



BROKER FAIR 2018

Tech Changes
Lending and Payments
The World Over

By Paul Sweeney

It's Back to Business
for Alternative Funding
in Puerto Rico

By Cheryl Winokur Munk



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FOR ALTERNATIVE FUNDING
IN PUERTO RICO

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Letter From the Editor

**BY
SEAN MURRAY**

I hope you're enjoying your summer. In this issue we published dozens of photos from Broker Fair 2018, a snapshot of what happened at LendIt, and a few stories you must read. Thanks to everyone who participated in Broker Fair and I look forward to seeing you all at our upcoming half-day Connect event on October 4th in San Diego.

It's amazing to see how financial technology is shaping everyday experiences. Matt Burton, for example, a co-founder of Orchard Platform (recently acquired by Kabbage), encountered a taxi driver in China that insisted on accepting a mobile-phone payment rather than paper money. That kind of thing is becoming the norm, even if the US is not quite there yet. In "Tech Changes Lending and Payments the World Over" we explore how finance is changing across the globe.

That journey extended to Puerto Rico, where small business financing had practically ground to a halt after Hurricanes Irma and Maria. But it's coming back, funding companies say.

That's all for now. If you need me this summer, you can find me on a beach, the imaginary one I pretend I'm laying out on while I sit in my office trying to stay on top of what's happening each day in alternative finance. My team and I do it all for you. Thanks for reading.

—Sean Murray

As a gloomy sky made room for the sun on a warm spring morning in May, brokers, funders, and professionals from the small business finance industry descended on The William Vale in Brooklyn for a day many had waited for but until now, had not come.

Four hundred people squeezed shoulder to shoulder into a venue that was likely designed to fit a somewhat smaller number. But that would not matter for long as the day kicked off. Men and women came from as far as California, Texas, Florida, and Puerto Rico to be there. We called it Broker Fair, but it

was the experience that would define it. The May 14th event focused on an industry that has been underserved for almost twenty years. At Broker Fair, we aimed to provide education, inspiration, and opportunities. At the very least, we hope you left with a little bit of each. At best, we hope you formed new relationships that will lead to even more business and greater profits.

Broker Fair 2018 was the first of its kind, but it will not be the last. This conference proved that we are an industry all its own. Here's what took place:





**400 people packed
in for a day of panels,
demos, and networking.**





Underwriting, legal issues, and a debate on industry practices were among the many draws of the day.



At right, a standing-room only crowd watched The Great Debate, featuring David Gilbert, Parris Sanz, Sol Lax, and Jeremy Brown.





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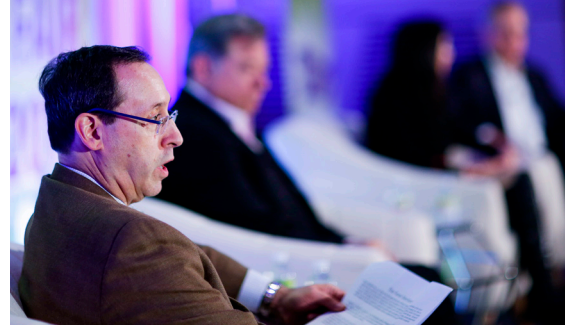
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Panels dedicated to marketing and institutional finance offered advice on how to grow your business.



At far right, CPA Yoel Wagschal teaches industry accounting.



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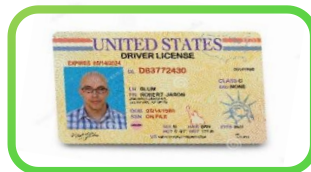
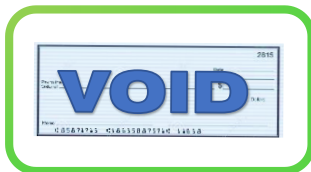
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The rooftop of The William Vale offered stunning views of the Manhattan skyline.



Right: The Broker Fair “Kit” enclosed in the bag came with a USB of the presentations, a t-shirt, a handbook, a magazine, sponsor swag and more.





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Left: Ocroclus CEO Sam Bobley holds the microphone during an interview with deBanked's Todd Stone.



Right: Jared Weitz at left and Joseph Camberato to his right on the Be a Better Closer Panel





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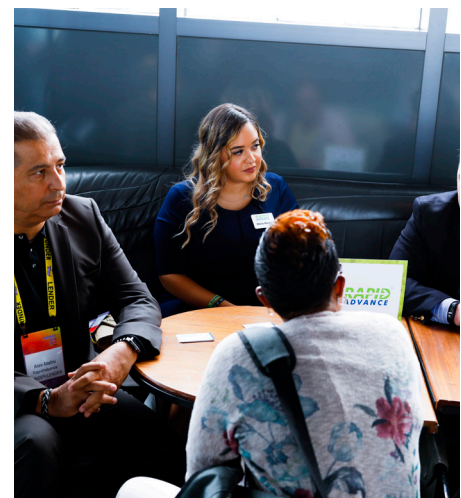
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Above: Laura Kim,
Of Counsel for
Covington & Burling,
LLP presented on
legal issues



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Ryan Serhant, star of Bravo's Million Dollar Listing: New York and Sell It Like Serhant, told an inspiring sales story to conclude the conference. Among his tips were what he calls the Three F's: Follow-up, Follow-through, and Follow-back.

