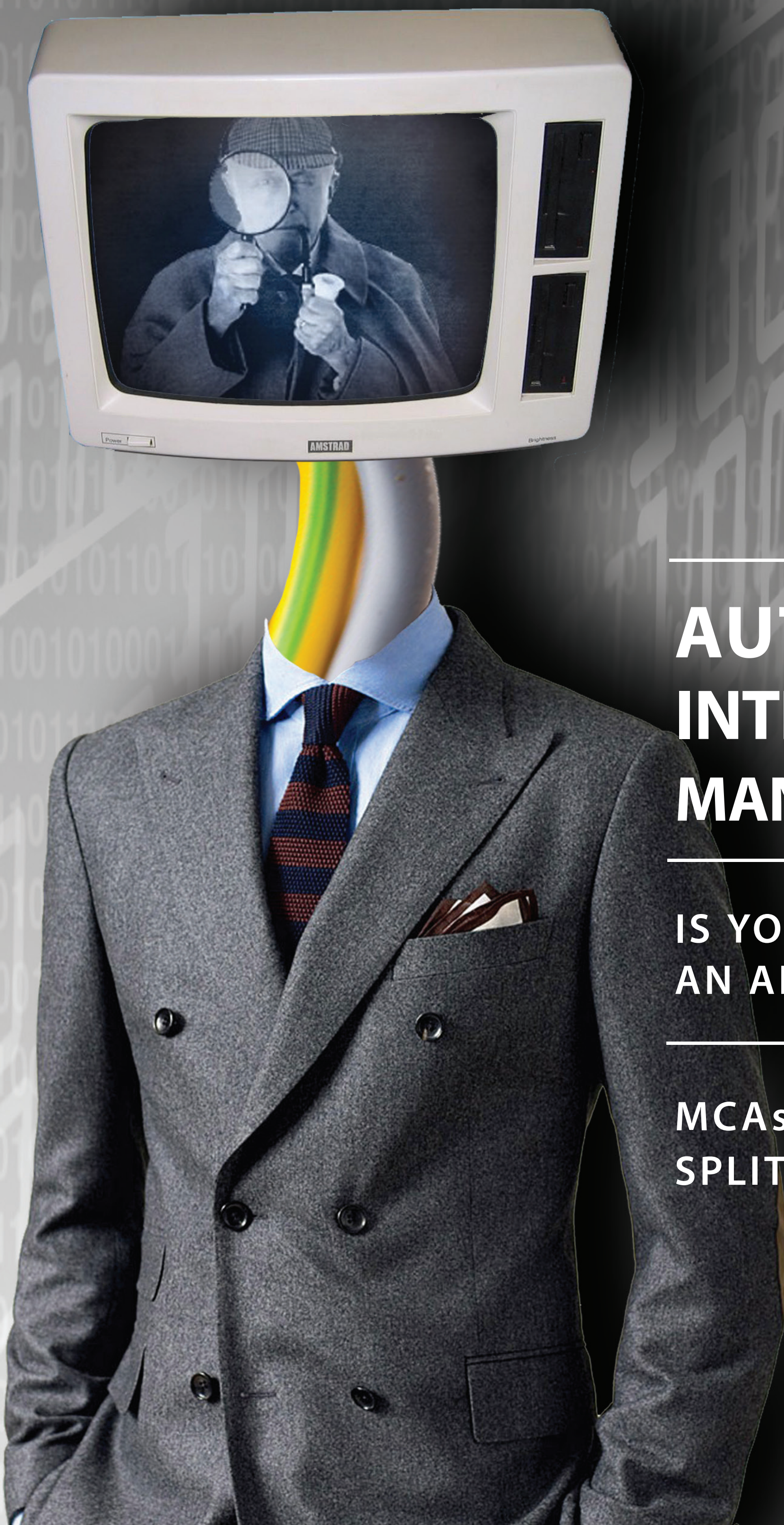
MAY/JUNE 2014 | ISSUE 3

DAILYFUNDER



AUTOMATED INTELLIGENCE: MAN VS MACHINE

IS YOUR DATA SAFE WITH AN ALTERNATIVE LENDER?

MCAs AND ISOs:CALL IT SPLITS NOT QUITS


Funding the Unbankable
Send us your DECLINED & HIGH RISK DEALS
YELLOWSTONE CAPITAL
YOUR BUSINESS LOAN ALTERNATIVE
855-972-2748
iso.yellowstonecap.com

UNITED CAPITAL
SOURCE

We are your business funding specialists.

Call today or visit us online
for your free consultation!

www.unitedcapitalsource.com

(855) WE-FUND-U
(855) 933-8638

- ✓ **Merchant Cash Advances**
- ✓ **Business Loans** (fixed payment and term)
- ✓ **Business Lines of Credit**

Receive up to $2 million in 72 hours:

- Terms 3 - 18 months
- Prepayment options available
- Dedicated renewals specialists
- Online account access
- Receive funding in as little as 3-5 business days
- Dedicated funding coordinator for each merchant
- Lowest rates industry wide for qualified merchants
- United Capital Payments division specializing in credit card processing and POS Systems

United Capital Source
371 Merrick Rd.
Suite 305
Rockville Centre, NY 11570

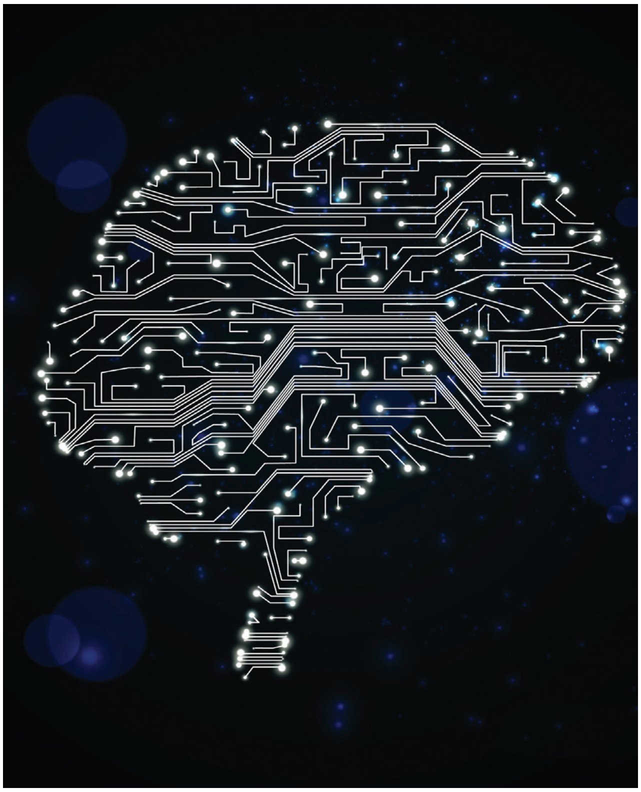
www.unitedcapitalsource.com

Phone	(855) 933-8638
Fax	(888) 383-2892
Email	info@unitedcapitalsource.com

Table of Contents

MAY/JUNE 2014 | ISSUE 3

DAILYFUNDER



Featured Story

MAY/JUNE 2014 | ISSUE 3

PUBLISHERS
Sean Murray

EDITOR-IN-CHIEF
Sean Murray

MANAGING EDITOR
Michael Giusti

ART DIRECTOR
Jeanne Martin

GRAPHIC DESIGNER
Chris Beveridge

DailyFunder™ is a publication of
Daily Funder LLC

Sean Murray, Publisher

For advertising information or general inquiries, email
sales@dailyfunder.com.

