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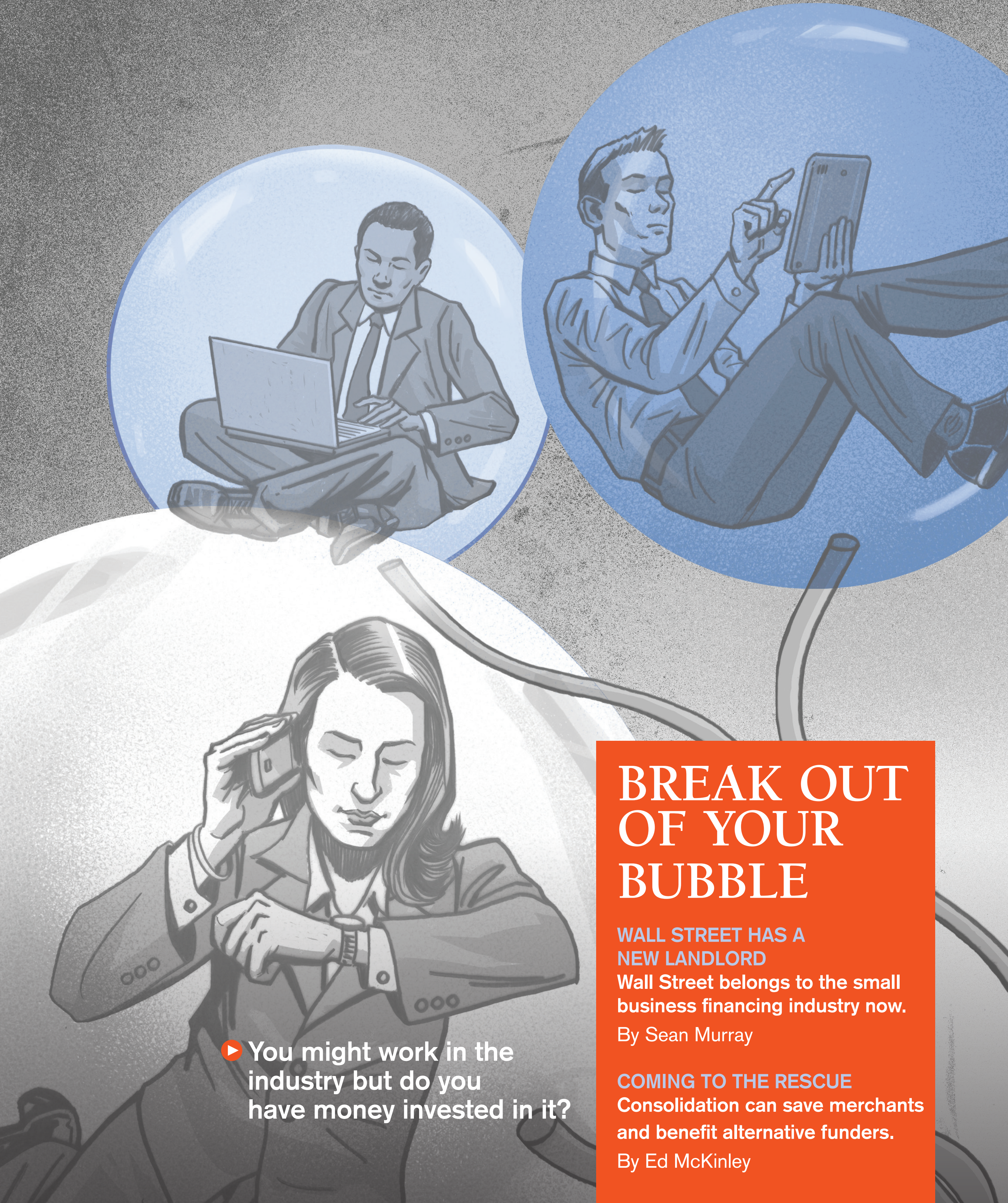
May/June 2015



▶ You might work in the industry but do you have money invested in it?

BREAK OUT OF YOUR BUBBLE

WALL STREET HAS A NEW LANDLORD
Wall Street belongs to the small business financing industry now.
By Sean Murray

COMING TO THE RESCUE
Consolidation can save merchants and benefit alternative funders.
By Ed McKinley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Letter From the Editor

BY SEAN MURRAY

Alternative lending is full of bubbles. I'm referring to the inefficient exchange of information, not runaway valuations, though that's something to explore in a future issue.

New financial products can be just as intimidating to the professionals working within the wider industry as they are to the customers they're being offered to. I've blogged often of my experience investing in Lending Club and Prosper notes, something I assumed everyone in the business finance world could relate to. Alas, I find that usually raises more questions with readers than it does answers.

Are you just smiling your head and nodding when your peers talk about their alternative lending portfolios? There's no better way to understand today's loan marketplaces than being an investor in them, even if it's just a small amount.

Whether it's merchant cash advances, real estate loans, student loans, or credit card debt, there are plenty of opportunities and worlds to explore. You should conduct research, diversify, and be smart of course. You don't want to be trapped in a bubble.

Outside the knowledge bubbles, we have regional enclaves. There are entire city neighborhoods being overrun by small business financing startups. In New York City, it had long been Midtown, but some shops started moving south and before anyone realized what was happening, Wall Street had been overrun by a new breed of broker. The culture in lower Manhattan is different than you might find in Midtown or in the next two largest industry hubs, Miami and San Francisco.

In this issue, we'll begin to explore the industry's bubbles, both geographically and structurally.