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INDUSTRY NEWS

03/21/18

CommonBond raised a \$50M Series D

Lendr landed a \$25M credit facility

It's reported that the New York Department of Financial Services (NYDFS) sent a survey to online lenders as part of the online lending task force law that was amended at the last minute to replace the task force with the NYDFS

The Small Business Finance Association (SBFA) had their annual fly-in in Washington DC.

CAN Capital celebrated their 20th anniversary

03/26/18

Prosper reported a \$115M net loss for 2017

Coinbase announced that they will soon support tokens on the Ethereum platform

03/27/18

Avant co-founders Al Goldstein, John Sun, and Anna Fridman, launched Spring Labs, a blockchain company, and raised \$15 million to start off

03/28/18

Silver Lake acquired a \$500 million stake in Credit Karma

Marshall Lux joined Marlette Funding as an advisor to the board and to the company

03/29/18

Larry Summers retired from Lending Club's board and was replaced by Susan Athey

04/02/18

Online lender Green Sky LLC confidentially filed for an IPO

Premium Merchant Funding is reported to have subleased 16,000 square feet on the 50th floor at 55 Water Street

Strategic Funding announced Jeffrey Newman as Chief Risk Officer, Arun Narayan as Chief Product Officer, and Anthony Rose as Chief Financial Officer

04/03/18

Funding Circle expanded their US operations with a new office in Denver. The company will look to hire 290 new employees

Accord Business Funding announced the hire of Aldo Castro as VP of Sales & Marketing

04/05/18

PeerStreet raised a \$29.5M Series B

04/09/18

Ocrolus secured a \$4M Series A

Marlette's Best Egg lending platform surpassed \$5B in originations since inception

SoFi announced the hire of Michelle Gill as CFO

Kabbage announced relationship with Ingo Money to introduce push payments

LendingPoint announced plans to begin loan disbursements through debit cards

Lendr announced a new business debit card program

04/11/18

Finitive launched a new alternative lending investment platform with zero fees.

OnDeck announced a \$225M securitization

UK-based Liberis secured £57.5M in funding from British Business Investments, Paragon Bank, BCI Finance, and Blenheim Chalcot

04/13/18

It's reported that Kabbage will acquire Orchard Platform

Bahman Koohestani becomes new CTO of Lending Club

04/15/18

Goldman Sachs buys Clarity Money

04/16/18

Coinbase buys Earn.com

Crypto hype man Ian Balina hacked, crypto fortune stolen

04/17/18

CAN Capital hired Tom Davidson as company CFO

PE firm Falfurrias Capital Partners closed on an investment in Tax Guard

04/18/18

It's reported that Goldman Sachs' online lending arm Marcus, had loaned more than \$3 billion to consumers since inception

Ant Financial gets \$150B valuation

Rob Winston, CEO of Fordham Capital LLC, was accepted into the Forbes Finance Council

Ascentium Capital surpassed \$4B in originations

A bill that seeks to require APR disclosures on all types of commercial finance in California was voted through the Senate Committee on Banking and Financial Institutions of the State Senate

04/19/18

OnDeck announced new \$100M credit facility

04/20/18

Wells Fargo hit with \$1B fine by the CFPB and OCC related to its mortgage and auto insurance practices

04/25/18

In China, 8 individuals connected to P2P lending company, Shanlin Finance, were arrested and charged for orchestrating a \$9 billion ponzi scheme

Lending Club was charged by the FTC for deceiving consumers into believing there were no hidden fees while in fact charging hidden fees

04/26/18

PayPal reported Q1 revenue of \$3.69B

6th Avenue Capital promoted Darren Schulman to President

Enova reported Q1 net income of \$28M

Square reported it will buy online website maker, Weebly, for \$365M

Funding Circle securitized £206.6M worth of unsecured UK-originated small business loans

It's revealed that JoJo Fletcher, a star on ABC's The Bachelorette, had become a spokesperson for Goldman Sachs' Marcus brand

Kabbage officially acquired Orchard

04/30/18

SoFi founder Mike Cagney raised \$50M for his new startup, Figure, a blockchain-based lending company

05/01/18

Yellowstone Capital originated \$61M in April

PeerStreet hired John Devereaux as its new Chief Real Estate Officer

BlueVine announced \$200M credit facility

05/02/18

Canada-based Lending Loop announced a pilot program with the Ontario government to provide \$3M worth of loans over the next 2 years

It's reported that Goldman Sachs will be opening a Bitcoin trading operation

Shopify's merchant cash advance arm, Shopify Capital, originated \$60.4M in fundings during Q1

NY introduced a bill to require licensing for internet lending companies

Square originated \$339M in small business loans in Q1

05/04/18

Newtek funded \$91.4M worth of SBA 7(a) loans in Q1, a YoY increase of 16.2%

Funding Circle raised £\$25.5M in sale of treasury shares

Class action lawsuit filed against Ripple for sale of unregistered securities

05/06/18

8 Elevate reported net income of \$9.5M in Q1, up 459% YoY

05/07/18

Digital mortgage lender, Better Mortgage, hired former OnDeck CFO Howard Katzenberg to be CFO