FROM AUTOMATION TO SYNDICATION

By Sean Murray, *Editor*

MURRAY

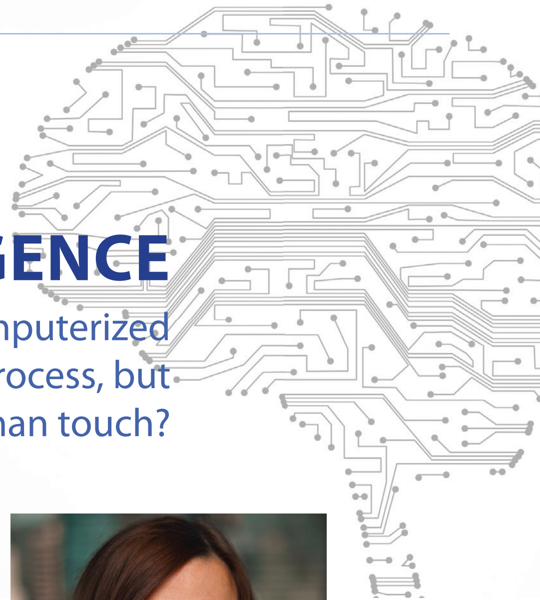
After wrapping up two stellar conferences, Transact 14 in Las Vegas and the LendIt Conference in San Francisco, one thing has become obvious, the technology race is on. But just how far will it go? And who's dotting their i's and crossing their t's to ensure automation doesn't come at the expense of data security? In this issue, we explore the opportunities technology creates and share our research on safety measures being taken along the way.

Of course we've got a little more in store for you as well. Revenue streams in alternative business lending aren't all focused on upfront commissions. Bankcard relationships continue to flourish, and with that, the ability to earn an additional income.

Stacking continues to be a defining issue of our time and at least one funder is mounting an offensive. But will industry insiders continue to be in control of these debates for much longer? Syndication was more disruptive to the industry than more people cared to notice. Could large-scale disruption happen all over again once retail investors are involved?

In issue #3, we look to the future and walk you through the world of DailyFunders yet again.

Sincerely,
Sean Murray, Editor



AUTOMATED INTELLIGENCE

Underwriters are increasingly looking to computerized automation to streamline the funding process, but where does that leave the human touch?

BRESLOW

ARORA

PETRALIA

BY MICHAEL GIUSTI

In a dream world, the underwriting portion of a business funding deal would be as easy as a mouse click and as risk free as a bank deposit.

And while the risk-free, pain-free transaction may never be possible, computers, data and automation are taking an increasingly large role in the underwriting process. For underwriters, tapping into daily payment transactions is a must, but it is just the beginning of what is possible. The most innovative players in the alternative business lending industry are tapping into data sources never before dreamed of, ranging from UPS shipping volume to social media chatter, all to decide who should get funded and who is just too big of a risk.

It would seem that for most deals, the days are numbered for on-site risk assessment and underwriting that requires even nominal amounts of manpower. But how far can automation really go?

Over the past month, the DailyFunder picked the brains of three leaders in the business funding space to discover how computerized underwriting is going to fit into this evolving industry.

Noah Breslow, CEO of New York-based OnDeck Capital; Kathryn Petralia, co-founder and COO of Atlanta-based Kabbage; and Rohit Arora, CEO and co-founder of New York-based Biz2Credit Inc., offered a range of insights.

"OnDeck uses technology to evaluate business fundamentals – namely credit, and cash flow more efficiently. Those data sources are the most interesting to us," Breslow said in a sentiment that echoes the tone of each of the executives.

The common themes were clear: automation is necessary, it is growing, and it is the key to staying competitive in an increasingly crowded marketplace. "Automated underwriting makes us a lot more efficient and effective in serving small businesses because we can serve more of them more quickly and take less time out of their day to go through the application process, and get them to a 'yes' more quickly," Petralia said. "And you can serve smaller merchants because it doesn't cost as much to underwrite them."

To be sure, personal attention is still coveted. But the big question is: can the business funding industry ever be free of that human touch?

Here they are, in their own words:

DailyFunder: How much of a role should computers play in underwriting a deal?

Breslow (OnDeck): While we are a tech-powered Main Street lender, we believe there is a perfect balance between technology and human touch when underwriting a loan. Our technology has enabled us to be more predictive when determining the creditworthiness of a small business, and our human touch allows us to work closely with our customers and better understand their individual capital needs.

Petralia (Kabbage): Huge. Keep in mind, we have it segregated in a couple different ways. We have this automated underwriting process. We have a credit-and-risk-management team that builds the models and understands the data. Then we separately have a data science team. We are collecting tons of data. We don't use all the data. We identify all the data available, then comb through this data to find meaningful, relevant data points and we decide whether to include it in the model.

Arora (Biz2Credit): We like to include a lot of third-party data sources in the underwriting process. Our experience has been that in the underwriting process, there is a lot of clerical work, which is just getting all the data, looking at it, doing manual calculations. That part can be automated. Computers can do a very good job at that. Anything with traditional data, calculating ratios, those can be and have been fairly easily automated. Quantitatively we have found if humans do these types of things, we commit more mistakes than computers and there is less uniformity and more bias.

DailyFunder: Then, would it ever make sense to remove the human underwriter completely?

Breslow (OnDeck): We believe the right balance is critical.

Arora (Biz2Credit): I think we are not there because of two reasons. Algorithms are very sophisticated on the quantitative side, but when it comes to qualitative side, things like language recognition are not so advanced, and I think things to measure behavior are not yet there. Until then, you cannot eliminate the human element from an underwriting aspect, especially in the credit marketplace. Human beings are still playing a role. The human role is graduating more away from grunt and clerical to a more intelligent aspect. And that is good. But, I feel that a good mix is important and will continue to be important until technological limits are taken care of.

