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### Featured



## WHEN THE MUSIC STOPPED— HOW THE PANDEMIC THREATENED THE HISTORY AND **CULTURE OF AUSTIN, TEXAS**

by: PAUL SWEENEY

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### Letter From the Editor



BY SEAN MURRAY

This issue *rocks!* Sadly, I've been told that some of the music venues referenced in our featured story will already be out of business by the time you're reading this. Everyone knows that 2020 has caused beloved main street small businesses to close for good, but few consider how entire swaths of American culture are disappearing right before our eyes forever.

Is this year over yet?

-Sean Murray

# When The Music Stopped HOW THE PANDEMIC THREATENED THE

HOW THE PANDEMIC THREATENED THE HISTORY AND CULTURE OF AUSTIN, TEXAS

by: PAUL SWEENEY





April of this year, Threadgill's – a legendary Austin music venue and beer joint that, in the 1960s, famously launched the career of blues singer Janis Joplin — turned off the lights and pulled the plug on its sound stage.

A converted gasoline station, Threadgill's had been a rollicking music scene since 1933 when

> musician and bootlegger Kenneth Threadgill secured the first liquor license in Texas after Prohibition. His juke box was crammed with Jimmie Rodgers songs and Threadgill himself famously sang and yodeled Rodgers' tunes.

For generations of students at the University of Texas, Threadgill's was a rite of passage.

"The first time I went to Threadgill's was in the fall of 1968, when I was a freshman at UT," recalls Perry Raybuck, a songwriter-folksinger and retired government worker who, as a member of the Southwest Regional Folk Alliance, played the stage in 2018. "It was the beginning of an education for me," he adds. "I had been a Beatles and rock n' roll kid and it opened me up to different music styles. I became a convert."

In 1981, Threadgill's was taken over by another acclaimed club owner, Eddie Wilson, who previously had been the proprietor of the Armadillo, a fabled music venue. Wilson began to actually pay musicians – Threadgill had compensated them mainly with free cold beer – and installed a circular stage.

It was Threadgrill's and an assortment of funky clubs and stages with names like the Soap Creek Saloon and Liberty Lunch helped put Austin on the map as "The Live Music Capital of the World." The city remains home to the widely acclaimed

television program "Austin City Limits" on PBS and the internationally renowned South by Southwest festival, which was canceled this year amid fears of a "superspread" of the coronavirus.

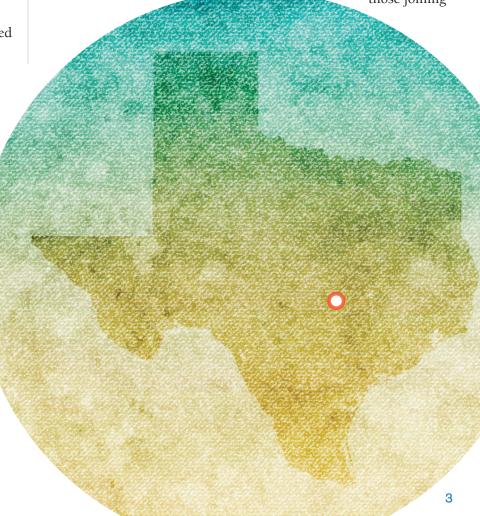
"Live music," says Laura Huffman, chief executive at the Austin Chamber of Commerce, "is why people come here. It is a central component of Austin's cultural and economic life."

Omar Lozano, director of music marketing for Visit Austin, the city's main tourism

organization, says: "We have close to 250 places in the greater Austin region where you can hear live-music, although it's closer to 50-70 on any given night. During South by Southwest, no stone is left unturned — everything becomes a stage: parking garages, grocery stores, housing co-ops. There are also four or five stages at the Airport, which helps liven up the mood."

But that identity is being put to the test. So far this year, Austin has lost a raft of live-

music venues. Among those joining





When The Music Stopped - How the Pandemic Threatened The History and Culture of Austin, Texas

hreadgill's in honky-tonk heaven since the pandemic struck are Barracuda, Plush, Scratchhouse, Shady Grove, and Botticelli, all of which provided niche audiences to both established musicians and up-and-coming acts.

The roller-coaster ride of government-mandated shutdowns followed by a limited re-opening in the spring and another shutdown since July fourth is making life miserable and untenable for both club owners and already hard-pressed musicians and artists, says Marcia Ball, a piano player and blues singer.

Ball, who was named by the Texas Legislature as "2018 Texas State Musician" and whose musical style was once described by the

Barracuda (which) had super-popular acts and was like a hipster garage venue," says promoter Williams. "A lot of touring bands played there on their way up."

A July study by the Hobby School of Public Affairs at the University of Houston found that the city's live music industry is in desperate straits. Sixty-two percent of live music spots and 55% of the bar-and-restaurant businesses reported to researchers that that they can endure for no more than four months, making them the most vulnerable of 16 industries surveyed.

And the situation has become "even more ominous" since the report was published, explains Mark P. Jones, a political scientist at



Boston Globe as "mixing Louisiana swamp rock and smoldering Texas blues," told deBanked: "There was already a limited amount of opportunity for musicians to perform and monetize their work in Austin, so it has always been necessary to travel to make a living. But we still depend on a thriving local scene, and we're losing that when key venues like Threadgill's disappear."

Adds Graham Williams, a prominent Texas promoter of touring bands: "These venues and bars are vital to the music ecosystem. Local bands and cover bands need hangouts, even if people are not buying tickets. They're places to play every night of week."

While unheralded outside the Austin scene, the local music joints were often a port-of-call for out-of-town promoters and nightclub owners checking out Austin talent – "most notably

Rice University in Houston and a lead researcher on the Hobby study. "That survey finished polling two hours before all bars and restaurants closed back down," he says. "Everything people were saying was when bars were at 50% capacity. That's a best-case scenario."