Seek Capital partners with Lending Express, a business loan marketplace in the United States and Australia

05/08/18

New York attorney general Eric Schneiderman resigned over abuse allegations made public in a New Yorker story

SmartBiz added Seacoast bank to its ecosystem

Lending Club originated \$2.3B worth of loans in Q1

OnDeck originated \$591M worth of small business loans in Q1

The commercial financing disclosures bill in California made it through the Judiciary committee

MCA firm World Global Financing declared bankruptcy

05/11/18

Strategic Funding announced \$100M securitization

FinMkt enters small business lending market, launches ISO biz

05/12/18

The Small Business Finance Association launched a Broker council, co-run by Jared Weitz of United Capital Source and James Webster of National Business Capital

05/14/18

Broker Fair 2018 kicked off in Brooklyn, NY at The William Vale

World Business Lenders secured a \$30M line

05/16/18

Marketplace Lending Association announced 9 new members: SoFi, LendingPoint, College Ave, Laurel Road, Education Loan Finance, Arcadia Funds, Victory Park Capital, PricewaterhouseCoopers, and First Associates

Andrew Smith became the new director of the FTC's consumer protection unit

05/17/18

Fundation secured at \$120M credit facility

Fundbox announced an integration with Eventbrite

LendingPoint secured credit facility of up to \$600M

05/18/18

PayPal bought iZettle for \$2.2B

THIS STORY ORIGINALLY APPEARED ON DEBANKED'S WEBSITE ON MARCH 13TH

TECH CHANGES LENDING AND PAYMENTS THE WORLD OVER

By PAUL SWEENEY

On a business trip to China last summer, Matt Burton had plenty of money in his wallet but it was practically useless. Case in point: He had a lengthy standoff with a Shanghai taxi driver who insisted on a mobile-phone payment. “I spent 20 minutes arguing with the cabbie,” says Burton, one of the founding partners at Orchard Platform, a leading provider of technology and software to the alternative lending industry. “You’d think that — out of all of the professions — a taxi driver would accept cash.”

LendItFintech In Photos and Sound Bites

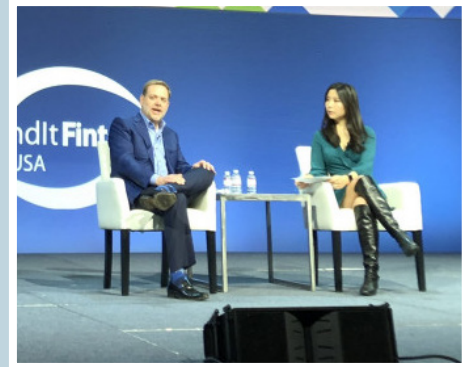
LendIt Fintech USA 2018 | April 9-11, Moscone West



Working capital loans (short-term) have been a big growth area for us – Gina Taylor Cotter, SVP & GM, Global Commercial Financing at American Express when interviewed by Lendio's Brock Blake



LendItFintech co-founders Peter Renton, Bo Brustkern, and Jason Jones kick off the 6th annual event



A disruptive business is not just about speeding something up – Jay Farner, CEO, Quicken Loans when interviewed on stage by Bloomberg's Selina Wang



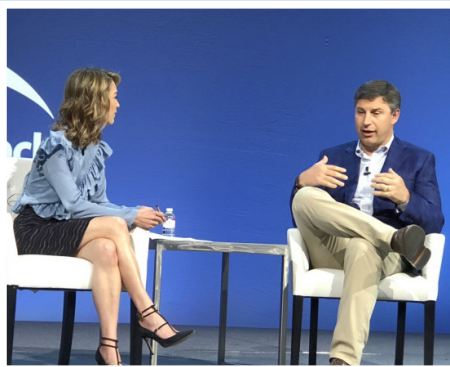
Working with a bank takes a lot of time and effort – basically everyone on the panel
From left to right: Sam Graziano (Foundation), Ryan Rosett (Credibly), Sam Hodges (Funding Circle) and Rohit Arora (Biz2credit).



"Bad credit is literally killing us" – Scott Sanborn, CEO, Lending Club when speaking about the increase in mortality rate for people who have faced major financial distress



"On all fronts ICOs are problematic" – Chris Larsen, CEO, Ripple when interviewed by Jo Ann Barefoot



"No comment" – Anthony Noto, CEO, SoFi
When asked by Bloomberg Technology reporter Emily Chang if Goldman Sachs would be considered a competitor



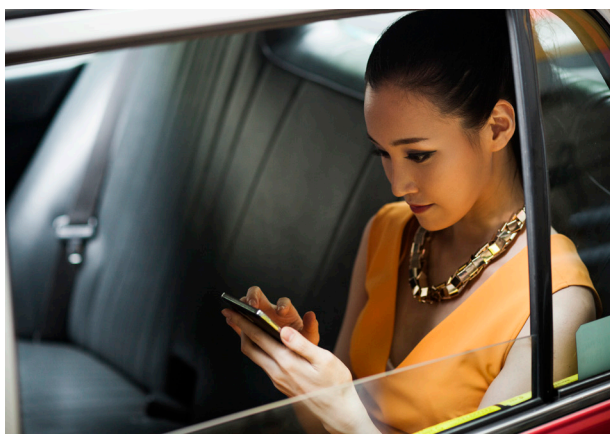
"Larger businesses are more stable, it's easier to underwrite them." – Victoria Treyger, Chief Revenue Officer, Kabbage. When asked if it's harder to underwrite loans above \$50,000