Petralia (Kabbage): It seems like this would be hard to do. It is not going to be like the "Matrix" where machines are making all the decisions. You won't see an underwriting world without humans. There are humans involved in the conversation about which data source is interesting or meaningful or relevant, and whether we should plug it into the model. I don't think that machine learning algorithms can rapidly deploy new models into production. I don't think that makes sense. A human has to be involved in the strategy. If you have a machine and you get the data and you have built the model, then at that point there is no need to involve a human in it. But you have to have reporting that you look at on a daily basis to analyze and understand how the model is working, and that is a human who is looking at it from a day-to-day portfolio management standpoint. Certainly you want to have humans involved in that.

DailyFunder: So, with automation and data playing such a large role, are the merchants able to keep pace with the technological focus?

Breslow (OnDeck): The large majority of small businesses today are interacting and generating all sorts of electronic data. Most use smart phones, online banking, Quick Books, credit card processing, social data, etc.

Petralia (Kabbage): It is becoming more and more rare to find merchants who are not tech savvy. Think about it. Even if they still use an old-fashioned paper ledger, every small business in America has a checking account. There is automated access to those checking accounts. If they don't have a checking account, nobody wants to work with them. But, there are also platforms being launched giving these guys access to better tools from an accounting perspective. It may be that QuickBooks is too complicated, so they use Xero or FreshBooks. But there are other tools that are drawing other customers in that are customized for them, even if it is just an invoicing program. And every one of those tools creates a tsunami of data that can be used in underwriting.

It is not going to be like the "The Matrix" where machines are making all the decisions. You won't see an underwriting world without humans.

Arora (Biz2Credit): I am finding that if you have a responsive platform, and if technology is deployed the right way, it lets less technically savvy people get access to credit in a more democratic fashion. For example, if you have a mobile platform, you can input your information through your mobile, even if you don't have a laptop or PC. We have found that that has enabled minorities and merchants that are not tech savvy or language savvy to participate much better.

DailyFunder: Would it be wrong to judge a business' ability to repay based on their level of technical savvy?

Breslow (OnDeck): They are not judged by their tech and social media savvy — that is irrelevant. The fact is most businesses operating today, in 2014, are already technology focused to one degree or another. They have computers, they have online banking, they use credit card processors, their customers are reviewing them online, there are public records, etc. All this electronic data helps paint a deeper and more accurate picture of the health of a business.

Arora (Biz2Credit): Actually, what you have is various level of technical expertise. That is challenging but also an opportunity. We get people who come online. We give them live chat support and toll free numbers. We get them with a specialist with all the technology and all the tools and now they have access to funding that they might not have had otherwise. You can take it as a challenge but also opportunity. If they are less technologically savvy, they may need some handholding. But, if you provide that — and we do — you see good conversions and good loyalty. Once you overcome hurdles with these customers, they become some of your most loyal and most responsive customers.

DailyFunder: So how does social media play into all of this?

Petralia (Kabbage): When we added social media, we didn't know what we were going to find. We were kind of curious. We found that the customers that added active Facebook and Twitter pages were 20 percent less likely to be delinquent, and it's not because they could use technology. It's because they were engaged with their customers. How do they interact with their customers? If you can get that information about how they interact, you can measure customer engagement. And that is a huge indication of business performance.

Breslow (OnDeck): Most of our customers use social media because it can be a valuable tool for growing their customer base. Having a web presence is crucial for small businesses such as restaurants, florists, auto body shops and other service-based businesses. If a business has a strong website, I don't think they need to be on every social media channel. However, we have found that it is important to be on social media channels read by their target audience. Facebook and Yelp are the two we see used by most of our customers. For some industries, such as doctors and dentists, having a social presence isn't as important and relevant as say a restaurant. We don't think that

merchants should be judged for loans by how social media savvy they are — that can lead to false positives — the worst business could have a great website and Twitter account but no cash flow.

DailyFunder: A lot of companies tout their personal relationships with the companies they fund. Is that still important, or is technology replacing some of that?

Breslow (OnDeck): Customer service is something we pride ourselves on and take very seriously. We make it a priority to intimately understand our customers' businesses and needs. That way we can more effectively support them, provide the critical access to capital they need and help them grow. Excellent customer service is extremely important to us and it is a key part of our brand DNA.

Petralia (Kabbage): Most of the time they don't want a personal relationship. They want to run their business. They want to engage WHEN they want to engage. We are effectively lending these guys money. And they are paying us fees. Most people wouldn't be excited about that kind of a relationship. But when they call, we answer the phone. If they email, we respond to them. We have live chat. We are extremely engaging with our customers when THEY want us to engage.

Arora (Biz2Credit): I would say a combination works best. Automation helps you reduce costs in underwriting. It also reduces mistakes and reduces time. It also reduces bias against business owners who might struggle with an accent or with using proper language. We introduced a full technology platform a few years back, and we found a lot of customers in the middle of the night are using it on their own. People will use technology on their own and then call us if they run into issues. So, a smart combination of relationships and technology is the best right now.

DailyFunder: So, what I am hearing is that automation is the future, but there is still a role to be played by humans.

Arora (Biz2Credit): Underwriters still have a role to play in the areas that require judgment. For example, taking a look at and talking to other stakeholders, like landlords, even looking at different business in the same industry or geography. That is difficult to automate. That is less about data and more about intelligence. But the behavioral aspect, and other things like how the business owner describes their business, their vision, their growth plan, that cannot be automated. So, the key thing is it is a combination of quantitative and qualitative aspects of underwriting.

Breslow (OnDeck): You might use technology more on underwriting smaller or less risky loans, and people more for doing extra work and diligence on larger loans, or more risky loans. Not all loans are created equal, not all businesses have the same digital footprint, and that influences when human underwriters add value and should be used.

DailyFunder: So, what is the future going to hold?

Petralia (Kabbage): Some folks claim they are really automated and they are not. And you can tell by the number of employees they are hiring and where they are hiring how automated they really are. If you have a good system, and you know what data you are looking for, it's not like you should need to add a new person for every 1,000 customers you add to your portfolio. With the technology, it is scalable. But there are a lot of funders out there who are still using manual processes. They have people who go knock on doors to determine creditworthiness and walk on the floor and evaluate, and then that person comes back and reports about that business. 1947 called. They want their underwriting back. It is crazy to me.

DailyFunder: Will those companies that do it by hand be able to survive in the marketplace?