Austin's experience amid the Covid-19 pandemic mirrors what is occurring nationwide as bars, nightclubs and music halls in myriad cities and towns experience similar trauma. In Seattle, Steven Severin is co-owner of three nightclubs – Neumos, Barboza and recently opened Life on Mars – all in trendy Capitol Hill, the hub of the city's club and live-music scene. He reports that he is barely holding on thanks to some help from the city and a sympathetic landlord who is "a big music advocate."

"He knocked down the rent a little bit,"

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everin says of his landlord, but the situation is dire. "We just had a fifth venue, Re-bar, close at the end of August," he says. "It was a punch in the gut. This could be me."

> The Bitter End in Greenwich Village is also keeping its head above water despite not opening its doors since March. The nightclub has a storied past: owner Paul Rizzo recounts that it is where pop singer Neil Diamond got his start and where "everyone from Curtis Mayfield to Randy Newman" has performed since its opening in 1961. But the club is silent now since the pandemic overwhelmed the city's hospitals and made New York the epicenter of sickness and suffering during the spring. So far the club is getting help from a landlord's forbearance and loyal musicians.

Peter Yarrow (the "Peter" in the bygone trio Peter, Paul and Mary), donated a streamed concert to patrons who contributed to a fundraiser that raised more than \$50,000. And grateful local musicians also put on a benefit directing people to a Go Fund Me page on the Internet that raised another \$16,000. "We're a major venue for local musicians," Rizzo says. "We

It's in their self-interest for artists to do whatever they

should pull through."

can to keep the doors open at a club like The Bitter End. "These days — because of the last two decades of declining record sales — live music is the bread and butter of a musician's income," says journalist Edna Gundersen, a recently retired, 28-year-veteran of USA Today. "That's true whether it's a local entertainer or an international superstar." (Gundersen earned the reputation as Bob Dylan's favorite journalist; it was she who scored his only interview after he won the Nobel Prize for literature in 2018, publishing his eccentric musings in the The Telegraph of London and breaking the news that he would indeed accept the prize.)

"Touring has been crushed," Gundersen adds, "and festivals have been canceled. So people doing record sales are also down because people aren't going to stores. All of this is just killing musicians."

The Paycheck Protection Program, the multi-billion, multi-tranche aid package for small business which Congress authorized as part of the CARES Act in March, has provided some funding for the live-music and entertainment industry. But because of the PPP's requirements that only 40% of the funds can be spent on rent, mortgage and utilities, which are major expenses for nightclubs and music venues, the program has largely been a disappointment.

Hoping to win attention and assistance for their plight from the federal government — "We're the first to close and the last to reopen," Severin says — live-music entrepreneurs like



the circuit and clubs are gone for all intents and purposes. Streaming — while initially up — is down because people aren't listening to music in the gym or in their cars. Physical

himself and Rizzo and more than 2,800 club-owners and promoters across the country have banded together to form the National Independent Venue Association.





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Their membership includes independent proprietors (no corporate members allowed) of saloons, cabarets and concert halls as well as theaters, opera houses and auditoriums from every state plus the District of Columbia. To help plead their case with Congress, the organization hired powerhouse law firm Akin Gump Strauss Hauer & Feld, the largest Washington, D.C. lobbying firm by revenue.

NIVA also blanketed Congressional offices with two million letters, e-mails and correspondence generated from hordes of fans and performers. Among the many scriveners are a slew of boldface names: Mavis Staples, Lady Gaga, Willie Nelson, Billy Joel, Earth Wind & Fire, and Leon Bridges. Comedians Jerry Seinfeld, Jay Leno and Jeff Foxworthy have also penned notes to lawmakers championing NIVA's cause.

Their message: without federal funding, 90% of independent stages will go under over the next few months. "The heartbreak of watching venues close is that once a building is boarded up, it's not going to be a music venue any more," warns

Audrey Fix Schaefer, communications director at NIVA. "They operate on thin business margins to begin with and they're too hard to develop." For touring acts, each city stage is "an integral part of the music ecosystem," Schaefer explains. "When artists finally do get back on the tour bus, they might have to skip the next five cities and go on to the sixth."

Thanks to the bi-partisan efforts of Senator Amy Klobuchar (D-Minn.) and Senator John Cornyn (R-Texas), NIVA's campaign has gotten traction. The unlikely couple have teamed up to author a rescue bill, known as the Save Our Stages Act. If enacted, it would establish a \$10 billion grant program for live venue operators, promoters, producers, and talent representatives.

The legislation would provide grants up to \$12 million for live-entertainment venues to defray most business expenses incurred since March, including payroll and employees' health insurance, rent, utilities, mortgage, personal protection equipment, and payments to independent contractors.

IVA's the lecon sent

IVA's chief argument for the legislation is coldly economic rather than sentimentally cultural.

The organization cites a 2008 study by the University of Chicago that spending by music patrons produces a "multiplier effect" for the broader economy. For every dollar spent by a concert-goer at a live performance, the Chicago study determined, \$12 in downstream economic activity occurs.

Explains Scott Plusquellec, nightlife business advocate for the City of Seattle: "You buy a ticket to a show and the direct economic impact of that purchase is that it pays the artist, bartender and the club itself as well as the band, advertisers, and promoters. The indirect economic impact," he adds, "is that after you bought the ticket, you went to a barber shop or a hair salon to look good that night. You might also have dinner, go to a bar for a drink and tip the bartender. That's the whole the idea of a 'multiplier."







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In Austin, that economic logic is an article of faith with city burghers, asserts Lozano of Visit Austin, who reports that live music in the capital city is roughly a \$2 billion industry. To promote live music, the tourism bureau sponsors such endeavors as "Hire an Austin Musician." That program, Lozano says, "sends musicians around the U.S. to represent us during marketing season." In another promotional campaign, Visit Austin arranged for singersongwriter Julian Acosta to play a gig at travel agents' offices in London when Norwegian Air inaugurated direct flights between London and Austin in 2018. "The U.K. is one of our best markets," he reports.