We spend more on snacks and coffee in our office than we do on data storage – Mickey Konson, COO, Streetshares

The New Yorker finally convinced the cab driver to take the payment in renminbi, China's paper currency. The incident, meanwhile, is illustrative of how deeply and widely mobile payments have penetrated the huge Chinese market. "No one in China carries wallets anymore," Burton reports. "Everyone pays with their smart-phones. Even the elderly women selling vegetables on the side of the road accept mobile payments," he adds. "Cash has become a hassle."

Welcome to China's financial technology revolution. Almost overnight, China's population graduated from calculating with the 16th-century abacus to showcasing what is arguably the world's most sophisticated system of mobile payments. Thanks to financial technology, China is fast becoming a cashless economy.



China is just one place outside the U.S. where financial technology is catching on in a big way. As Americans remain, for the most part, wedded to suburban drive-in banks, walk-up automated teller machines, and plastic credit and debit cards, the rest of the world is rapidly embracing digital solutions. And nowhere is that happening more dramatically than in China.

According to the most recent figures released by China's Internet Network Information Center, the country had 724 million mobile phone users at the end of June 2017. China's Ministry of Industry and Information Technology reports, moreover, that consumers paying for everything from food and clothing to utility bills to movie tickets and – you guessed it, cab fare -- engaged in 239 billion mobile-payment transactions in 2017, a surge of 146 percent over the previous year.

Mobile payments have become a \$16 trillion



industry in China, the ministry adds, accounting for about half of all such transactions in the world.

And there's ample room to grow. The World Bank discloses that there are now 772 million Internet users in China, more than double the entire population of the U.S. Yet that leaves 50% of China's population – mostly in the countryside and rural areas – who are not yet plugged in to the Internet.

Two Chinese mobile-payment platforms dominate the industry. Ant Financial is the 800-pound-gorilla, its Alipay program boasting 520 million global users on its website. It's an affiliate of publicly traded Alibaba Group Holding, an online merchandiser known as the "Amazon of China" which was founded by entrepreneur Jack Ma, reputedly the richest man in China.

Alipay not only has bragging rights to roughly 60 percent of China's digital and online payments market but, in 2013, it overtook PayPal as the global leader in third-party payments. With deep roots in e-commerce, Alipay is the go-to payments option for online shoppers, who are steadily migrating from laptops to mobile devices.

WeChat Pay is the upstart in the duopolistic rivalry. Launched in 2013, nearly a decade later than its rival, it's a unit of conglomerate Tencent Holdings, a social network and messaging platform often compared to Facebook. As WeChat continues to add subscribers,

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JAN '18

Funded Amount

Factor Rate

Term Length

\$324.2k

1.27

11 mo.

FEB '18

SAFETY SUPPLY DIST.

\$259,389
funded amount

\$22.9k
commission

9
month term

SOLAR ENERGY & ROOFING

FEB '18

Funded Amount

Commission

Commission %

\$306.7k

\$36.4

11.88%

BUSINESS CONSULTING

FEB '18

\$241,530
funded amount

\$29.2k
commission

12.08%
commission %

FEB '18

DOOR MANUFACTURING

Funded Amount

Commission Amount

Term Length

\$360k

\$26.7k

7.5 mo.

CONSTRUCTION & RESTORATION CO.

JAN '18

\$344,651
funded amount

1.29
factor rate

9
month term

FEB '18

RESTAURANT

Funded Amount

Term Length

Commission %

\$59.2k

9.5 mo.

22.74%



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its Tenpay app has been growing accordingly, eroding Alipay's market share as new users gravitate to the e-payments program. While WeChat records fewer payments than Alipay, Forbes magazine reports that it claims more users.

Whatever WeChat's virtues, Ant Financial continues to chew up the scenery. It recently topped the charts as the world's "most innovative" fintech in 2017, as reckoned by a research team formed by accounting giant KPMG and H2 Ventures. China scored a hat trick, moreover, as two additional homegrown fintechs -- online property-and-casualty insurer ZhongAn and credit-provider Qudian Inc. -- took second and third place, respectively, in KPMG-H2's rankings. For good measure, China also claimed five of the top ten spots on the "most innovative" list, edging out the U.S., which had four.

Financial analysts recently surveyed by the Financial Times reckon Ant Financial's market valuation at \$150 billion, catapulting the company into the rarified status of not just a "unicorn," but a "super-unicorn." (Named after the rarely seen mythical one-horned horse, "unicorns" are start-ups valued at \$1 billion). So robust is Ant Financial's market valuation that the global investment community is salivating over its impending initial public offering.

(Ant's progenitor, Alibaba, holds bragging rights as the largest IPO ever, according to the Financial Industry Regulatory Authority. It raised \$21.8 billion in 2014; its NYSE-listed stock was trading at \$194.36 in mid-May, essentially in the same league as Apple and Facebook, trading at \$188.80 and 187.08, respectively, on Nasdaq.)