Petralia (Kabbage): The reason they are able to do it the old way is that they make so much money on these deals, and there is no access to traditional bank lending for these merchants. There is such a need with small business owners that you can make a bunch of money, even doing it manually. They are still making money, but they risk fierce competition as more and more companies begin to automate the process. There is price competition. What you are going to see is price compression in the marketplace, and some of the less efficient companies won't be able to compete or stick around.

MCAs and ISOs:
Call it splits not quits

BY DALE LASZIG

There are times even in a good marriage when the grass may look greener on the other side. The growing use of ACH daily debit by the non-bank lenders is raising questions in the payments community about the future of split-funding and overall viability of MCA-ISO partnerships. We asked several leading acquirers for their thoughts on how the increase in independent funding by MCAs has affected recruitment and retention of MCA ISOs. What follows are their insights on the inherent advantages of the MCA / Acquirer partnership model.

Focus on your core and write more deals

John Priore, CEO of Priority Payment Systems, sees a bright future for the MCA and ISO partnership. "Split funding is a strong model for ISOs, MSPs, and MCAs that want to capture additional revenue streams," Priore said. "Non-bank financing can be tailored to different markets. MCAs will tell you it's a function of the credit worthiness of the merchant. There are segments where higher fee structures are justified. We have observed business owners who qualify for bank level loans prefer the flexibility and speed of non-bank funding. There's no shortage of models for funding and revenue sharing that we provide to our partners and distributors, because we constantly adapt to help them differentiate and stay competitive."

Duayne Haskett, Founding Member of Priority Payment Systems' management team and Senior Vice President of Third Party Acquiring, added, "The influx of non-bank capital combined with market demand creates a tremendous opportunity for expansion, both for alternative lenders and any processing company touching small to midsize businesses."

Matt Pohl, Director of Merchant Acquisition and Sales Support at Integrity Payment Systems, is committed to building sustainable relationships with MCA partners that enable them to focus on "what they do best, which is the funding piece, leaving the heavy lifting related to bankcard to us.

This can be helpful for MCA professionals who don't have a bankcard background. "There are so many intricacies in credit card processing," Pohl explained, "that when you try to do [both funding and boarding of merchant accounts] it potentially muddies the waters and convolutes the sales process.

We currently offer a special program for our MCA partners whereas we will close the bankcard sale on their behalf, and share the revenue. All we ask is for our sales partners to confirm appointments so their merchants know to expect our call."

Relationships with Integrity can take many different forms, depending on a partner's preferences. "A call center of 10 agents dialing for dollars may want to align with an ISO as a referral partner and share the revenue," Pohl said. "A cash ISO that leads with cash deals as the quickest way to get funded may want to use us as a Plan B for merchants that don't qualify for a bank loan."

In addition to their tenured base of loyal MCA partners, Pohl noted that IPS is attracting new funding partners by referral and word-of-mouth, and has seen consistent growth in split-funding activity.

Decrease risk and increase income

MCAs and ISOs who work together are generally more adept at risk management. Additionally, their complimentary skill sets can be a catalyst for creativity and innovation.

"Split-funding is the most secure way to provide financing to a small business with weak or unpredictable cash flow," Pohl said, in a comment that will resonate with anyone who has experienced the so-called snowball effect: "If your merchant is set up on a 200 dollar a day debit and that 200 is not there, the next day it becomes a 400 dollar debit, not to mention NSF fees. This snowball effect can get out of control pretty quickly. By contrast, the split-funding model gives peace of mind to every stakeholder in the payments value chain because the debit is always proportionate to the flow of credit card revenue coming into the business."

Benny Silberstein, COO at Benchmark Merchant Solutions, has seen a boomerang effect of MCAs who return to Benchmark after a walk on the ACH wild side.

"I've seen a lot of MCAs who try to use ACH to open up new possibilities," he said. "Some of their submissions may drop off a bit but they invariably return because they always feel more secure using the split-funding method with us. There are the obvious benefits of split-funding: Additional revenue streams on all transactions; merchants are locked in; it's harder to stop paying; and split-funding is a smooth automated process."

Use or be used by technology

We're in the electronic transactions business; understanding the impact of emerging technologies

is an industry imperative. Laggards who don't keep up with the evolving payments ecosystem are going out of business. Alternatively, the more enterprising among us use technology as a competitive advantage.

"BMS is very technology focused," Silberstein said. "We try to provide the best user experience to our merchants, ISOs, and cash advance companies. Our software development team is constantly enhancing our partner portal and adding features to MCATrack™ to create a leading edge. The system is a fully integrated tracking platform with software tools that enables our partners to manage their MCA business relationships and grow their businesses.

Our ability to capture PIN-based debit and EBT has been a real asset. We recently had a grocery store that factored only 5 thousand in bankcard and 40 thousand in EBT alone. One MID for all terminals, including mCommerce, helps our partners track revenue streams taking place outside the traditional countertop POS footprint."

At Integrity Payment Systems, Pohl and team are committed to continuous process improvement that goes above and beyond boarding and funding. "The company's affiliation with First Savings Bank means next-day deposits, seven days a week," he said. "Our enhanced reporting helps MCA partners meet objectives, get funded quickly, and have access to raw settlement data that helps them monitor performance metrics."

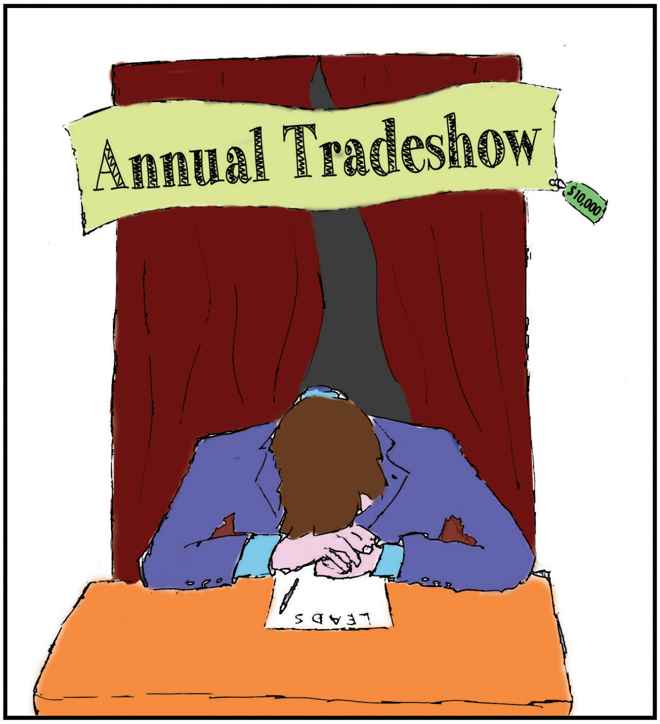
Appreciate the partners who have your back

Sometimes in their haste to close deals MCAs may overlook the advantages of working with processors and ISOs at every stage of a customer relationship. The same principle can apply to ISOs.