Even so, efforts by the business community and the City of Austin have failed to stanch much of the industry's bleeding. According to its website, the city has disbursed \$23.7 million in loans and grants to small businesses and individuals, but slightly less than \$1 million of that has gone to live-music and performance venues, entertainment and nightlife, and live-music production and studios.

In late September, The city of Austin's Economic Development Department released a slide show breaking down how the \$981,842 in industry grants and loans – of which \$484,776 was provided by the federal government under the CARES Act – were awarded. Most top recipients appeared to be well-known

nightclubs and entertainment venues downtown or close to the city's inner core.

The Continental Club on South Congress – a key fixture in the hip "SoCo" strip just over the Colorado River from downtown – appeared to do best. It picked up \$79,919 from two programs: \$40,000 in the CARES-backed small business grants program, and \$34,919 from the city's Creative Space Disaster Relief Program. Other clubs receiving \$40,000 in the small business grants program included Stubbs, The Belmont, Cheer Up Charlies and the White Horse. (For a full list go to: http://www.austintexas. gov/edims/document. cfm?id=347299)

Ioe Ables, owner of the Saxon Pub, a major Austin venue for jazz – blues-singer Ball hailed it as one of several important Austin clubs "that sustains creative endeavor, especially for songwriters" - was vexed that his grant application was denied by the city "with no explanation." Ables also voiced dissatisfaction that the city paid the Better Business Bureau a 5% administration fee to handle \$1.14 million in relief funds, including determining which applicants were approved. "What would they know about live music," he says.

Even for clubs that received city largesse, it hasn't been nearly enough to sustain them. The North Door, which got \$15,240, closed for good on September 11 (an ominous day — the anniversary of the attacks

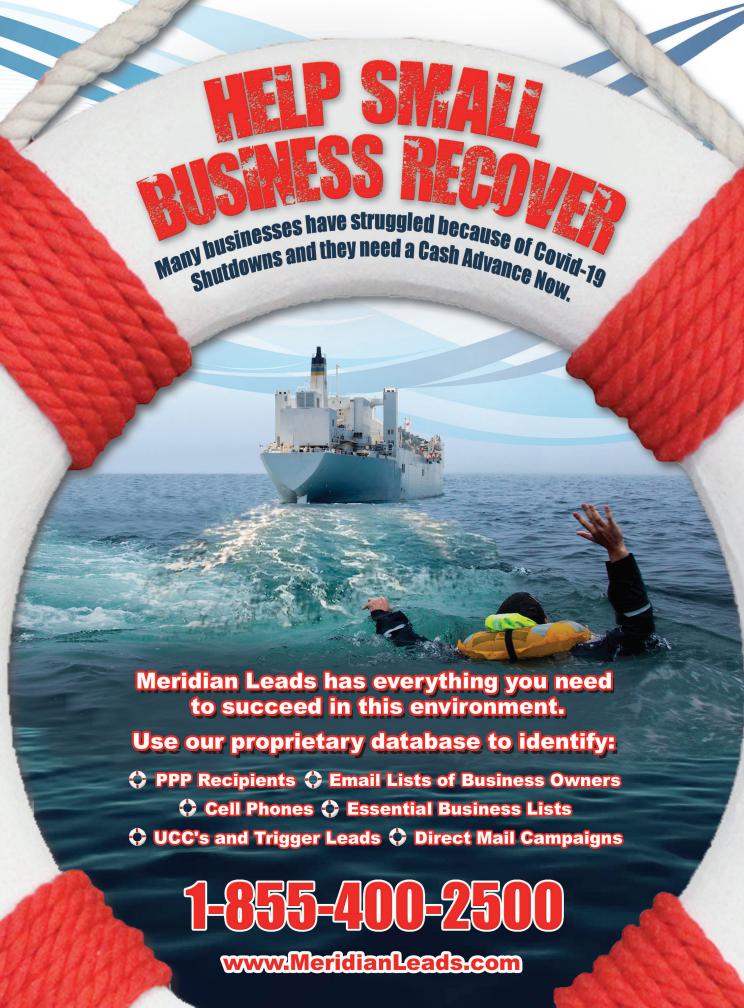
on the World Trade Center and the Pentagon.)

Meanwhile, enough clubs and venues were left out in the cold that club owner Stephen Sternschein could tell *deBanked* just before the slide show was released: "I've heard talk of a \$21 million grant program but most people I know haven't seen a dollar of that."

Sternschein is managing partner of Heard Presents, an independent promoter and operator of a triad of downtown clubs that includes the spacious Empire Garage, which features hip hop and urban jazz, and has space for 1000 music-goers. A member of NIVA, Sternschein describes efforts by both the state and local governments as "woefully inadequate." Says he: "People are looking to the federal government for answers."

The diminution of places for musicians to ply their trade is a double-edged sword. If Austin loses its luster as a hot music town, it puts the city's overall economy in jeopardy. Explains Jones, the Rice political scientist: "The difficulty for Austin is that it could lose its comparative advantage. Unlike restaurants, movie theaters or sports events, which people can find just as easily in other cities, the Austin music scene draws capital and revenue from across the country.

"You can go out to dinner in Waco," he observes, referring to the mid-sized Texas city between Austin and Dallas best known as home to



### ▶ Featured Story /

When The Music Stopped - How the Pandemic Threatened The History and Culture of Austin, Texas

Baylor University and its "Bears" football team, fervent Baptist religiosity, and unremarkable night life. "Music brings in revenue to Austin and to Texas that wouldn't otherwise come here."