–Sean Murray

BREAK OUT OF YOUR BUBBLE

By *CHERYL WINOKUR MUNK*

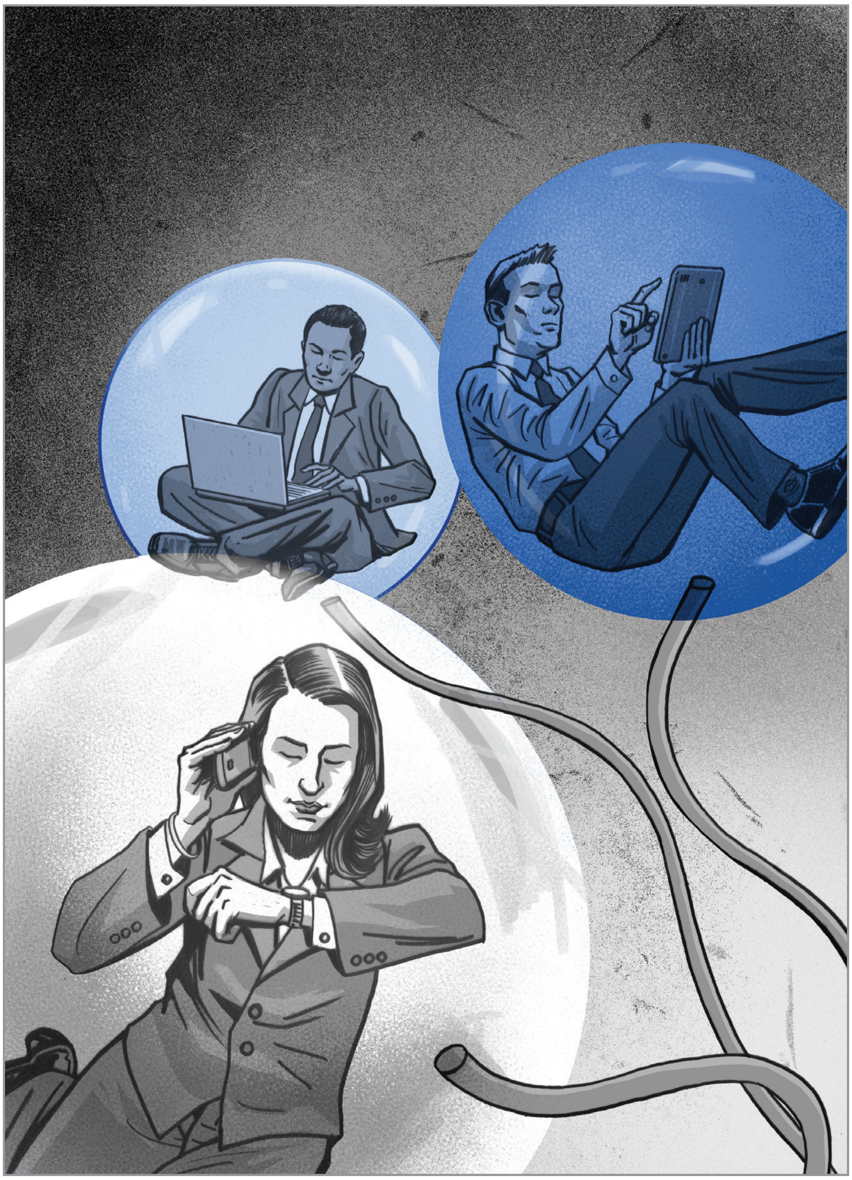
You might work in the industry but do you have money invested in it?

Even if you're already working in alternative lending and know a lot about your particular area, the industry is growing by leaps and bounds and you might be feeling a little overwhelmed by the multitude of investment opportunities. Amid all the options, finding the right place to invest your money can feel as challenging as picking out the proverbial needle in a haystack.

"Most people don't know everything that's out there. There are huge opportunities," says Peter Renton, an investor and analyst who founded Lend Academy LLC of Denver, Colorado, a popular resource for the online lending industry.

Indeed, there are a growing number of online alternative lending sites that theoretically allow a person to invest in all shapes and sizes of loans. There are sites like Lending Club and Prosper that allow smaller investors to tap into the burgeoning P2P market. There are also a plethora of platforms that cater only to wealthier, more sophisticated investors in a host of areas like small business, real estate, student loans and consumer loans.

Even though there is a surplus of options, prudent investing is not



> ***THERE ARE A LOT OF NEW MARKETPLACES POPPING UP, BUT IT TAKES TIME TO DEVELOP A PROVEN TRACK RECORD. THIS ISN'T TO SAY YOU SHOULDN'T DABBLE WITH THE NEWER PLATFORMS, BUT IF YOU DO, YOU'LL WANT ABOVE-AVERAGE RETURNS TO BALANCE OUT THE HIGHER RISK...***

quite as simple as depositing ample funds in an account and clicking the "go" button. Before you get started, you need to carefully consider factors such as your own finances and risk tolerance. You should also have a good handle on the specifics about the online platform—how it works, its history and track record, the types of investments it offers, the platform's management team, technology and your ability to diversify based on available investment opportunities.

One of the first things you'll have to think about as a potential investor is whether you have the financial wherewithal to be considered accredited by the SEC. If the answer's yes, you'll have a lot more choices of online marketplaces to choose from as well as types of investments. Basically, to meet the SEC's threshold, you'll need to have earned income that exceeded $200,000 (or $300,000 together with a spouse) in each of the prior two years, and reasonably expect to earn the same for the current year. Alternatively, you need to have a net worth over $1 million, either alone or together with a spouse (excluding the value of your home). (Check out the SEC's website for more detailed info.)

If you don't fit the definition of accredited investor, it'll be more difficult for you to find out about all the investment possibilities that are on the market today. That's because the platforms that cater to accredited investors aren't allowed by SEC rules to solicit, so many online marketplaces are hesitant to say much of anything for fear their words will be misconstrued by regulators as an attempt to drum up new business. With limited exceptions, you won't be able to get more than very basic information from and about these platforms' unless you are accredited.

But smaller investors do have options. Two San Francisco-based online lending platforms, Lending Club and Prosper, cater to individual investors, and you can still make a pretty penny plunking down money with these venues. You'll also find a wealth of information about investing with them by perusing their websites as well as by reading the blog posts of media-savvy financiers.

"Right now, Lending Club and Prosper provide a great entry point for people who want to get involved in investing in alternative lending," says Renton of Lend Academy.

The caveat is that these platforms aren't yet open to investors in every state, so if yours isn't on the list you're out of luck for now. However, with each marketplace you've got more than a 50 percent chance your state is on the approved list, so it's worth digging deeper.

Assuming you meet their respective suitability requirements, you can choose to invest on one platform or both. To be sure, they are alike in many ways. Both allow you to invest with as little as $25 and fund one loan, however they recommend you buy at least 100 loans to be properly diversified, which you can do for as little as $2,500. You can manually choose which loans to buy, or enter your investment criteria so loan picking is automated. You can also invest retirement money in an IRA through Lending Club or Prosper.

There's no fee to get started investing on either platform. For Lending Club, investors pay a service fee equal to 1 percent of the amount of payments received within 15 days of the payment due date. Prosper charge investors 1% per year on the outstanding balance of the loan. As the loan gets smaller, the servicing fee, which is charged monthly, gets smaller too.

To invest in Lending Club, in most cases you'll need either $70,000 in income and a net worth of at least $70,000, or a net worth of at least $250,000. There may be other financial suitability requirements that vary slightly depending on the state you live in. For Prosper, individual investors must be United States residents who are 18 years of age or older and have a valid Social Security number.

At any given time, Lending Club has more than 1,000 loans visible on the platform and new ones get added every day, according to Scott Sanborn, chief operating officer and chief marketing officer. Prosper, meanwhile, on average has more than 200 loans for people to invest in, says Ron Suber, president.

Returns tend to be favorable compared with other fixed income investments—a major reason investing in online loans is becoming more desirable. Of course, actual returns will depend on what loans you invest in and the level of risk you take—typically the more risk you take on, the greater your potential return will be. At Lending Club, for instance, Grade-A loans have an adjusted net annualized return of 4.89%, compared with 9.11% for Grade-E loans, according to the company's website.

To encourage more people to start investing, some savvy investors have started to self-publish online the quarterly returns they accumulate through the Lending Club and Prosper platforms. Renton, of Lend Academy, reported a balance of $476,769 on Dec. 31, 2014 and a real-world return for the trailing 12 months of 11.11 percent. Another well-known P2P investor and blogger, Simon Cunningham—the founder of LendingMemo Media in Seattle—reported a 12-month trailing return of 12.0 percent over the same time period, with a published account value of $41,496. Both investors say they expect returns to drop back somewhat over time, however, as the online marketplaces continue to lower interest rates to attract more borrowers.