"For merchant acquirers," Haskett said, "the alternative lending space provides a valuable entry point to attract new merchant processing clients, and with the right funding partnership, retain those clients upon renewal."

Who wouldn't want the built-in security afforded by split-funding and all the associated benefits and protections of working with a processing partner? Let's not underestimate the bright and profitable future of the MCA and ISO partnership.

THE FREE ALTERNATIVE BUSINESS LENDING CONFERENCE THAT NEVER ENDS



The answer to trade show fatigue may just be an online exchange that is always open and that lets you attend when it is convenient to you.

BY SEAN MURRAY

My friends and colleagues peppered me with questions upon my return last month from the Transact 14 conference in Las Vegas. It was the same song and dance that everyone probably faces when they get back to the office.

"Was it worth it?"

"Who was there?"

"Did you have a good time?"

"Did you get any business from it?"

People want to know if spending $5,000, $10,000, or more is worth its weight in new business relationships. Sometimes the answer is yes. Other times it's no. It takes a lot of skill and a little bit of luck to come out successful. It's like a highly evolved game of poker.

Many of the big name funding providers in merchant cash advance and alternative business lending complain that it's hard to meet new ISOs at these conferences. The little guys do the math and realize they can't afford to go or they simply don't have the time to fly across the country for a week of schmoozing and boozing.

Nobody wants to leave the office for a few days for a conference only to come back and find out that deals fell apart in their absence, especially if all they have to show for it is a swag bag full of pens, squeezable stress relievers, and brochures. But I digress…

There is value to be had by bringing folks from all across the industry spectrum into one central meeting place. Nothing has made me more sure of that than witnessing the results of a grand experiment that I kicked off back in 2012.

What if a trade show did not cost you money or time away from the office? And what if the exhibit hall hours were infinite so that you could attend at your leisure?

I've garnered much interest in the activity taking place on DailyFunder's trademark forum.

"Are people actually going to the site?" they ask.

It's one of those easy layup questions you'd be lucky to get from a potential advertiser you're courting that can go horribly wrong if you respond with vague measures such as, "yes, everyone is going."

But everyone *is* going, or at least almost everyone it would seem.

More than 23,000 visitors in the first 3.5 months of 2014 had visited the site previously.

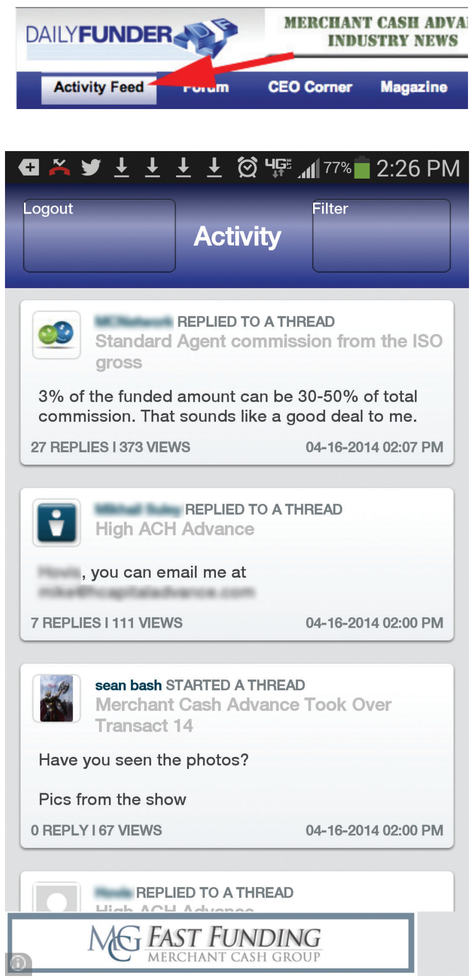
The average time spent on the site for a returning visitor was 12 minutes.

The average time spent on the site for a first time visitor was 5 minutes.

Blended together, the average visit to the site lasts approximately 10.5 minutes. By contrast, Facebook commands an average visit of roughly 18 minutes.

That would mean that folks who have visited DailyFunder more than once spend 66% of the amount of time on DailyFunder as they do on Facebook.

None of the above figures reflect our mobile device application usage, which has experienced a surge in activity. We just recently surpassed 90,000 monthly mobile ad impressions collectively through the iPhone and Android apps. 90,000 in a single month for an app that only shows a single ad at a time is an incredible opportunity for those interested in reaching a highly targeted niche audience.



"By far and away the best kept secret is the Activity Feed, the screen that allows you to monitor all the new content being posted to the site in real time without having to manually refresh your browser."

There's no shortage of information and discussion to soak in on the forum, as the site has amassed more than 5,500 posts across nearly 700 unique threads. If you need to know the who, what, where, when, why, and how of alternative business financing, you can find someone there that has the answer or has posted about it already.

By far and away the best kept secret is the Activity Feed, the screen that allows you to monitor all the new content being posted to the site in real time without having to manually refresh your browser.

Whether it's discussions about commissions, underwriting, or good old-fashioned industry drama, the Activity Feed allows you to miss none of it. For me personally, scrolling through the Activity Feed on my Android app is the last thing I check before I go to bed each evening and the first thing I check when I wake up.

Notably, seven big industry captains have contributed content to the site over time through the CEO corner, including Jeremy Brown (RapidAdvance), Andrew Reiser (Strategic Funding Source), Steve Sheinbaum (Merchant Cash and Capital), John D'Amico (GRP Funding), Scott Griest (American Finance Solutions), Ryan Rosett (RetailCapital) and Craig Hecker (Rapid Capital Funding).

The site has been fortunate to be linked to from the Wall Street Journal, New York Times, Bloomberg BusinessWeek, and other powerful media outlets.

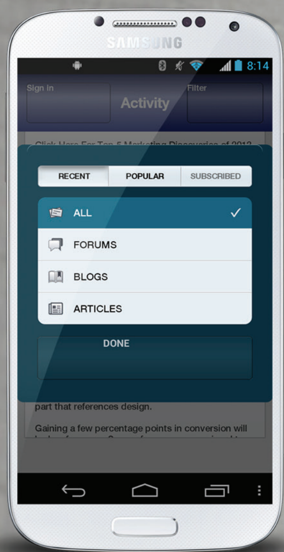
You don't have to create a user account to benefit from the experience, but there is a lot to be gained by doing so. Many visitors are doing what they'd like to do at trade shows, such as finding new strategic partners to work with, getting deals funded, and sharing tips. Site members tell me there's a lot of business being made behind the scenes, whether through the site's private messaging system or from the phone calls and emails that result from having their contact information publicly available on there.