In addition, Jones says, the large presence of "artists, creative types, and freelancers" helps

Austin, which embraces the slogan "Keep Austin Weird," is on the verge of becoming just like every place else in Texas. Should it relinquish its flavor and charm, it could discourage many of the assorted business groups and professionals from keeping Austin on their dance card as a popular destination for meetings,

Freidman adds, "the music was always integral to the Austin scene. Even when you'd go to private parties you'd end up downtown at the club scene on Sixth Street. Austin was always a place everybody liked going to."

But as Austin has steadily been morphing into more of a



make Austin a strong selling point for "brain industries" to attract talent from the East and West Coasts. "It supports the technology industry by making it easier to recruit employees to live there," he says. "Austin is an alternative to Silicon Valley. People who are progressive might be hesitant to come to conservative, red-state Texas from California but they'll come to Austin because it's culturally cool."

conferences and get-away trips.

Howard Freidman, managing director at Bluechip Jets, a broker of private luxury aircraft, had an earlier career as a technology industry executive. Partly drawn by his previous experiences with the city, Freidman moved to Austin earlier this year. "It had the same coolness and weirdness of New Orleans — but also with the professionalism of a tech city," he says.

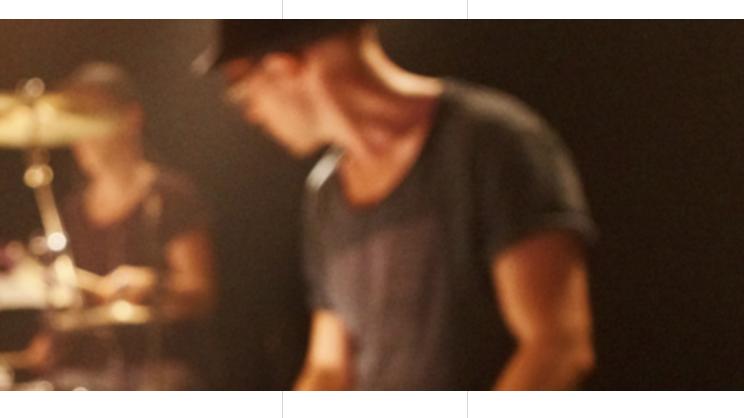
"Whenever we'd come here,"

high-technology center than a live-music town, it's experiencing a silent exodus of musicians and artists who are being gentrified out of their apartments and Craftsman duplexes. Displacing them are software engineers, website designers and the like, their sleek BMWs and black, tinted-glass SUVs glistening in the parking lots of steel-and-glass corporate centers.

Many of the technology firms

- including such needy companies as Samsung, Intel, Rackspace, Facebook, and Apple – have each received tax breaks, grants and subsidies worth tens of millions of dollars from a variety of local jurisdictions. Not only have the city of Austin

billion annually in state benefits. Most recently, officials with Travis County and a local school district granted Tesla more than \$60 million in tax rebates to build a massive "gigafactory" southeast of town near Austin-Bergstrom International Airport. country's most snarled traffic, dirtier air, and a growing homeless population, and members of the artistic community are increasingly decamping for smaller satellite towns like Lockhart and San Marcos. Others in the diaspora are abandoning



and Travis Country been beneficent, but adjacent county governments and the state of Texas have provided abundant support. A 2014 study by the Workers Defense Project, in collaboration with UT's Lyndon B. Johnson School of Public Affairs, reported that the state of Texas showers big business with \$1.9

To house the burgeoning cohort of "knowledge workers," there are condominium conversions, tear-downs, high-rises and other forms of frenetic real estate development which, in their train, bring higher property taxes, steeper rents, and unaffordable housing.

Add in some of the

Texas altogether for more hospitable locales like Fayetteville Ark., Asheville, N.C., or Olympia, Wash.

"Whatever made anybody think this would be a better town with a million people," laments blues singer Ball. "This was a perfect town with 350,000. Now we've got Silicon Hills, Barton Springs are cloudy, and





drinking water's going to be scarce. Why is this supposed to be better?"

The drop-off in live music and the belt-tightening by musicians is causing third-party pain for people like veteran Austin journalist and publicist Lynne Margolis, whose national credits include stories for *Rolling Stone* online, and radio spots for NPR. "The public relations aspect of my work has dropped away because artists can't afford to pay," she says, "and music journalism is falling by the wayside. It's hard not to feel to like a double dinosaur."

Led by bars, restaurants and music venues, on many days the solemn departure of small establishments has the business news sections of Austin newspapers reading more like the obituary page. One hardy survivor is Giddy Ups – a throwback honky-tonk on the town's outskirts that advertises itself as "the biggest little stage in Austin" – promising "just about everything," says owner Nancy Morgan, including "country, blues, rock, bluegrass, and soul." For the past 20 years Giddy Ups has developed a devoted following of musicians and patrons while fending off hyper-modernity.

"It has an untouched, back-to-the-seventies, cosmic cowboy vibe," says local musician Ethan Ford, a guitarist and bass player whose trio, The Slyfoot Family, has graced its stage. "It's a time capsule," Ford adds.

Morgan declined to disclose her annual receipts but in 2019, she reports paying out \$188,000 in wages to employees, \$72,000 to musicians, and \$185,000 in combined sales taxes to the city of Austin and to the state. Despite her status as a taxpayer, employer and entrepreneur, she has received no state aid and is disqualified from receiving city pandemic assistance programs, meager as they may be, because she's located in an extra-territorial jurisdiction.

"Nancy still bartends
most nights and does all of
the booking," says Ford. "Her
knowledge of the Austin music
scene could fill a couple of books.
I know a decent fistful of Austin
venue owners and she's about the
only one that hasn't given up, been
forced out, or just retired. She's
a dynamo."

Unless the cavalry arrives for Morgan and other holdouts, though, their musical days may be numbered.