Of course, if you're an accredited investor, you will have access to even more online marketplaces. For instance, there's SoFi of San Francisco for student loans, Realty Mogul of Los Angeles for real estate loans and Upstart of Palo Alto, California, that focuses on loans to people with thin or no credit history. The list of possibilities goes on and on.

Generally speaking, the more money you have to invest, the more options you have. "In this country today, you've got well over a hundred options if you're willing to put seven figures in," Renton says.

The minimums at venues that focus on accredited investors tend to be more than you'd find at Lending Club or Prosper. At SoFi, accredited investors need at least $10,000 to begin investing in the company's unsecured corporate debt. SoFi's been in the lending business for several years now and currently focuses on student loans, mortgages, personal loans and MBA loans. Investors, however, can't currently invest in these loans, says Christina Kramlich, co-head of marketplace investments and investor relations at SoFi. The company plans to eventually offer investment opportunities in the areas of mortgages and personal loans, she says.

At Funding Circle USA in San Francisco, accredited investors can buy into a limited partnership fund for at least $250,000. Or they can buy pieces of small business loans for a minimum of $1,000 each, though the recommended minimum is $50,000, explains Albert Periu, head of capital markets. There may also be upper limits on your investment, based on your financials. If you're part of the pick-and-choose marketplace, you'll pay an annual servicing fee of 1%. With the fund, you'll also pay an administration fee of 1%. Trailing 12-month net returns for investors are north of 10%, Periu says.

Because it's still so new, it can be hard for investors to know how to compare marketplaces. For starters, consider the platform's historical performance. There are a lot of new marketplaces popping up, but it takes time to develop a proven track record. This isn't to say you shouldn't dabble with the newer platforms, but if you do, you'll want above-average returns to balance out the higher risk, says Sanborn of Lending Club. "About three years in, we started to build a track record. At five years in, it was very solid," he says. "You need time to see how a basic batch of loans is going to perform."

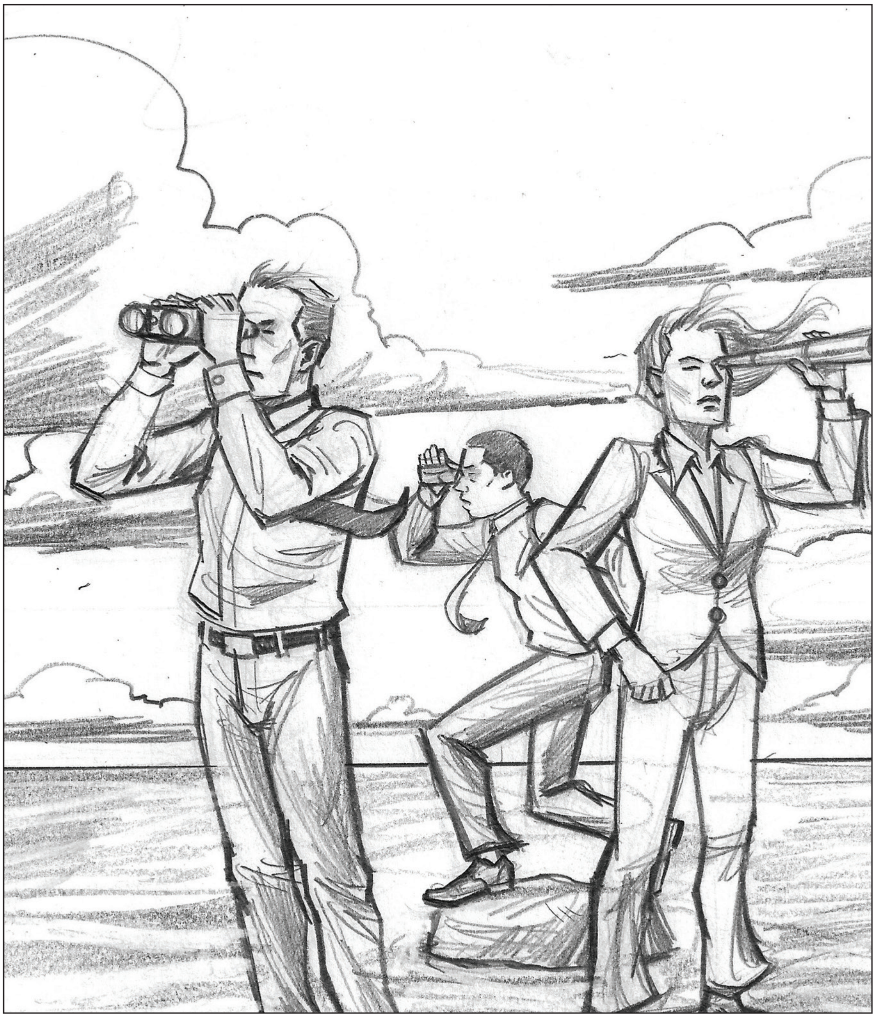
Before investing, you'll want to get a sense of how committed senior management is to the company and try and get a sense of whether the company seems to have enough capital for the business to run well. Try to find out about the cash position of the company, how the loans are going to be serviced, what entity is doing the underwriting and how and where your cash will be held.

"It's not just assessing the risk of the asset and the investment, it's assessing the risk of the

enterprise that is making it available to you," Sanborn says.

It's also important to ask questions about the loans themselves. Where do they come from and is the volume sustainable? Ideally, a platform should offer a variety of loans so investors can properly diversify, or you might need to consider investing with multiple platforms to achieve your desired balance.

Before you get started, you'll also want to ask about the company's compliance procedures and controls and how you can recover your money if you no longer want to invest. Data security is another area to explore. Not every company is as protective of customer data as perhaps they should be.



When you're asking all these questions, try to get a sense of how receptive the platform is to the feelers you're putting out. Investors should only work with companies that are willing to be open about how they are investing your money, their historical returns and other important data. "I can't stress transparency enough," says Periu of Funding Circle.

The technology the platform uses is another key element. Is the technology easy to use, or does the platform create stumbling blocks for investors? Are there ways to automate lending, or do you have to log on every day and manually invest in loans?

Suber of Prosper says investors should also consider whether platforms work with a back-up servicer in case there's a disruption and whether they run regular tests to make sure everything works as expected. "It's just like a backup generator and you have to test it every once in a while and make sure it goes on."

Certainly it pays to do your homework before you invest your hard-earned cash with an online platform. Ask around, attend industry conferences and absorb all you can from publicly available data. The good news is that there will probably be even more information for you to tap into as the industry continues to grow.

"Two years ago [marketplace lending] was very esoteric. A year ago it was still esoteric," says Funding Circle's Periu. Now, more and more investors are hearing about marketplace lending and want to make it part of their broader fixed income bucket. Even so, more has to happen for it to become a mainstream investment. "Awareness and education need to continue," he says.