"Four of the largest fintech unicorns in the world are coming out of Asia," notes Dorel Blitz, the Tel Aviv-based head of fintech at KPMG. "The companies are getting bigger and stronger," he adds, "and you're beginning to see more direct investment in public fintech companies as well."

Adds Orchard's Burton: "I think it shows you how massive the opportunities are outside the U.S."

Ant Financial and WeChat are also serving as a world-class demonstration project on how fintechs can turn a tidy profit while opening up financial services to large populations who lack access to basic financial services, thereby providing entry to the middle class. The two platforms have provided "financial inclusion for tens of millions, if not hundreds of millions of people" who previously were on the periphery of the banking and financial system, says Kai Schmitz, a fintech lender at the International Finance Corporation, the division of the World Bank

that lends to private businesses in the developing world.

Once people are making electronic payments on their mobile devices, Schmitz notes, it creates a "pathway" to a whole panoply of financial services, including personal and business loans, savings, insurance, and investments.

"You can create a user profile so that a large part of the population that could not be reached (by traditional financial institutions) are now making payments and can be followed on the data track," he says.

The World Bank reports that two billion adults and 200 million businesses in the developing world are currently unable to access even basic financial services. Through the IFC, the World Bank has invested \$370 million in fintech companies operating throughout Asia, the Middle East, Africa and Latin America. The fintechs, an IFC communications manager told deBanked, offer "a range of products and services -- from e-wallets, virtual banks, lending, and online payments to retail payment points and exchanges." The IFC, she adds, also invests in fintech funds.

Anju Patwardhan is the U.S.-based managing director at CreditEase Fintech Investment Fund, a \$1 billion Chinese venture capital firm that invests in fintechs delivering financial services to "unbanked" and "underbanked" populations. "They are living in Africa, Bangladesh, China and elsewhere on less than two dollars a day and have no access to financial services," she says.

"But there are also a very large number of people who may be technically included in the financial system but still don't have access to a full range of financial services at reasonable prices," she adds. "If someone is borrowing from a moneylender or pawnbroker, it doesn't count (as financial inclusion). In that case, the number of people is very much more than two billion."

Once phone towers are built and a payments infrastructure is in place, fintechs promising more sophisticated financial services can operate similarly to the settlers who followed pioneers in the U.S.'s westward expansion. That's been the story in Kenya and other African countries where M-Pesa ("pesa" is Swahili for money) and other mobile-phone payments systems set up shop a decade ago.

Branch International, based in San Francisco but doing business exclusively in emerging and frontier markets for only three years, is one of the settlers. It boasts that it now has the "No. 1 finance app in



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NEW FUNDER



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Africa.” In March, Branch raised \$70 million in a second-stage round of debt and equity financing from a group of venture capitalists led by Trinity Partners that included Patwardhan’s CreditEase and the IFC. Patwardhan will serve as an advisor to Branch’s board.

Branch’s principal business is making loans and micro-loans ranging from as little as \$2 to \$1,000 in Nigeria, Kenya, and Tanzania. Despite its name, Branch touts itself as a “branchless bank”, all of the credit transactions taking place on mobile devices, says Matt Flannery, Branch’s chief executive and founder. Its average loan amount is \$25.

Many of Branch’s customers are individuals and businesses who often had trouble obtaining credit from established financial institutions or were ineligible for loans. But, according to Branch’s website, it’s possible for a prospective borrower to obtain a loan in just a matter of minutes. “Branch eliminates the challenges of getting a loan by using the data on your phone to create a credit score,” the

website says. Branch promises privacy, fees that are “fair and transparent,” and terms that “allow for easy repayment” with no “late fees or rollover fees”. “As you pay back on time,” the website also says, “our fees decrease, and you unlock larger loans with more flexible terms.”

The platform, CEO Flannery says, has lent out \$100 million dollars to roughly that same number of people. “The formal financial system in African countries is generally composed of old-fashioned banks that are risk-averse and fairly slow to make lending decisions,” he says. “People really appreciate us,” Flannery adds. “I’d say we’re like Uber and they’re the horse-and-buggy.”

The company is growing by 20 percent month-over-month and expects to disburse more than \$250 million in 2018. Asked to describe Branch’s typical borrower, Flannery says: “We have some rural users (of Branch’s finance app). But in general we’re serving the commercial middle-class -- shopkeepers and

entrepreneurs – in urban capitals.” Want to know precisely who Branch’s customers are? “Just go to downtown Lagos (the capital of Nigeria and the largest city on the African continent) and you’ll see all different kinds of businesses and single-owner merchants on street corners,” Flannery says.

Jeff Stewart, the founder and chairman of Lenddo (which recently merged with competitor EFL) asserts that his firm’s machine learning technology and risk modeling techniques, which are being deployed in emerging countries from Costa Rica to The Philippines, have the capacity to assess the “creditworthiness of everyone on the planet.” In the

absence of credit history in much of the developing world, he explains, this can done by constructing a risk profile combining both “psychometrics” and a “digital footprint.”