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# Sign Up and Start Funding Toda

# CAPIFY CEO DAVID GOLDIN ON NEW \$10 MILLION EQUITY ROUND

By KEVIN TRAVERS

apify, a leading international small business lending

 platform, announced a \$10 million equity round in September from a new investment group with vast experience in the alternative lending industry. "[investors were diligent seeing Capify, the management team, and the opportunity," Goldin said. "They thought it was a very good investment, particularly how Capify's portfolio performed during the pandemic."

Goldin said the capital is a great "restart of the engine" after the cautious approach the company took to lending at the

height of the pandemic. The money is not an equity round from current investors, but rather new capital joining the team.

The funding will be directed toward ramping lending back up and extending business partnerships with firms that serve small businesses, as well as direct and indirect lenders.

"So, hindsight is actually better than 2020 vision; no one in our lifetime has experienced the pandemic," Goldin said. "No one knew what to expect from a risk profile, so we took the conservative approach."

That approach was to shut down new loans and focus on servicing its current customers. It was a



difficult time for the alternative lending industry veteran, but now Goldin said he sees a great demand for capital.

"This was one of the toughest challenges that I've experienced ever as an entrepreneur," Goldin said. "The result really speaks to Capify as a company. People are willing to make that investment, believing in opportunity ahead and not the current times or the past during the pandemic."

Goldin said that Capify has always been known for its well-performing portfolio, one of the reasons that in 2019 the firm received a \$95 million credit facility from Goldman

Sachs' Merchant Banking Division.

Goldin began working in the fintech industry before the word fintech was even coined; in the early 2000s, he started one of the first MCA companies. Amerimerchant started selling loans and MCAs internationally in the UK and Australia in 2008, then rebranded to Capify in 2015. After leaving the US market in 2017 gained Goldman's attention last year.

"So now that we have the firepower, we believe there'll be opportunities in these markets as demand picks up for small business lending," Goldin said.



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## AN UPDATE ON SECTION 1071 OF DODD-FRANK

fter more than a decade, Section 1071 of The Wall Street Reform and Consumer Protection Act (AKA Dodd-Frank) is finally moving along. The law expanded the Equal Credit Opportunity Act to require that the Consumer Financial Protection Bureau collect demographic data from small business finance companies. For ten years, a whole lot of nothing

happened to roll it out, so you'll be forgiven if it seems like the latest updates are a bit vapid.

But then the CFPB got sued for its failure to carry out its duties and it resulted in a settlement that requires the agency to hit certain milestones by certain timelines. Section 1071 is all about collecting loan applicant data in commercial finance to measure if there are disparities in the ability to access credit, particularly for female-owned and minorityowned businesses. It necessitates a mechanism to comply, which will ultimately cost time and money.

But in the meantime, the milestones to even get to the point where data collection is being carried out, are roughly as follows:

- 1. Convene a panel of small business lenders
- 2. Have that panel issue a report
- 3. Propose what the rules on collection will be
- 4. Collect feedback on the proposal
- 5. Formulate a final rule
- 6. Issue a rule
- 7. Set a time for when that rule will go into effect

We spoke with one alternative finance company that has been engaged in the process.

"I am representing, and Greenbox Capital is essentially representing, the industry," CEO Jordan Fein told deBanked in regards to his role as a Small Entity Representative to the CFPB's panel of small business

> lenders. "There are some banks, there's Funding Circle, but other than that, it's Greenbox

> > Capital serving in the industry."
> >
> > Fein said that panelists
> > give their opinion and
> > engage in discussion on

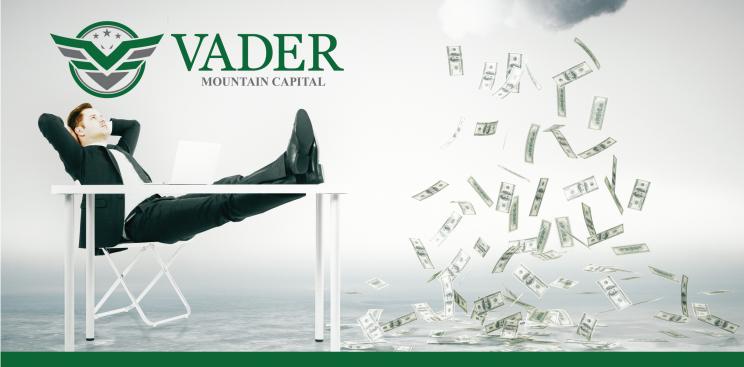
how companies will be impacted. He also said that he was very happy to participate in the process.

"It's an honor to be selected to the industry panel providing feedback on section 1071 of the Dodd-Frank Act ensuring fair lending laws to women- and minority-owned businesses," said Fein. "Over 2 million businesses across the U.S. are either

women or minority owned and it's vital they can secure funding as easily as non-minority owned businesses."

The panel must complete a report within 60 days of convening. With several more milestones to go, a final rule is unlikely to go into effect prior to 2022. But until then, know that Section 1071's implementation will

probably happen during your lifetime.



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# REVISITING MAM

deBanked reporter Johny Fernandez flew down to Miami in September to find out how the South Florida non-bank small business finance industry has been getting along since covid. The following are some excerpts of interviews:

#### Jordan Fein, CEO of Greenbox Capital

"I'd be lying to you if I told you that, well it was fine for us. It wasn't fine for anybody. We got hit pretty hard. I'd say that anywhere between 20 - 24% of our Canadian and about 25 - 28% of our US market got wiped out. And we shut down funding from mid-March to the end of April and we started funding again in early May. We've just increasingly been bringing back people from furlough and getting our legs back under us and now I think we're really cooking right now."