Once more people understand the extent of what's out there, Suber of Prosper expects investing in online marketplaces will take off even more than it already has. "A lot of people still don't know this as an investment opportunity," he says.

WALL STREET HAS A NEW LANDLORD

By *SEAN MURRAY*

> THE LITTLE STRIP OF BROAD STREET BETWEEN WALL STREET AND EXCHANGE PLACE IS KIND OF LIKE A SCHOOLYARD FOR THE MERCHANT CASH ADVANCE INDUSTRY. WAR STORIES ARE EXCHANGED, CIGARETTES SHARED AND DREAMS DREAMED.

"You stole my deal bro!"

"No I didn't. The merchant hated your offer," replies back a 25-year old dressed in a dark pinstripe suit with no tie.

He then takes a pull from his half-smoked cigarette and continues, "The guy wanted 90k and you offered him twenty. I was at least able to get him fifty. What'd you think was going to happen?"

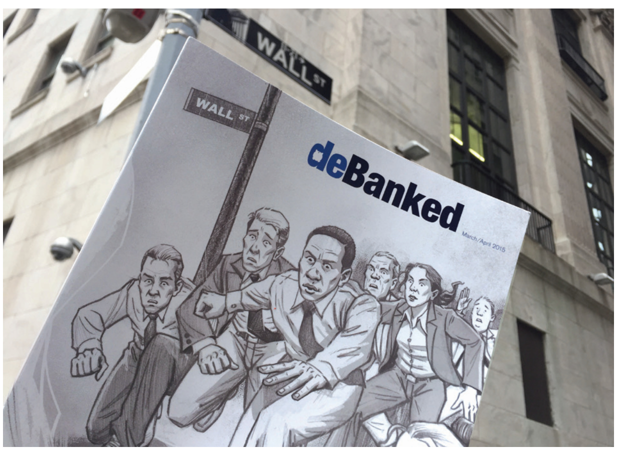
I walk past the two who eye me suspiciously and am quickly out of hearing range of their conversation. They were strangers, but I know exactly what they were talking about. Walking around the neighborhood here, I feel oddly at home.

This is Wall Street, a new stronghold for the small business financing industry. Midtown has traditionally been the epicenter for merchant cash advance companies, but somewhere along the way, new players started opening up their shops in lower Manhattan.

As a born and bred New Yorker, I never really saw a need to visit the actual street of Wall Street. To my knowledge, it was simply emblematic of high finance, not really a physical place anymore.

But earlier this year when I signed a lease at 14 Wall Street, I would be thrust into the middle of America's biggest breeding ground for financial brokers and learn once and for all that the ebb and flow of Wall Street isn't exactly gone, just transformed.

From my office up on the 20th floor, I can see



into the windows of the top five stories of the New York Stock Exchange building. The floors appear to be set up for traders, with long white continuous desks

peppered with large monitors on both sides. Everyone sits and stares intensely at their screens, pressing buttons on their keyboard at rapid fire pace. Nobody runs around screaming orders anymore.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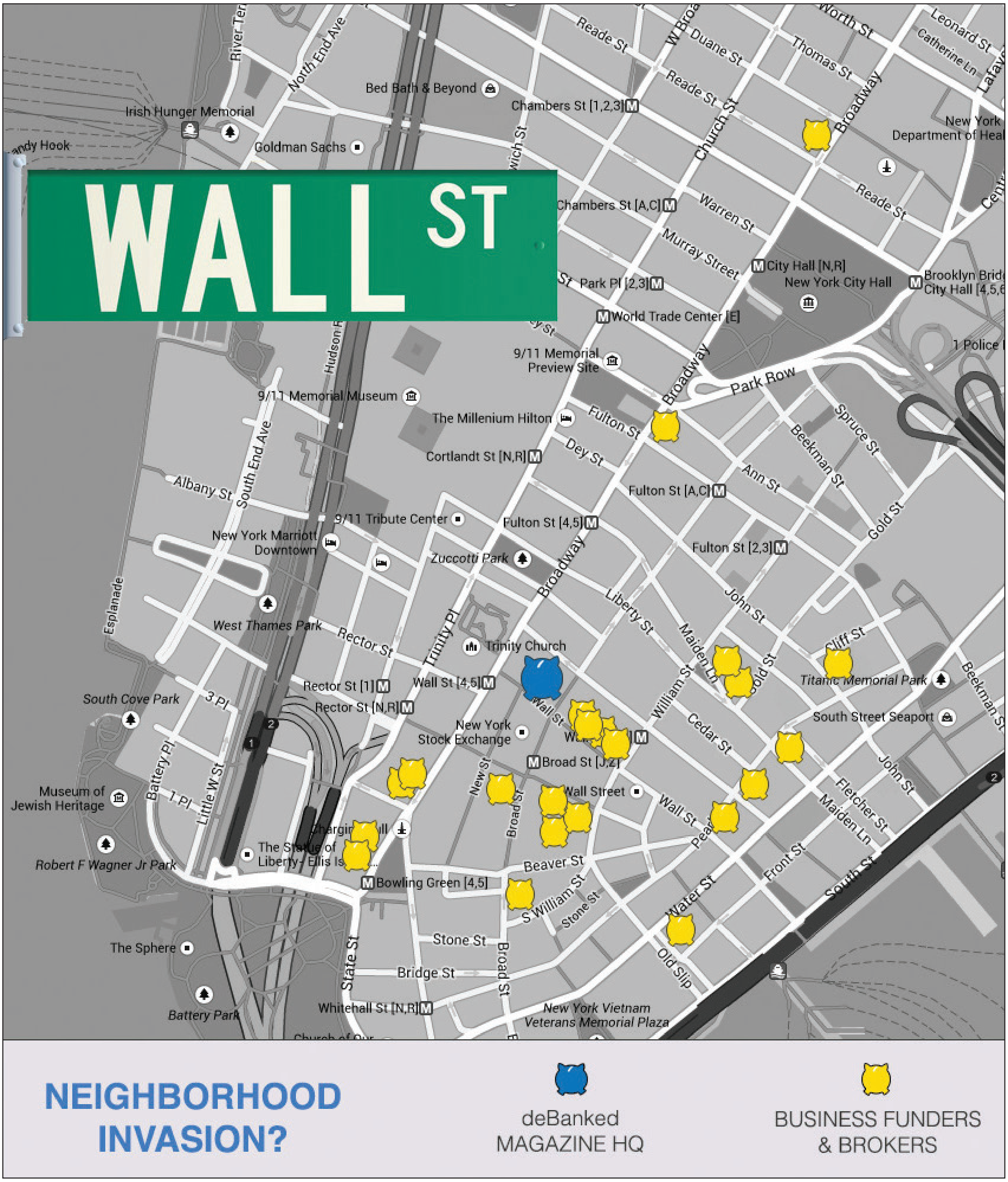
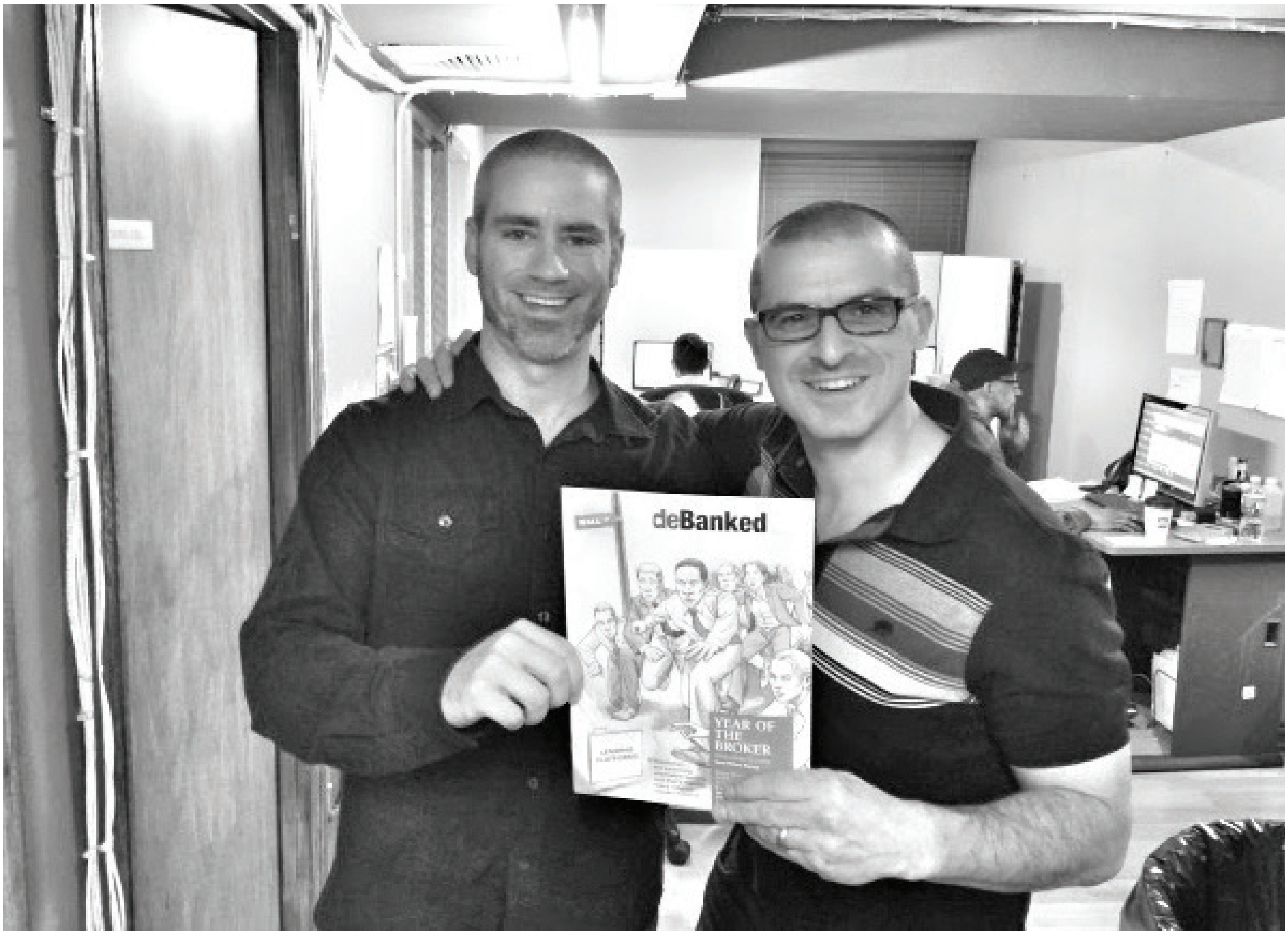