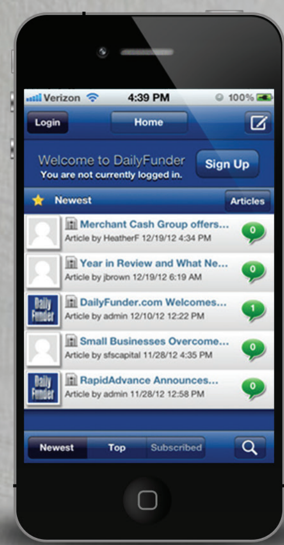
Of course there are others that have set up virtual booths by taking advantage of online & mobile ad placement. In what is currently the only online event of its kind, big funders and small ISOs alike are finally all in the same place.

Tickets are free and the exhibit hall hours are forever. The activity and opportunities never end on DailyFunder.

DAILYFUNDER

Deals get made daily. Be a part of it.





The entire alternative lending industry, in the palm of your hand.

Download the App for free at iTunes or Google Play

ALTERNATIVE LENDING WHISPERS FROM TRANSACT 14

Commissions

Competitive pressure has increased for merchant cash advance companies and alternative business lenders alike, but that has driven reseller commissions up instead of down. That means it's a great time to be an ISO. Among some of the jaw dropping compensation programs on display were Business Credit & Capital's 15% commission GOLD ISO program and Infinity Capital Funding's sky miles rewards.

According to Infinity Capital Funding's CEO Shlomo Bistritzky, ISOs can earn 2,500 sky miles for every $5,000 funded in addition to their regular commissions. That means one $30,000 deal could potentially earn you round trip tickets between New York and Shanghai. Not a bad bonus ...

Operation Choke Point

As the Department of Justice continues its campaign to cut off scammers and fraudsters from the payments industry through Operation Choke Point, many payment processors are worried that legal business transactions are under attack. At the center of the campaign are payday lenders operating outside the law.

As criminal investigations mount and subpoenas fly, banks and processors are feeling the heat. Anything high risk, even if it's completely legal, is believed to be a regulatory magnet. That begs the question over whether or not merchant cash advance companies and daily repayment business lenders are at risk. Whisperers on the exhibit hall floor claimed that at least one ACH processor was no longer accepting merchant cash advance companies as clients but it is uncertain if that was related to fears surrounding Operation Choke Point.

Stacking

While folks on one side claim stacking is here to stay, their opponents are preparing for war. Less than two weeks after Transact 14, at least one member of the North American Merchant Advance Association mailed out formal warnings to alleged perpetrators with the message that contractual interference would be grounds for a lawsuit.

At the conference itself, opinions varied. In the off the record conversations with funders in favor of stacking, there was an overwhelming sense of sureness that "seconds" had become a permanent fixture in the industry. Will they be proven wrong?

P2P Lending

Some veterans in the merchant cash advance industry are putting their money where there mouth is and participating in deals with their own personal funds. While syndication has become all the rage, those that aren't doing it are whetting their appetites with Lending Club. Peer-to-peer lending allows everyday individuals to invest in loans with contributions as small as $25.

Lending Club came up in a surprising amount of conversations at Transact 14, yet they were not exhibiting there. In an April 18th tweet, Sean Murray of DailyFunder described the experience of using Lending Club as pure ecstasy. Excited much?

SMALL STREAMS, BIG MONEY

Nontraditional revenue sources equal healthy futures

BY DALE LASZIG

The Greek philosopher Heraclitus said, "You cannot step twice into the same river. For as you are stepping in, other waters are ever flowing on to you." The same can be said of merchant cash advance: revenue streams flow continuously from multiple distribution channels. It's no secret that cash advances pay high commissions, but what about other revenue sources you hardly ever hear about? Some industry insiders view cash advance as an opener, a way to break the ice with a business owner who may need cash today and other products and services tomorrow.

While there are numerous ways to make money in the MCA business, I learned in interviews with industry leaders that adding residual streams is more about mindset than checklist. How willing are you to go the extra mile to truly understand a customer, and put together a sweet deal for that customer with a little help from partners and friends? Here's some expert advice on how to turn a single cash advance event into multiple lines of reoccurring revenue.

Shoot straight and have a plan

"MCAs have always been our bread and butter," said Chad Otar, Managing Partner at Excel Capital Management, "because they're simple, easy, and fast. But if you really want to be successful in this business, you can't just make calls randomly. You need to know who you're calling, and you need to have a plan.

Niche is very important right now. We like to think outside the box to the underserved industries and seasonal businesses. For example, we call florists around Valentine's Day and Mother's Day; two days that can make or break the year for a small to midsize shop. We help them get the capital they need to get inventory now and pay it off quickly."

Regardless of their needs or motivations, Otar believes most customers prefer to work with people who understand them and tell them the truth. "The most important part is qualifying them," Otar said. "Find out as much as you can about their business, their past experiences, and their plans before you make any recommendations. When you're ready to present the options, speak directly; tell them how it is. People respect the truth, even when it's something they don't want to hear. Tell them they need to have a plan for the capital – don't just use it to pay off other debts. If they're a serial stacker, get them on the road to recovery. We want to build sustainable partnerships with our customers and partners."

Understand your market

Tom McDermott, General Manager at asset based lender Borro, has observed many changes in non-bank financing over the past decade. "In today's post-recession economy," McDermott commented, "it's still a challenge for the small business owner to find working capital. Banks and traditional lenders continue to be restrictive, which creates an opportunity for Borro to be a resource for the small business owner who may be looking for capital to fix a problem or cash flow issue. However, we're not seeing the same sense of urgency in today's borrowers. In fact, we increasingly see people looking for capital for opportunities, such as buying inventory for cash, or acquiring a piece of property or equipment to expand their operations."

Jared Weitz, CEO of United Capital Source, is a hands-on CEO who manages a team of eight sales professionals and delves into every facet of the business: Marketing, acquiring, sales, and accounting.

"As a small business owner myself," said Weitz, "I can react quickly to the needs of my clients. If a merchant says 'I'd like a 3-to-6 month payment plan' then we know how to handle it or if they want a long-term plan, like 18 months, we have relationships that offer longer terms so we service that need as well. Some merchants like the flexibility and cyclical nature of credit card advances. Others prefer to take a fixed payment plan and budget around that."

Close one account, open multiple streams

Looking for a simple way to create reoccurring revenue? Begin with reoccurring customers. "We have a renewals team who introduces themselves the same day we acquire a new client and they maintain contact with our clients throughout the whole term of the advance," Weitz stated.