Psychometrics is a behavioral assessment tool based on a prospective borrower’s “Big Five” personality traits: openness to experience,

conscientiousness, extraversion, agreeableness, and neuroticism (OCEAN for short). “What we’ve been able to show,” Stewart asserts, “is that certain personality types have a positive and negative correlation with repayment. It’s not 100 percent accurate. But you can predict the statistical recovery ratio on repayment. You can say that, for a person with a high score, something like 88 out of 1,000 people (with his or her profile) would not repay.”

The digital footprint, which is the second “critical component,” Stewart says, analyzes a prospective borrower’s reliability by reconnoitering their smartphone usage. “We’ll look at everything on your phone,” he says, “How you use the phone. Whom you interact with. When you use your phone. There are thousands of features that generate a digital footprint. Everything from meeting someone at a sports bar to the apps on your phone to things like e-mailed receipts that show your financial activity.”

Such methods help build credit for those lacking



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credit history while rehabilitating those whose credit history is blemished. And all that's needed is a smartphone. "We've turned the smartphone into a credit bureau," Stewart says.

The acquisition of smartphones is taking place at a blistering pace, Stewart notes, now that cell phone costs are "at the bottom of the cost pyramid" in many countries. For example, a "low-end Android" now fetches as little as \$25 in Africa. "One credible study I've seen shows that every 10% percent rise in access to smartphones translates into a 1/2 percent rise in a country's gross domestic product," Stewart says.

While the private sector is driving the trend to financial inclusion in China and Africa, India's government-driven model "is setting a new global standard in using financial technologies to support financial inclusion," declares Patwardhan of CreditEase, who also lectures at Stanford. "The country has become a giant testing ground for financial inclusion and innovation," she argues in a recent academic paper, "and may become a role model for other emerging economies."

India's state-run effort includes a \$1.3 billion digital identity program known as Aadhaar. Under Aadhaar (which means "foundation"), the state issues residents a 12-digit identity number that's based on their biometric data -- such as fingerprints and iris scans -- and personal information. The ID number covers more than 1.19 billion residents. In just the first two years after Aadhaar's 2009 debut, Patwardhan says, more than 250 million Indians were able to open bank accounts.

Jo Ann Barefoot, chief executive at Barefoot Innovation Group in Washington, D.C. and a senior fellow emerita at Harvard's Kennedy School of Government, agrees. She notes that Aadhaar opened up access to both fintech services and bank accounts to women who were long treated as second-class citizens by the social and economic system. "India's digital ID program means that wives and daughters have identity now," she says.

"In the past," she adds, "only (male) heads of households would have family identity documents and a government card -- which would be the equivalent of having a Social Security number in the U.S. But the wife wouldn't have her own card. So this is a massive door-opener to fintech growth. And it's also opening up (all areas of) finance to millions and millions of people."

India's "digitalization" program, moreover, has entailed development of a national payments network called "unified payments interface," or UPI. The combination of UPI and Aadhaar as well as other



digital initiatives have resulted in "a surge of online lending platforms," says Patwardhan, citing Capital Float, NeoGrowth, Faircent, LendingKart, Quiklo, IndiaLends, CreditExchange, and Onemi.

The homegrown fintechs, however, will be up against tremendous external pressure as India, with 1.3 billion people and poised to overtake China in population growth, is generating enormous interest from global fintechs. Among outside platforms piling into the country are China's Ant Financial and WeChat. The former took a \$1 billion stake in Paytm, an Indian mobile payments and e-commerce company. Similarly, competitor WeChat's parent, Tencent, has invested in Hike, a mobile wallet valued at \$1.4 billion last June, according to CNBC, exciting investor interest as a unicorn.

U.S. companies are getting into the act too. Google launched digital payments app Tez last September, which "is taking advantage of India's infrastructure and has already gotten 30 million downloads," Patwardhan says. In February, Facebook rolled out a peer-to-peer payments feature on WhatsApp. Even Branch's Flannery has announced that his "branchless bank" plans to earmark part of its \$70 million war chest to offer \$2-to-\$1000 loans on the subcontinent.

Having banned high-denomination paper bills as a way to rein in corruption and aiming at a cashless economy, India has been innovating in ways that "have gone the Chinese one better," marvels Patwardhan. "Their payment systems going through the UPI network are interoperable," she notes, for example. "You don't have to be on the same app or with the same bank. India is now on the cutting edge."

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THE UNDERWRITERS – HOW A SMALL TEAM IS TURNING UNDERWRITING INTO BIG BUSINESS

By TODD STONE

A keen eye can spot a good deal. And for New York-based Central Diligence Group, an underwriting-focused company founded in 2015 by four partners, it has been a boon for business. The company has lately been providing its underwriting expertise to a wider variety of clients, including some outside the MCA space.

“We started to gear towards a more underwriting-centric model [where] a deal would come in, we underwrite it once, we assess the risk, we determine what box it would fall under and where it would qualify, and depending on what that pedigree of information [was], we would essentially [fulfill] the full underwriting [job],” said Nick Gregory, one of the founding partners at Central Diligence.

Initially, the company provided underwriting services mostly to smaller funders, syndication brokers and ISO clients that service MCA merchants in the construction and trucking businesses, among others. But close to three years later, its roster of clients is far more diverse.