Outside, tour guides tell excited onlookers about the stock exchange's past. It's a historical landmark, a place to learn about history, not necessarily witness it. The spirit is still alive though in a zombified made-for-the-cameras kind of way. OnDeck recently kicked off their IPO there and so too did Lending Club.

While tourists dance around aimlessly and upload photos to facebook to show they were *there*, men and women in the office floors above them are engaged in a different kind of dance. Packed in elbow to elbow with phones glued to their ears, commercial financing brokers shout large numbers at an accelerated pace.



Often lacking luxury amenities such as windows, brokers on Wall Street are weathering the heat and lack of oxygen to move money to Main Streets all across America.

When they come out for air to breathe, the tourists move out of their way, as if they've suddenly become aware that people are actually trying to get some work done down here.

The little strip of Broad Street between Wall Street and Exchange Place is kind of like a schoolyard for the merchant cash advance industry. War stories are exchanged, cigarettes shared and dreams dreamed. *One day, I'm going to start my own ISO and I'll do it differently because...*

You can walk in any direction. The industry can be found on Broad Street, William Street, Pine Street, and Broadway. It's on Water Street, Rector Street, Maiden Lane, and Fulton Street. It extends outward almost infinitely to Midtown, Brooklyn, Queens, Long Island, Staten Island, The Bronx, Westchester, Orange County, and New Jersey.

And while there are hubs in the outer parts, the most unique experience by far is down here on Wall Street, where you're infinitely more likely to overhear professionals shouting "ACHs" and "stacks" than "puts" and "calls."

Although the guides teach tourists that Wall Street as they imagined it to be is dead, Wall Street itself can never die.

Every now and then a pedestrian will look up at the offices above, and wonder if the magic of fast-talking finance still exists. *Is that world gone forever?*

Not quite...

The stockbrokers may be gone, but there's a new landlord. Wall Street belongs to the small business financing industry now.

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LENDIO CEO BROCK BLAKE POSED THIS QUESTION TO PANELISTS, "IS THERE REAL INNOVATION HAPPENING OR IS THERE REGULATORY ARBITRAGE?"

STEPHEN SHEINBAUM, FOUNDER OF MERCHANT CASH AND CAPITAL (MCC) AND BIZFI, SAID "REGULATION IS NOT SOMETHING THAT SCARES US IN ANY WAY."

IN REGARDS TO BROKERS AND MIDDLEMEN, ONDECK CEO NOAH BRESLOW STATED, "THERE IS ALWAYS GOING TO BE A SET OF CUSTOMERS THAT WANT TO SHOP AND WANT TO HAVE HELP."

"THE DEATH OF BANKS HAS BEEN GREATLY EXAGGERATED," ARGUED KABBAGE'S COO, KATHRYN PETRALIA.

"THE CONVENTIONAL FINANCIAL SECTOR HAS, IN IMPORTANT RESPECTS, LET ALL OF ITS MAIN CONSTITUENTS DOWN OVER THE LAST GENERATION, AND TECHNOLOGY-BASED BUSINESSES HAVE THE OPPORTUNITY TO TRANSFORM FINANCE OVER THE NEXT GENERATION," SAID FORMER U.S. TREASURY SECRETARY DURING HIS KEYNOTE SPEECH.

"I THINK THERE'S GOING TO BE A SHAKEOUT," SAID STEVE ALLOCCA OF PAYPAL IN REFERENCE TO A FUTURE ECONOMIC DOWNTURN.