"We aggregate all of our own leads and data and for a small team we are very efficient. We're really focusing on growing our company out even more including our new division United Capital Payments, which handles credit card processing that we now offer. We try to switch the merchant processing and now even the payroll account so we save them money while we're providing financing."

United Capital Source also works with brokers and client service specialists who are looking to help out their own existing book of business. Weitz said, "When you're providing three or four different services to a merchant and you're being the most aggressive with your pricing the chances of their leaving are very slim. They get offers every day to lower rates on credit card processing or lower fees on payroll services or even give them a cheaper rate on financing. For us it's really about the relationship as well as offering really competitive pricing, and to a certain extent it's also about timing. That's why we invest real time in molding and training our people. We want them to keep the relationship, be personable, and understand the needs of the merchant."

McDermott, also a believer in cultivating customer relationships, commented, "Our sales people focus on the new customer and also maintain contact with all of their customers. We have a 65% rate of repeat customers; people who experience how easy and hassle free it can be to work with us will usually come back and ask about other services."

Think like a CEO

Isaac D. Stern is CEO at Yellowstone Capital, one of the original cash advance companies that attributes its exponential growth to a culture of innovation and robust partnership network. Stern gives his sales professionals the resources and freedom to be creative and entrepreneurial. "My philosophy is 'Your own business under my roof'," Stern said. "This is a partnership. If you win, I win. If you lose, I lose. We give you everything you need to be successful. What I also do with my team is lend them money so that they can participate in their own deals. It's a voluntary program and we make sure they are experienced enough to handle it. The end result is we are all working in the same direction and it doesn't devolve into that sales guy vs. underwriter dynamic.

We get deals that other people have declined; C paper, that's our specialty. We probably get 150 deals a day from ISOs, and that's on top of what we generate from our $500,000 per month online marketing campaign. We work closely with other MCAs, including Strategic Funding, OnDeck Capital, and Fast Business Funding. They fund our higher quality stuff and I am getting great feedback on the performance of our originations. I take pride in that.

I give my sales reps a system, administrative staff, and a strong referral network, so all they have to do is walk in, sit down, and start making money. They sell the merchant with everything they have. There's no salary, and no one's watching the clock. Fifteen hour days are the norm in this business. But if you're working 15 hour days and having fun then it's not really work, is it? And that's our philosophy at Yellowstone: work hard; play hard. We had everyone over last summer for a giant barbeque in my backyard."

Most ancillary revenue streams originate in referral networks that Stern called the "gold of our business." These networks can include customers, coworkers, friends, family members, and strategic alliance partners who specialize in an array of services.

"There are as many secret sauces as there are revenue streams," Otar noted. "It takes a blend of consultative selling and expertise to create the right product mix for each client. In addition to being our own ISO, we work with asset based lenders, UCCs, receivables, small SBAs, and others. Our referral network enables us to be a one-stop shop because we can leverage our partners' expertise in their respective financial programs. Having a diversified team of specialists gives us the flexibility to underwrite and fund many different types of deals, as well as the ability to choose our level of involvement in each of those deals."

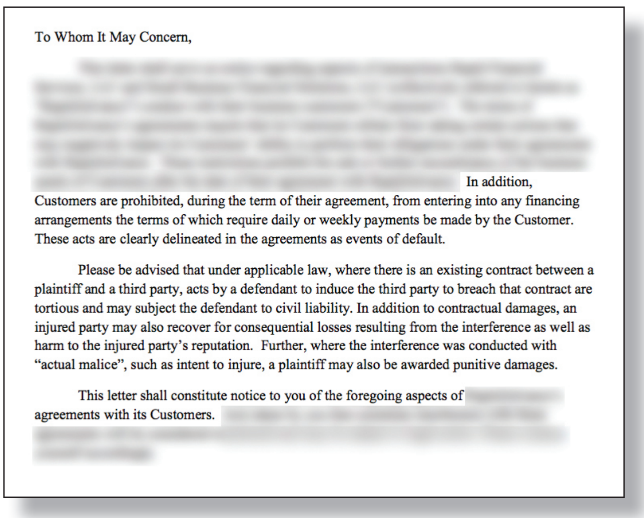
To paraphrase the Greek philosopher, we may never step into the same deal twice, but working together to build sustainable partnerships will give us, our partners, and our customers, a rewarding and profitable ride.

FUNDERS GO ON THE OFFENSIVES AGAINST STACKERS

As an industry civil war rages over the practice of "seconds", "thirds", and "fourths", some funders seek to bring the practice of stacking to its knees. A stack is a merchant cash advance or daily repayment obligation that is stacked on top of a business's existing one. Merchants that already have a carefully calculated daily drain on cash flow are laden with another one.

Funders that denounce the practice view it as endangering the merchant's livelihood as well as their own. It may be a breach of trust or ethics, but at least one funder is calling it something else, a willful intent to interfere with their contracts.

DailyFunder obtained a copy of a letter addressed in April that was meant to ward off funders believed to engage in stacking. The originator has been redacted.



To Whom It May Concern,

[illegible] In addition, Customers are prohibited, during the term of their agreement, from entering into any financing arrangements the terms of which require daily or weekly payments be made by the Customer. These acts are clearly delineated in the agreements as events of default.

Please be advised that under applicable law, where there is an existing contract between a plaintiff and a third party, acts by a defendant to induce the third party to breach that contract are tortious and may subject the defendant to civil liability. In addition to contractual damages, an injured party may also recover for consequential losses resulting from the interference as well as harm to the injured party's reputation. Further, where the interference was conducted with "actual malice", such as intent to injure, a plaintiff may also be awarded punitive damages.

This letter shall constitute notice to you of the foregoing aspects of [illegible] agreements with its Customers. [illegible]

With a line being drawn in the sand, will stackers begin to sing a different tune? Join the discussion on DailyFunder's forum at www.dailyfunder.com.

UPCOMING CONFERENCES

EXPONENTIAL FINANCE
June 10-11
Lincoln Center
New York, NY

LEADSCON
August 14-15
The Marriott Marquis
New York, NY

P2P LENDING & INVESTING
October 6-7
Sheraton New York Times Square Hotel
New York, NY

MONEY 20/20
November 2-6
Aria Resort & Casino
Las Vegas, NV

SMALL BUSINESS BANKING CONFERENCE
November 19-21
Trump National Doral Miami
Miami, FL

IS THE DATA YOU SHARE WITH YOUR LENDER SECURE? Taking a look behind the *alternative* curtain.