#### Craig Hecker, CEO of Bitty Advance

"So I think [the covid crisis] taught us a lot. And I think that when you face challenges like this pandemic, it really pushes you to reinvent yourself or reinvent certain parts of your business that you never thought were possible. And one of those things that we've learned is that we have a lot of folks that prefer to work at home, they're actually more efficient working from home, they're not in any hurry to come back into the office setting. Of course, we have certain employees that their jobs require them to kind of be with other employees, etc. but I think it's really forced us to adapt, and to just embrace the new normal."

#### Larry Bassuk, President of Idea Financial

"I think that we've been consistent in our risk management approach from the beginning. When we first surveyed the alternative lending space to see where we thought the best opportunity was for Idea Financial, we decided to focus on the higher credit quality segment of the market. our credit standards reflect that, our risk management principles reflect that, and quite frankly, our product reflects that. So during the covid crisis, when it was very acute in March, April, May, we got to see in real time, how our risk mitigation principles were functioning. It was a real test of all the theory that we had put in place, leading up to the covid crisis. During the covid crisis, we got to see things shake out, and we got to see things being proven. A lot of assumptions that we were very strict on, really helped us manage the crisis. Going forward, we see that we're going to be doubling down on those risk management principles, doubling down on how we underwrite and keeping a very close watch on how the businesses perform pre-covid, during covid, and then hopefully post-covid."

You can watch the full 12 minute, 35 second TV episode deBanked produced on this subject: at debanked.com/tv













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# **STILL GOING**—HOW A LOCAL BROOKLYN COMMERCIAL FINANCE BROKERAGE ENDURED 2020

By SEAN MURRAY

"For the three months at the beginning of this year, January, February, March, were probably three of the strongest months we've ever had," John Celifarco, a managing partner at Horizon Funding Group in Brooklyn, NY, told deBanked. "A lot of marketing, a lot of things that we were putting into place at the end of last year really was coming into fruition and our business was doing excellent.

"And then covid hit. And for lack of a better term, it was basically like a bomb going off."

John and James, brothers and co-owners of a storefront commercial finance brokerage in the Marine Park neighborhood of Brooklyn, were first featured in a deBanked story in June 2018. Their main-street charm had created unique appeal and success.

When covid hit, many brokers around the country closed permanently or transitioned to a permanent office-less work-from-home operation. When deBanked sent a message out to the Celifarcos in early October to learn about their status, they offered the same friendly invitation they had extended two years earlier.

"Come by whenever you want. We're still here," they said.

And so we did, this time by sending deBanked reporter Johny Fernandez along with a camera crew to get a more intimate feel for how they succeeded.

"It was really tough," James Celifarco said during a taped TV interview. "We were down 60 or 70% at one point. We really had to readjust our thinking and readjust our business model, whether it be marketing or just getting clients to pick up the phone and really just have a conversation with them."

The company has historically been very active in, but not entirely dependent on, the MCA space, but changing times and changing needs required a wider array of options.

"We were getting different requests," James said. "It wasn't just for a quick financing package."

James offered up equipment financing as an example, in addition to the ability to refinance commercial and residential real estate.

"Brokers can't really leave money on the table at this point," James said. "If they have a client that is looking for a real estate-backed transaction, they should be able to place that transaction. There is money in it. The deal takes longer to get done, the paperwork is longer, but there is absolutely opportunity. You put these deals in the hopper so to speak, and then three, four months later, they come around. You're not going to make the 10% that you used to or the 8% that you're used to on an MCA. You make a couple of points, you're working with multiple people, but you put them in the hopper, like we say, and [...] they come around."

John said technology made a major difference.

"We're lucky that we were able to find another company that we work with that helped us a lot (Babylon Solutions)," John Said. "What they were able to do is set us up with a CRM that not only helps us track our existing deals, but new deals, working with our partners, and ways to get submissions from them helped tremendously with our renewal business.

"By putting this in place, we're able to do more with less."

Despite the changes that have been put in place, one trend we noted last time we were there, resurfaced again during this interview, that their storefront environment attracts walk-in business. Even still.

"I've had clients for the last 12 years," James said. "I've had clients for the last 10 years, and it's about sending that person a Christmas card and really forming a relationship with that client and your partners."

To watch the full deBanked TV interview, visit: debanked.com/tv

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# INDUSTR' NEWS

#### 8/18/20

- Amazon announced that it will house more than 2,000 employees at the Manhattan Lord & Taylor building that it recently took over. The building contains more than 630,000 square feet of office space and employees won't begin to move in until 2023.

#### 8/20/20

- The parent company of Cross River Bank announced the closing of its \$106M private placement of subordinated notes, of which it will use the funds to continue its strategic growth plans.

#### 8/24/20

 South End Capital reopened its Subprime SBA Loan Program after pausing it to focus on PPP-related assistance to small businesses.

#### 8/25/20

- ODX, an OnDeck subsidiary, announced the launch of a Digital Account Opening experience, as a way to help banks open bank accounts entirely online.
- AccrueMe announced a commitment to provide a total of \$100M in growth capital to Amazon Sellers.
- Intuit announced that its small business lending division, QuickBooks Capital, had already originated \$683M in cumulative business loans since inception.

#### 8/26/20

 The SEC modernized the accredited investor definition. One notable addition to qualification is the measurement of one's professional knowledge or experience.  Liberis, an international SMB fintech lender, announced that its funding platform will be made available to a broader set of SaaS companies.

#### 8/31/20

- The California state legislature passed a bill that will rebrand the Department of Business Oversight into the Department of Financial Protection and Innovation. The law also expands the regulator's oversight.

#### 9/1/20

 OnDeck shareholders dissatisfied by the terms and disclosures relating to the Enova merger, began filing lawsuits against OnDeck's board in an attempt to delay the sale. Nine in all were filed.

#### 9/2/20

- It's announced that Joe Biden raised \$364.5M in August, more money than any other presidential campaign in any month in history.
- The WSJ reported that trading platform Robinhood was under SEC investigation for issues related to its disclosures around its practice of selling clients' orders to high-frequency traders.