KAREN MILLS, THE FORMER HEAD OF THE SMALL BUSINESS ADMINISTRATION ASKED SEVERAL REGULATORY BODIES WHO WOULD STAND UP TO OVERSEE SMALL BUSINESS LENDING. "NO ONE STOOD UP," SHE SAID.

FUNDATION CEO SAM GRAZIANO DISLIKES THE TERM, "ALTERNATIVE LENDING" AND PREFERS TO THE REFER TO THE INDUSTRY AS "DIGITALLY ENABLED LENDING."

COMING TO THE RESCUE

By *ED MCKINLEY*

CONSOLIDATION CAN SAVE MERCHANTS AND BENEFIT ALTERNATIVE FUNDERS.

In the last 18 months, funders have begun offering consolidations that combine more than one advance. First, the funders buy out the merchant's existing advances. Then funders lower the percentage collected from a merchant's card receipts or debited by ACH. Sometimes, consolidation can even include an infusion of cash for the merchant.

"Consolidations are a way to help merchants avoid defaulting," said Chad Otar, managing partner at New York-based Excel Capital. Consolidation works if the buyout price is low enough and the terms allow enough room to handle the obligation. "It can free up some cash and give the merchant some room to breathe, sustain the business and avoid taking on more debt," he noted.

It's helpful to think of consolidation as the equivalent of refinancing a house, according to Stephen Halasnik, managing partner at Payroll Financing Solutions, a Ridgewood N.J.-based direct lender. Payroll has been offering the service for about six months, he said.

Brokers and funders can benefit from consolidation because it puts a merchant back on track towards long-term sustainability, said a broker who requested anonymity. Moreover, the broker said that one in three of the potential deals he sees have multiple advances outstanding, which means companies could lose an alarming chunk of market share by declining too many potential funding candidates. "That's what I believe the catalyst was to opening the doors to consolidation," he contended.

SECRET TO SUCCESS

Success in consolidation lies in finding merchants worthy of another chance, said Otar. Clients who have taken two or three advances but stick to the new plan and stop stacking advances from other brokers have a reasonably good chance of succeeding, he said. His company can work with a merchant that has as many as three advances outstanding if they have sufficient revenue.

Otar provided the example of a merchant who's diverting 20% of his gross revenue to three advances. Together, the advances have led to a total of $50,000 in future revenues sold. If the merchant generates enough monthly revenue to qualify for $100,000, Excel can buy out the three advances, provide the merchant with $50,000 in cash,

and lower the payment to 8% to 12% of gross revenue. "All of a sudden they have all this cash flow to play with that really wasn't there," he said of merchants in that situation. "They tend to do really well."

Halasnik of Payroll Financing Solutions offered the example of a trucking company that had taken three advances and was delivering a total of $1,138 a day on average to the funders. Payroll bought out the three funders and is charging the trucker $615 a day.

One of Payroll's clients needed to repair a commercial vehicle but already had too many advances and couldn't get another, Halasnik said. Payroll consolidated the positions and lowered the payment, enabling the merchant to save enough money in two weeks to have the vehicle fixed.

To qualify for a consolidation, the merchant has to meet the "50% Rule" by netting 50% of what Excel is offering, Otar said. Between 40% and 50% of the distressed merchants that the company considers for consolidation meet that criterion, he said. An additional 30% of the merchants can meet that standard in the near future, once they're further along on their agreements.

> **"LISTENING TO THE CUSTOMER, UNDERSTANDING THE BUSINESS AND OFFERING A PRODUCT THAT IS GOING TO BENEFIT THE CUSTOMER IN THE LONG RUN..."**

MERCHANTS TO AVOID

Under the 50% Rule, a merchant that is still obliged to deliver $70,000 and qualifies for $100,000 would not be a candidate for consolidation, Otar said. In that situation, a merchant can wait until he has delivered more of the sold revenues to the funders and then get a consolidation, he said. "In the meantime, don't take on any more debt," Otar tells the merchants. That too could impact their ability to sell additional revenue streams in return for cash upfront down the road.

Some merchants combine debt and advances, seeking advances only after maxing out their credit lines, said Otar. More commonly, however, it's a matter of stacking advances, he said. "When we see there are three, four, five, six, seven cash advances out, that's a merchant we tend to stay away from," he noted.

Brokers should also bear in mind that every deal's different, cautioned Steven Kamhi, who handles business development and ISO relationships at Nulook Capital, a Massapequa, N.Y.-based direct funder. "It has to be the right deal," he advises.

Brokers can identify distressed merchants within the first two minutes of a phone conversation when they say things like, "I need the money right now," Otar said. Looking at the paperwork, the broker can see within 10 minutes whether the potential client is hard-pressed.

Asking the right questions helps reveal distress quickly, sources said. That can include asking how many advances the merchant has outstanding, how much in future sales they still have to deliver and how much revenue they're grossing monthly. Asking what company advanced them cash can reveal a lot if they're working with less-reputable companies.

Listening's under-rated, too. Merchants sometimes explain that they're coming up with more ways of making money and are, therefore, making themselves a better bet for sustainability, Otar said.

OTHER WAYS OF HELPING

Brokers can make deals more palatable to some distressed merchants by deducting payments weekly instead of daily, Otar said. "It's something I'm seeing a big migration toward," he noted. "It's a big selling point." Manufacturers and contractors don't have customers swiping cards every day and especially appreciate the change. More widely spaced payments can also fit better with some clients' seasonal cash flow.

Besides consolidation, brokers can help distressed merchants by providing traditional accounts-receivable financing, which can prove particularly helpful for manufacturers and construction companies, Otar said.

Suppose Customer A owes a contractor $100, Otar said by way of example. The contractor can get $90 from the factor, and the factor collects the $100 from Customer A. The client pays the cost of the financing upfront but reduces the waiting time to receive the cash and avoids daily or monthly payments.

Accounts-receivable financing costs merchants much less than a cash advance, Otar noted. But putting the deal together takes longer than approving an advance, and merchants in immediate need of cash might not be able to wait.

In another example of helping merchants, Payroll had a client who was a bicycle shop owner with good credit and equity in a home, so it granted him an advance that gave him time to go to a bank and get a home equity loan. "I counseled him to do that and then buy us out," Halasnik said.

PREVENTING DISTRESS

On the sales side of the business, brokers can help distressed merchants by preventing stacking from occurring in the first place, sources said.

Otar recommended, "listening to the customer, understanding the business and offering a product that is going to benefit the customer in the long run." That way, the broker positions himself to work with the client for years, not two or three months. "At the end of the day, they appreciate that," he said.

Halasnik relies on his experience as a small-business owner who has operated a printing company,


In the crowded world of alternative business financing...
ONE COMPANY STANDS OUT

staffing company and nurse registry to help him understand aspects of a client's business that people from a purely financial background might not fathom.

Brokers seeking long-term relationships should know a client's business well enough to advise against taking on more financial obligations when the time isn't right, agreed Payroll's Halasnik. However, after the broker urges caution, the decision rests with the business owner, he maintained. "We are on the same page as the client," Halasnik said. "We are looking out for their best interest because, ultimately, we have to get paid back."