Over the past six to eight months, Central Diligence has been working with a west coast-based credit card processing company with a portfolio of over 100,000 clients, according to Andrew Hernandez, another Central Diligence partner. The credit card processing company has just built out its own MCA product, but they don’t have an underwriting team, which is where Central Diligence comes in. Hernandez said that this company, the identity



Central Diligence Group's partners

of whom he could not disclose, just renewed its contract with them. Another unique client is an institutional investor, with offices in New York and Dallas, that just formalized a new working relationship with Central Diligence over the last week to go beyond just underwriting and into the realm of funding and servicing. According to Hernandez, this client is looking to make investments in MCA at the higher end of the market.

“In our space, \$50,000 to \$250,000 is pretty easy to come by, but \$250,000 to \$1 million, not so much,” Hernandez said. “So they see that there’s a gap with small businesses...and they’re using us to do [due] diligence [on companies.]”

Finally, Central Diligence is finishing an agreement with another unconventional client, an overseas mortgage company with interest in MCA. According to Hernandez, it is looking to execute a kind of beta test in the U.S. and then take the business model to Europe if it works.

In addition to the four founding partners, who work as underwriters, there are four additional underwriters and two junior underwriters for a total of ten on staff.

Hernandez attributes these new opportunities to the reputation they have built in the MCA space, including the 10+ years of experience that each of the founding partners have.

“Because of our experience and history in the space, a lot of our relationships have been built because of our credibility,” Hernandez said. “That’s the most important.”

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IT'S BACK TO BUSINESS FOR ALTERNATIVE FUNDING IN PUERTO RICO

By CHERYL WINOKUR MUNK

Last year, alternative funding in Puerto Rico ground to a halt after the island was ravaged by two devastating hurricanes in close proximity. Now, however, the alternative funding business in Puerto Rico is getting its second wind, after a several-month hiatus.

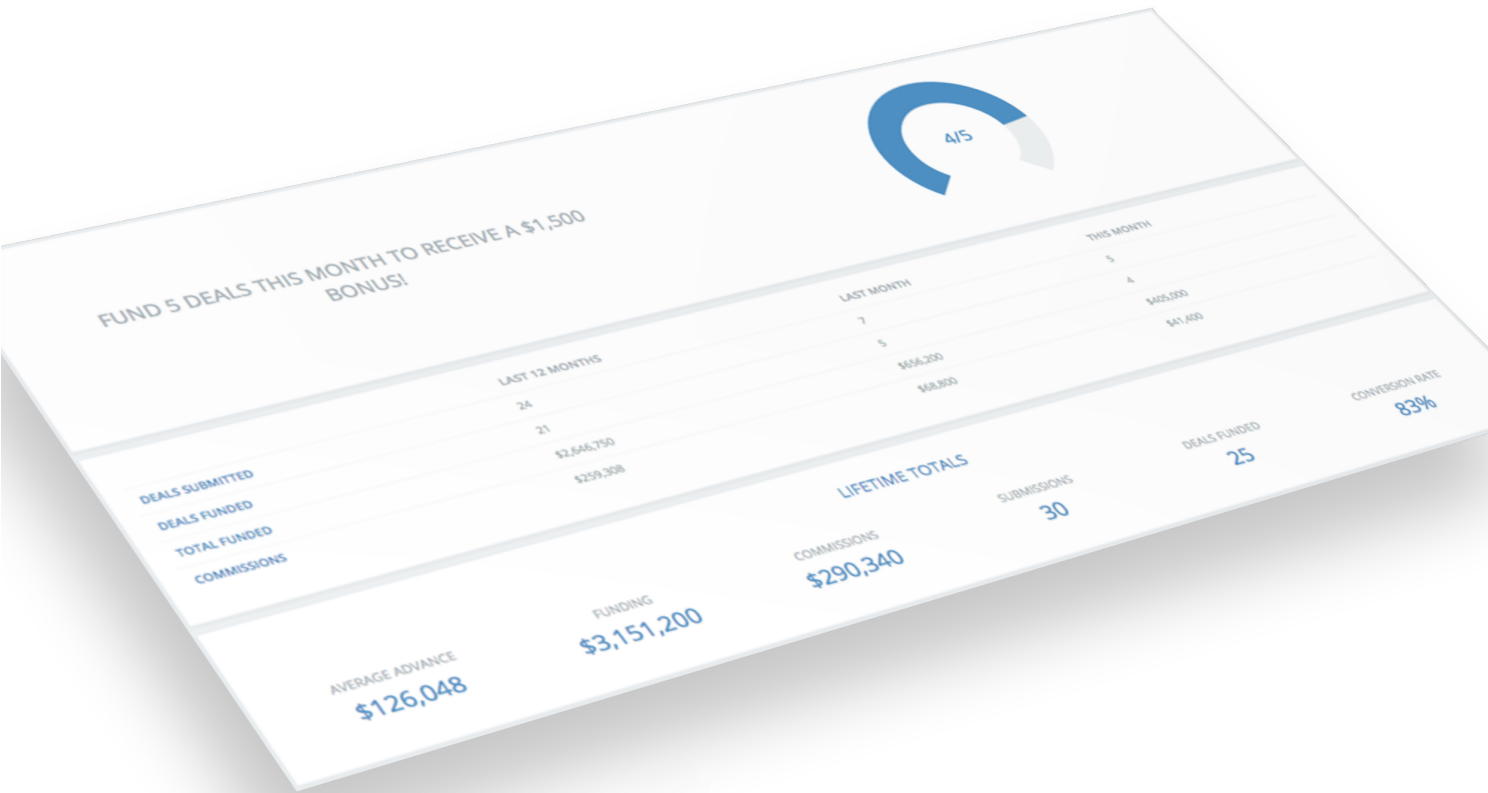
Puerto Rico got lashed by high winds and rain