#### 9/3/20

 LendingUSA, a point-of-sale financing provider, received a \$200M investment commitment from Atalaya Capital Management.

#### 9/4/20

- New Jersey lifted restrictions on indoor dining to allow dining at 25% capacity.
- The unemployment rate fell to 8.4%.

#### 9/8/20

- Fvndit, a California and Vietnam based company, announced an investment of \$30M for debt financing by Accial Capital, a private debt investor, and Variant Investments, an alternative income investor. Fvndit (pronounced "Fundit") solves capital problems for small or medium-sized businesses (SME's) by using tech solutions, building infrastructure for seamless underwriting, and financing.

#### 9/9/20

- BlueVine, a small business lending and banking company, announced it had secured a \$75M revolving credit facility from funds managed by Atalaya Capital Management.
- Credolab, a digital credit score company, secured \$7 million USD in Series A funding led by GBG.
   Credolab uses phone metadata to construct alternate credit scores.

#### 9/10/20

- Demetrios Boudourakis was sentenced five to ten years and ordered to pay restitution of \$880,000 after he was convicted of orchestrating an advance fee loan scheme. Boudourakis, owner of a Long Island business loan brokerage, pled guilty to grand larceny in the second degree for soliciting business owners for loans that would never arrive and charging them upfront fees.
- Former New York Jets player Joshua J. Bellamy, 31, was charged in a \$24 PPP loan fraud scheme. Bellamy is alleged to have obtained a \$1.2 million PPP loan, which was allegedly spent in part on luxury goods and at the Seminole Hard Rock Hotel and Casino.

#### 9/14/20

- Klarna, a Swedish online payments firm, raised \$650 million in an equity funding round. Silver Lake Partners led the round, valuing the company at \$10.6 billion and making it one of the world's top five highest valued fintech companies.

#### 9/15/20

- Finch, a fintech startup that features an all-in-one checking and investing account, announced \$1.8M in seed funding. The round was led by Boston based Mendoza Ventures.
- Borro, a provider of confidential non-bank loans using luxury asset collateral, announced it resumed providing capital on fine art.
- Great Lakes Business Credit named Rhett B. Rowe as its new CEO.

#### 9/17/20

- Affirm, an online consumer credit company announced a \$500 million series G round of funding, bringing the total investment to \$1.3B. The round was led by GIC and Durable Capital Partners LP.
- Jeopardy Host Alex Trebek read off a Daily Double during its nightly program that characterized Jack Dorsey as the head of a payments company. The correct answer was "What is Square?"

#### 9/18/20

 Chime, the mobile phone banking service, was valued at \$14.5B in a \$485M Series F round.

#### 9/21/20

 The Consumer Financial Protection Bureau released its outline of proposals under consideration for the implementation of Section 1071 of the Dodd-Frank Act governing small business lending data collection and reporting.

#### 9/22/20

 BlueVine, a leading provider of small business lending and banking, announced Patrick Adams as its Chief Marketing Officer. In this role, Adams will oversee all marketing functions and will report to Eyal Lifshitz, CEO and co-founder.

#### 9/23/20

- UnCapped, a European merchant cash advance company, raised \$26M in a new funding round led by Mouro Capital.

#### 9/24/20

 Funding Circle, an online international small business lender, reported a first half operating loss of \$144M.

#### 9/30/20

 Capify, an online international small business lender, announced a \$10M equity round in addition to continued support from Goldman Sachs Merchant Banking division.

#### 10/1/20

 Kapitus, a small business finance company, announced it had received a ratings affirmation on its securitized notes from Kroll Bond Rating Agency.

#### 10/2/20

- President Donald Trump was revealed to be covid positive.

#### 10/5/20

- President Trump was released from the hospital after his very, very short bout of covid. He later went on video to say that he was feeling "perfect."
- John McAfee, who long ago founded and sold the McAfee security and antivirus company, was charged by the SEC for promoting investments in Initial Coin Offerings (ICOs). He was simultaneously charged by the DOJ for tax fraud. McAfee was reportedly arrested and imprisoned in Spain and is currently awaiting extradition to the United States. He is 75 years old. Despite being in prison, he manages to tweet on a daily basis. In one tweet he wrote, "my real crime is speaking publicly about the insanity rampant within our government." His twitter feed is typically NSFW.

#### 10/6/20

 Credibly, a small business finance company, announced it had received a ratings affirmation on its securitized notes.

#### 10/8/20

- Square announced that it had purchased \$50M worth of bitcoins.
- Clearbanc, the Canadian online small business finance company led by famous entrepreneur Michele Romanow, announced it was expanding to the UK.
- Despite initial hesitation,
   OnDeck's shareholders dropped their lawsuits and approved the merger with Enova.

#### 10/14/20

- DailyFunder, the nation's largest online community of alternative business finance professionals, surpassed 10,000 registered members. The website has logged more than 1 million visitors since inception.
- Funding Circle joined the Innovative Lending Platform Association, an American-based trade association.
- TD Bank sued Plaid for trademark infringement.

#### 10/15/20

- FundThrough, a Canadian small business finance company, secured a \$50M investment from Northleaf Capital Partners.

#### 10/19/20

- Greenbox Capital, a small business finance company based in Miami, announced it was serving as a Small Entity Representative to the CFPB's panel that was convened to assist in the rollout of Dodd Frank's Section 1071.
- VOX Funding announced it had executed a credit facility with a major commercial bank.

### THE ONDECK ROLLERCOASTER OF 2020

By SEAN MURRAY

"2019 was an important year for OnDeck and we finished strong," said OnDeck CEO Noah Breslow in the year-end earnings call that took place on February 11, 2020. "Financially, we had our second full year of profitability. And strategically, we are making significant progress positioning the company for improved performance and even greater long-term success."