THE CASE AGAINST CONSOLIDATION

Some members of the industry prefer to avoid the consolidation trend. "The guy's already shown that he's going to go and take three or four advances," said Isaac Stern, CEO of New York-based Yellowstone Capital. "Doesn't history just show he's going to do the same thing over again?"

When a merchant's overextended, he should wait before taking another advance, Stern said. But when some merchants are denied another advance, they immediately seek out another funder, he maintained.

Yellowstone has put together a few consolidations but chooses not to create too many, Stern said. Some merchants find themselves a month or two away from going out of business unless they can find a source of cash, he observed. "They've been declined for that last credit card, and things are getting really rough," he said.

Some members of the industry advocate coming together to improve standards and provide training. Wall Street's testing and licensing could serve as an example, suggested one source. Background checks could also help root out unethical players, he noted.

But creating a training and certification infrastructure would prove a formidable task, according to Stern. The industry would have a hard time agreeing upon who should head a trade association to administer the standards, he said. He views the industry as a collection of Type A personalities – sometimes defined as ambitious, over-achieving workaholics – who would resist consensus. "It's a nice idea, but I don't see it working," he said.

REASON TO BELIEVE

Though industry players are contending with some distressed merchants, Stern noted that the average credit score of his company's clients is beginning to rise as the economy improves.

Though statistics on distressed merchants aren't readily available, other industry veterans feel they're not encountering as many now as a year ago. However, they said they may see fewer cases of distress because bigger players are beginning to offer consolidations.

"A year ago, nobody would consider doing it," a broker said of consolidation. But as funders become more open to the product when they see competitors using it to gain market share. "It's becoming more mainstream," he said.

How brokers market their services can also determine how many distressed merchants they encounter, sources said. Using the same prospect lists that competitors use can lead to calling on overextended clients, they maintained.

Whatever the number of distressed merchants may be, stacking sometimes makes sense, said Halasnik. What if a client needs $30,000 to win a contract, and a funder is willing to provide only $15,000, he asked rhetorically. Perhaps another funder will put in $15,000, too.

Problems arise, however, if the two funders don't know the merchant has made two deals because they happened the same day. It's the kind of situation that sours some members of the alternative-funding community to consolidation. As Halasnik put it: "You're dealing with somebody who's in trouble. It's the highest risk a lender could take."

TRANSACT 2015

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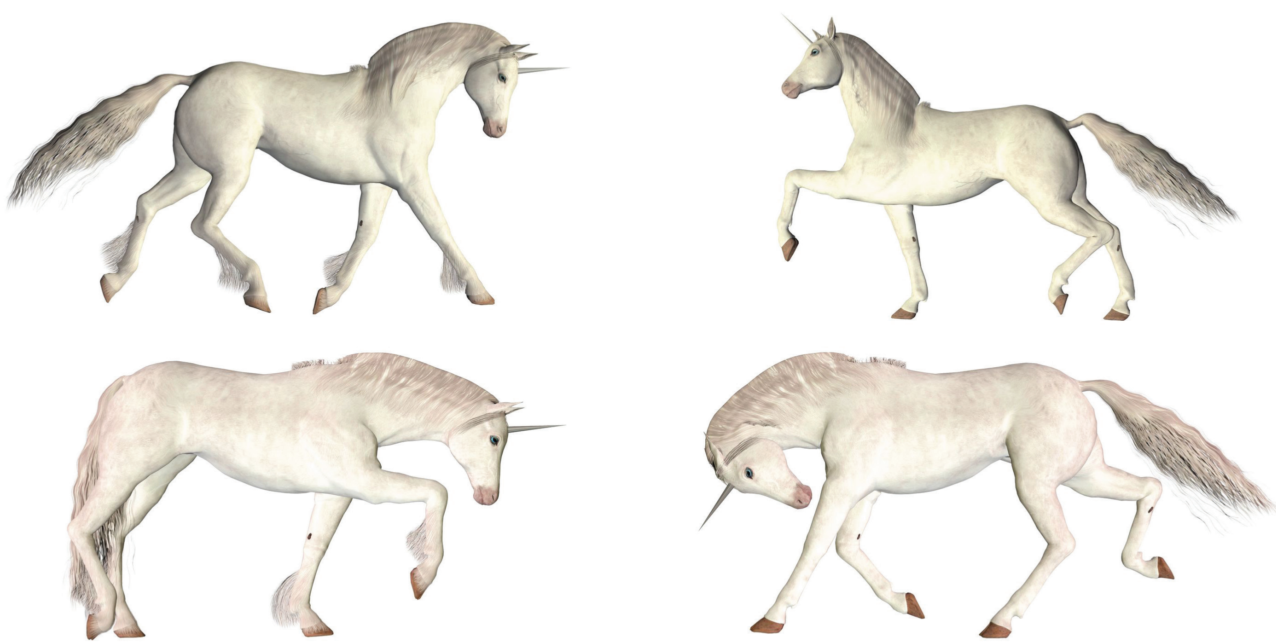
FUNDER	2014
SBA-guaranteed 7(a) loans < $150,000	$1,860,000,000
OnDeck*	$1,200,000,000
CAN Capital	$1,000,000,000
Funding Circle	$600,000,000
Kabbage	$400,000,000
Strategic Funding Source	$280,000,000
Merchant Cash and Capital	$277,000,000
Square Capital	$100,000,000

*According to a recent Earnings Report, OnDeck funded $416 million in Q1 of 2015

FUNDER	LIFETIME
CAN Capital	$5,000,000,000
OnDeck	$2,000,000,000
Funding Circle	$1,000,000,000
Merchant Cash and Capital	$1,000,000,000
RapidAdvance	$700,000,000
Kabbage	$500,000,000
PayPal Working Capital	$200,000,000

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On April 19th, Senator Rand Paul spoke at the Union League Club in New York City for a private bitcoin event. Sponsored by Blockchain Technologies Corp, the organization partially behind the famed Bitcoin Center on 40 Broad Street, Paul's presence drew digital currency enthusiasts and libertarians alike.

Paul's main argument for supporting the Bitcoin movement is the ability to bypass the expensive fees tacked on by credit and debit card issuers. A business that only had a 3% or 4% profit margin could double its profits by eliminating merchant processing fees, he said.

The event lasted for about two hours with Paul only making an appearance for about 20 minutes. Attendees were encouraged to contribute to his presidential campaign in bitcoin.

deBanked's Sean Murray was in attendance.

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THE CHALLENGES IN OFFERING FINANCING TO LATINO BUSINESSES

By *GIL ZAPATA*

The number of minority-owned businesses jumped nearly 46% from 2002 to 2007, according to the Minority Business Development Agency. The growth rate is three times as much as for U.S. businesses as a whole. These businesses increased 55% in revenues over that five-year period. There are a number of minority groups within this category. Latino businesses are leading the way. Latinos are the fastest growing ethnic group in the United States today. Like it or not these numbers are likely to increase due to economic blocs. The U.S. has created a number of free trade agreements with Mexico, Central America and South America. Latinos are our next door neighbors.