from Hurricane Irma in early September 2017, causing large-scale power outages and damage. Then, about two weeks later, Hurricane Maria hit the island square on, causing even more catastrophic destruction. Millions were without power for months (thousands still are), homes were destroyed, multiple lives were lost, businesses were decimated and the island's already shaky economy teetered on the brink of disaster.

More than half a year later, residents are still trying to pick up the pieces of the epic humanitarian crisis. Hurricane Maria caused an estimated \$90 billion in damage, according to the National Hurricane Center, making it the costliest hurricane on record to strike Puerto Rico and the U.S. Virgin Islands. The hurricane knocked out 80 percent of Puerto Rico's power lines and destroyed its generators. Even months later, the lives of many residents are still in disarray as they wait desperately for insurance payments to materialize and get back to a semblance of their former lives. The island faces additional challenge—and uncertainty—with another hurricane season just around the corner.

In the midst of this turmoil, however, there's a glimmer of hope for the budding alternative funding





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sector. Some businesses are once again seeking funds to rebuild or expand, and alternative funders are once again dipping their toes into the Puerto Rican market—albeit somewhat slowly. While some funders have exited the Puerto Rican alternative lending market, other new entrants are starting to stake a claim, citing an expected uptick in economic development that tends to follow natural disasters. Some funders also see Puerto Rico as a sweet spot because the market isn't as mature as the U.S. and competition from other alternative funders is scant. Banks on the island aren't always willing to provide businesses there with much-needed funds, so opportunities for non-bank funders are considered plentiful.

Businesses struggling to rebuild from the storms need more help than ever before, says Sonia Alvelo, president of Latin Financial LLC, an ISO that has been arranging funding for business owners in Puerto Rico for three years. "There is no doubt that Puerto Rico has a long, hard road ahead," she says. But "I can assure you the entrepreneurial spirit is alive and well," she says.

Latin Financial and other ISOs and funders are back to business—courting merchants and trying to help them get back on their feet. In December, Latin Financial processed its first renewal since Maria; in January it funded its first new client since September. Latin Financial continues to arrange funding of between \$500k and \$1 million per month on average in Puerto Rico, after some hurricane-related downtime.

"The storm destroyed a lot, but it didn't set the small business drive back. They're still pushing hard and really trying to maintain and grow business," says Brendan P. Lynch, business partner and fiancé to Latin Financial's Alvelo.

Greenbox Capital in Miami Gardens, Fla., an early entrant to the Puerto Rican alternative funding market, has also returned to funding small businesses on the island after a few-month hiatus. The company put off new deals right before Maria hit, and as a goodwill measure suspended the payments of existing customers for 90 days. Given the extension, almost all customers were able to stay on track and the firm suffered very few losses, says Jordan Fein, the company's chief executive. Greenbox began funding again in January, he says.

To be sure, it's not exactly business as usual, since many businesses in Puerto Rico are still struggling,

Fein says. While the situation should continue to improve, it will take time for the economy and businesses to fully recover, he says.

"They've come a long way since September, but they still aren't fully back. We're not seeing the same type of submissions that we saw before," Fein says. Nonetheless, Fein remains positive about the market's long-term prospects. "I think they are going to come back stronger, I really do," he says.

To be sure, not all funders are interested the Puerto Rican market. Ripe with political uncertainty and economic instability, Puerto Rico already posed challenges that made many funders hesitant to do business there. The devastation wrought by Irma and Maria complicated matters further, and some funders pulled out of the market completely.

For others, however, the market's still an opportune one, albeit not as stable as the U.S. market. Certainly, there are reasons for alternative funders to be optimistic. Despite its recent troubles, Puerto Rico is still considered a growth market. What's more, with new businesses popping up in the wake of the storms, new infrastructure being instituted and businesses anxious to bounce back even bigger and better than before, some funders are striking while the iron is hot.

"This is the right time, as the island is growing," says Paul Boxer, chief marketing officer and vice president of business development at Quicksilver Capital, a New York-based small business funder. Quicksilver funded its first deal in Puerto Rico in late April.

The company had been mulling over the possibility of doing business in Puerto Rico when an actual funding prospect arose. The company decided to give it a shot, sensing a potentially viable business opportunity. Existing businesses are rebuilding after the hurricane, there's plenty of new business development and there's a pressing need for new infrastructure as Puerto Rico continues to recover from the devastation, Boxer says.

Accordingly, Boxer says his company is in the process of vetting additional funding opportunities in Puerto Rico and hopes to continue growing this business in what he says is a largely untapped market. "I see it as a positive addition to what we offer, and I see a lot more opportunity in the future," Boxer predicts.



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