OnDeck reported net income of \$28 million for 2019 and its share price closed at \$4.07 the day earnings were announced, giving it a market cap of roughly \$240 million. This was down significantly from its IPO value of \$1.3 billion, but up from the lows it had hit in 2017 and 2019.

Over the next 30 days, however, the price fell by 50% on fears that the looming novel coronavirus could cause catastrophic disruption. The company also announced the departure of its Chief Accounting Officer.

As the industry looked on with wonder, news coming out of the company seemed strangely at odds with reality. For example, OnDeck announced a "first-ever" NASCAR sponsorship on March 10th.

"OnDeck is proud to sponsor the JR Motorsports team and driver Daniel Hemric for races during the 2020 NASCAR Xfinity Series season," said a senior vice president of marketing at OnDeck. "So many of our small business customers are avid motorsports fans and we look forward to joining them to cheer on Daniel and the No. 8 car decked out in OnDeck colors at the Atlanta 250 and the Chicago 300."

On March 23, OnDeck closed at 70 cents. The market, it seemed, valued OnDeck at a paltry \$41 million.

Publicly, OnDeck kept up the optimism. The company applied to be a PPP lender as the program was just beginning to roll out. "We are excited to be one of the fintechs delivering PPP loans as a direct

lender," Breslow said. "Our team has been working around the clock getting us ready and now we wait and hope we are approved soon!"

Simultaneously, the company suspended the funding of its "Core" loans and lines of credit to new and existing customers. The company then went on to report a Q1 net loss of \$59M due to covid-related damage, wiping out all of its 2019 profits and more. It also furloughed many employees while reducing the pay for those that stayed on.

That same month, OnDeck's management "commenced a review of potential financing options to secure additional liquidity and potentially replace [its] corporate line facility and began contacting potential sources of alternative financing, including mezzanine debt."

The response it got was grim.

"The interest rates offered by those alternative financing sources ranged from 1-month LIBOR plus 900 basis points to 1,700 basis points (in addition to an upfront fee) and all but one required a significantly dilutive equity component," the company later disclosed. "The one proposal that did not include an equity component was at an interest rate of 1-month LIBOR plus 1,400 basis points to 1,700 basis points."

OnDeck engaged in negotiations with four potential sources of alternative financing, but two dropped out as the economic effects of the pandemic worsened. At the same time, it was speaking with Enova about something else entirely, a potential merger.

On the frontend, OnDeck was keeping the public abreast of its negotiations with creditors. The pandemic had put them in a technical breach of its terms with several of them but the company was experiencing some success with securing workouts and reprieves.

Regardless, the stock continued to trade below \$1 as the world looked on to see what would become of their Q2.

On July 28th, bombshell news broke. Enova, an international lending conglomerate, announced it was acquiring OnDeck for the price of approximately \$90 million.

"Following an extensive review of our strategic options, we believe this is the right path forward for our customers, employees, and shareholders," Noah Breslow said on a call with Enova executives the following day.



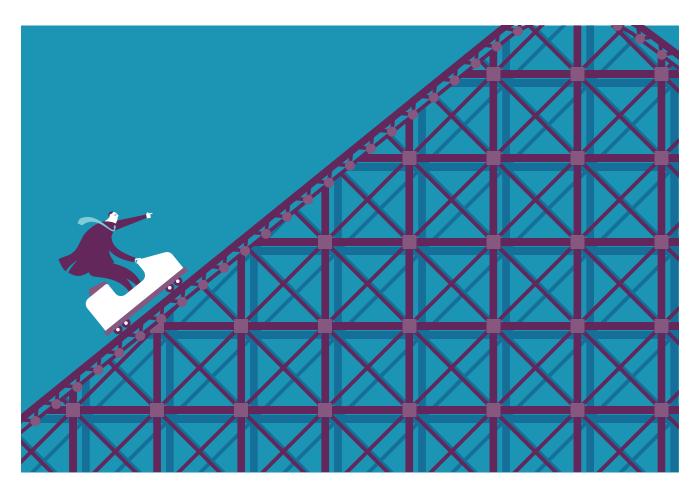
# Kapitus started with a simple mission...

Kapitus started with a simple mission: to help small businesses across America. As they grew to one of the largest lenders in the country, technology evolved, as did customer expectations. Kapitus evolved with them.

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Some shareholders had a different opinion and thought that the deal and the terms looked a little fishy, all considered. Nine different shareholder lawsuits were filed over the next two months with the intent to delay or block the acquisition.

How could this possibly be the best deal or the right path?!

That was the underlying question being posed between the lines of the various claims asserted.

OnDeck ultimately settled with all the parties by releasing supplemental information to the public about its financial situation and thought process that led up to the Enova merger. All the objections appeared to fade as shareholders approved the deal by an overwhelming majority.

On October 13th, Enova announced that it had completed the acquisition of OnDeck.

But by that time, was OnDeck merely a hollowed out shell of its former self? Not quite, according to disclosures made two weeks later. Enova announced that OnDeck's portfolio performance was already exceeding their expectations.

"On the small business side, the makeup of the

demand is surprisingly similar to a year ago," said David Fisher, CEO of Enova. "You would expect so many differences given what the economy has been through but there's actually very very few. It's pretty broad based. Credit quality look really really strong. If anything it's stronger- I think it's the stronger businesses that are trying to borrow at this point that are trying to lean into covid, not the ones that are just trying to survive so if anything on the demand there is a slight improvement on credit quality in small business."

Fisher was also bullish going forward. "We believe now is a great time to be increasing our presence in small business lending. The pandemic has devastated many small businesses across the country. Their revenues are down and small business owners are digging into their savings to survive until the pandemic subsides and the economy reopens."

Enova reported monster quarterly earnings of \$94 million, a company record.

"Together Enova and OnDeck will be well positioned to further support small businesses and consumers in the wake of the pandemic," Fisher said.

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