The SBA is the largest guarantor in the U.S. and does not offer any specific minority business loan program to Latinos. The U.S. Hispanic Chamber of Commerce offers advice to Latino business owners, but does not offer any loans. Traditional banks continue to maintain stringent guidelines for all businesses. Alternative finance companies and online lenders have a long way to go to tap into this niche market.

Alternative lenders, online lenders and peer-to-peer lenders can cater to this niche market, but it requires a lot of resources and knowledge. We can categorize Latino businesses into one broad category. However, as a Hispanic entrepreneur, my experience has been that the Latino business community is complex in nature.

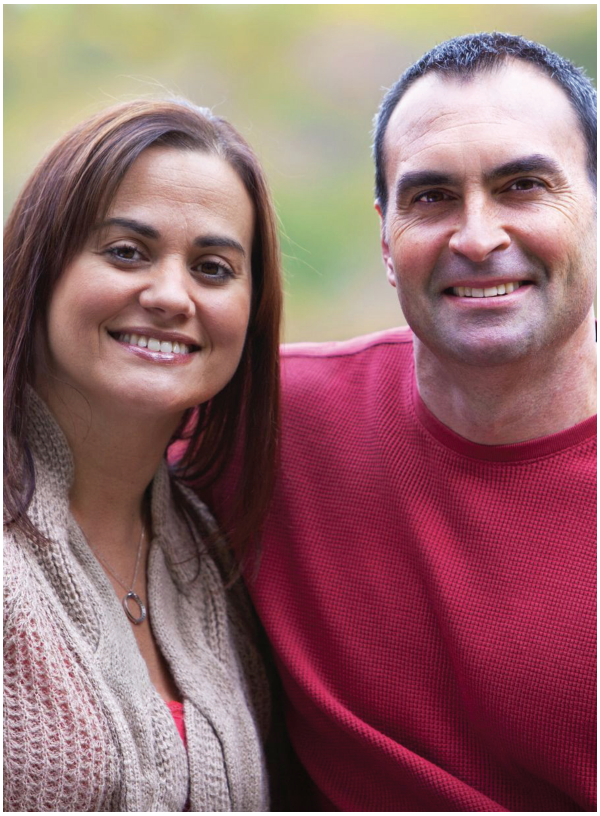
LATINO BUSINESSES BY AGE GROUPS

There are two types of Latino entrepreneurs. The older generation tends to be within the age range of 45 to 70 years old. These business owners are not accustomed to doing business over the Internet, email, fax, or phone. Online lenders may have difficulties in retrieving information from these clients. This group has a high level of distrust in doing business via the Internet. The majority of our clients within this age group are accustomed to doing business face to face. This sales and marketing strategy can be very expensive for lenders, unless you have a team of field agents. The younger generation of this group is made up of Latino entrepreneurs in the age range of 25 to 45. This group is more accustomed to using online banking and online systems. Forbes recently reported that, “With a median age of 28 years old, the timing is ripe for organizations/brands to make a firm commitment to the Hispanic consumer.”

FAMILY DECISIONS AND DELAYED GRATIFICATION

Despite the age category, many Latino businesses are family-based. Based on my experience, the decision making process is made among family members. You could offer a $50,000 loan at a cost of factor of 1.30 to the husband and he may need to consult with his wife and his children before he signs his John Hancock. This makes the decision-making process challenging.

Manuel Cosme Jr., the chair of the National Federation of Independent Businesses (NFIB)



Leadership Council in California and co-founder of Professional Small Business Services in Vacaville, California has said, "Family plays a big role in Hispanic culture, so naturally it plays a big role in Hispanic-run businesses."

TRUST FACTORS

Even if you have a Latino staff or bilingual staff, Latino business owners need to trust you in order to gain their business. You will need to build good rapport with these businesses to get them to fill out a loan application and send it via fax, email or online. Latinos are accustomed to traditional banking methods and brick and mortar businesses.

"When we looked at online US Hispanics in 2006, there were four main roadblocks to US Hispanic e-Commerce adoption: 48% of online Hispanics did not want to give out personal financial information; 46% wanted to be able to see things before buying; 26% had heard about bad experiences purchasing online; and 23% did not have access to a credit or debit card," says Roxana Strohmenger, Director in charge of Data Insights Innovation at Forrester. These are some of the challenges that we face by conducting our business in a digital manner.

According to mediapost.com, only 32% of online Hispanics use the Internet for their banking needs. In order for online lenders to succeed with this marketplace, U.S. banks need to do more to market to Hispanics online. Alternative lenders need to understand that there are barriers to entry in this marketplace.

SOCIAL MEDIA

The Pew Research Center conducted a study that clearly indicates the usage of social media by Hispanics. Accordingly, 80 percent of Hispanic adults in the U.S. use social media and the same study revealed that Latino Internet users admitted to using Facebook as the leading social platform. A lot of business owners love to show the storefront, their family working in their businesses, and other images. You should consider Facebook as part of your overall marketing strategy to tap into this marketplace.

GOING OVERSEAS

Another option to consider is going overseas. CAN Capital set up an operation in Costa Rica mostly for their business processing services. In fact, we at Lendinero decided to do something different that no one else is doing. We set up the majority of our operations in Central America, consisting of outbound agents, digital marketers, programmers and loan analysts. There are great benefits to having a full bilingual staff overseas and the cost of personnel is less expensive. At the same time, there are huge challenges. Since I am of Hispanic descent, it was easier to set up our operation in a Latin American country. However, there are cultural differences and you have to take into account the economic and political conditions of each country. Setting up a corporation can take 1 to 3 months and it is more expensive than the U.S.

The labor pool is huge, but finding the right people can be a challenge. In addition, training agents, processors, and support staff can be time consuming and you may run for a few months before you begin to see a profit. If your staff did not live in the U.S.,

you need to train them on U.S. culture, the economy, and other topics.

Furthermore, Internet speed and Internet services can be a challenge. Be prepared to pay a high cost for Internet. And labor laws are not like the U.S. If you fire an employee, you will be forced to pay unpaid vacation and a severance. In addition, you have to take other costs into consideration such as travel costs, lodging, auto leasing, and more.

Lastly, if you don't know people in the country you plan on setting up in, an outsourced business processing service will charge you more money for rent and other services knowing that you are coming from the U.S. It is highly recommended you pair up with a native or someone who has done business in the countries you consider.

In summary, the Latino business community continues to lack financing. This niche market needs to be educated on the revolutionary paradigm shifts in business lending and online lending. If you can obtain these clients, they are clients for life. Once you obtain them as a client, they are loyal. They will not leave you.

Gil Zapata is the founder of Lendinero. Lendinero is a leader in providing business funding to Latino businesses. Gil Zapata has been featured in numerous publications, is a public speaker, and holds numerous degrees including a B.A. specialized in Latin American studies and post-graduate studies at Harvard Business School. He is a marketing expert to the Hispanic market and has consulted over 300 Hispanic firms in the U.S. and overseas.

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