealing situation that has involved law enforcement and that data theft is a serious offense.

Excel Capital Management's Otar says that if you create a sense of pride and loyalty in your workplace, your own employees will report any bad behavior they witness to you.

For Greenbox Capital, they believe their cloud-based system and advanced algorithm is not just about funding more deals, it's about protecting the integrity of the entire process and maintaining trust.

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