"Security is a process, not a product."
–Cryptology Expert Bruce Schneier

BY CHERYL CONNER

The current economy and the banking crisis has put a damper on traditional business loans, but entrepreneurs and growth companies have never had so many alternative choices. The newest March 2014 data from Bizz2Credit reports that banks approved only 18.8% of business loan submittals in February (however there is some good news in that the rate is a near 20% increase over the same time period in 2013).

Yet as bank loans continue to languish behind the 45% approval ratios in the era before Lehman Brothers crashed and other banks began closing, alternative lending has stepped forward to fill in the gap. New choices such as peer-to-peer lending, factoring solutions and merchant cash advances are advancing rapidly to keep new and growing companies on positive ground.

But are these alternatives safe? I'm not referring in this discussion to the appropriateness of fees and interest charged or compliance with securities and trade regulation. These are separate issues. Aside from those concerns, is the sensitive data you share and is the transaction technology you use to transmit payments to your lending provider keeping your money and your sensitive data secure?

By now we've all heard the nightmare stories of online transactions gone wrong, payment authorizations gone haywire and business information (and customer information as well, in the case of the Michaels and Target breaches) somehow falling into scurrilous hands as it ascends to the cloud.

These are issues no business can afford and, in worst cases, could even close your company down.

Before we begin this discussion, it's important to note that even the major banks are no stranger to security breaches. Some of the biggest data breaches involve the world's largest financial institutions. Why? Because the incentive for criminals to breach a major system is larger, with bigger dollars and more customer information involved. Human error is a factor as well, as some of the seemingly most secure organizations in the world can fall victim to a forgotten data certificate renewal or an ex-employee who continues to hold a system password.

However, new alternative lending programs can be in

some respects a bit of a Wild West, and it is vital to ensure that the program you choose is keeping your data secure.

And what about PCI DSS security? What is PCI DSS security, you may say? As reported by Wikipedia, http://en.wikipedia.org/wiki/PCI_DSS in 2009, The Payment Card Industry Security Standards Council, an independent and widely trusted organization, developed a proprietary security standard called the Payment Card Industry Data Security Standard (PCI DSS) to reduce the incidence of credit card fraud. The PCI standard dictates 12 requirements for compliance that ensure payment card transaction providers have an appropriate level of security in place.

PCI compliance is not required by federal law, however, multiple federal laws make reference to the PCI requirements and in at least two states (Nevada and Washington) PCI compliance has become a state law. Minnesota, interestingly, enacted a law in 2007 that prohibits organizations from retaining credit card data at all. (Do you remember the legal offices that used to send an invoice and asked you to send it back with your credit card information for them to keep in their files? Wrong, wrong, wrong—and also illegal in any state that recognizes PCI rules.)

"...no compromised entity has yet been found to be in compliance with PCI DSS at the time of a breach."

In an email interview, Laura Johnson, spokeswoman for the PCI Security Standards Organization, tells me that all five major credit card providers are PCI compliant, as follows:

"PCI standards apply to payment card data branded by one of the five founding brands, which means any entity that accepts, processes, transmits or stores account data from a PCI branded payment card should be applying PCI DSS for the protection of that data," she says. "However, PCI DSS doesn't apply to bank account data."

Some critics have argued that the full PCI standard (there are 800 pages of documentation) is too complex, and that even strict adherence provides in some opinions "only a security baseline," Wikipedia says.

However, according to Visa Chief Enterprise Risk Officer, Ellen Richey (also quoted by Wikipedia), "...no compromised entity has yet been found to be in compliance with PCI DSS at the time of a breach."

Do alternative lending companies meet PCI Compliance? I posed this question to several leading providers this week. In some cases, respondents noted that their organizations do not hold any credit card data within their server facilities, but simply pass their clients directly to the payment portals of their transaction processing partners, making the PCI compliance requirements a non-issue for them. They are correct. In one case, one of the fastest growing and most popular peer-to-peer lending organizations, Lending Club, flatly refused to respond.

I was highly impressed, however, by two of the organizations I queried. In the first case, Kabbage (www.kabbage.com), has admirably stated in the privacy policies on its company website that the company ensures that all of its transaction partners are PCI compliant. Way to go! Here's a great example of a company that has moved beyond simply noting they are "in the clear" and has taken the practical steps of doing all within their power to protect their customers' data and to give their customers full insight into the ways they have gone the extra mile to keep their data secured.

The second great example I encountered is Merchant Cash & Capital, (www.merchantcashandcapital.com, MCC) a fast-growing provider of business advance funding, a product that allows merchants to leverage their credit card sales towards financing. In a phone interview with President and CEO Stephen Sheinbaum he was highly open to discussing the importance of data security in the financial products his organization provides. Like Kabbage, MCC has gone above and beyond in holding themselves to a higher standard of security than is legally required.

"Most of our executives come from banking backgrounds, which is helpful, but we've grown our company up with the knowledge that maintaining data security is paramount to us all."

Said Sheinbaum, "Unofficially, we're holding ourselves to PCI-like standards. We think maintaining the security of data is essential, and critical to any business."

"We enforce clean desk and locked file cabinet policies," he reports. "Most of our executives come from banking backgrounds, which is helpful, but we've grown our company up with the knowledge that maintaining data security is paramount to us all."

"We see the more substantial companies in this space are taking these issues more seriously," he notes, "but as alternative lending progresses, I believe we'll see this area starting to be more regulated as well."

Sheinbaum notes that speed of funds is obviously important in alternative lending transactions, but security is vital as well. "People should definitely be doing their homework when choosing a lender."

While MCC is currently focused on funding through merchant cash advances, Sheinbaum reports the company expects to be launching additional new lending products in the near term as well. "We are experiencing hyper growth, and much of it is because of new technology and distribution channels we've rolled out to get approvals into merchants hands as quickly as possible without sacrificing the integrity of our underwriting process," he says.

In the Wild West of alternative lending, I give strong kudos to the organizations such as Kabbage and MCC who are voluntarily taking more steps than required to ensure their customers' money and data is safe.

In a nutshell, when it comes to transaction and data security, I would like to share the advice of security expert Jon Orwant, as reported in O'Reilly's OpenP2P.com: In any organization, small or large, you shouldn't look for security to be assured by a chunk of software or hardware alone. Proper security is a process, he notes, which means developing an understanding of how data flows through your own organization as well as through the organizations of your lending partners so you can enforce the policies and enact the safeguards to "keep your data in the hands of Alice and Bob, but not Eve."

And here are some final words to the wise to alternative business loan customers: Be careful as you select a lending partner. Weigh out all aspects of the funding providers you're considering to ensure that every aspect of your funding arrangement—in addition to speed of funds and the rate of interest—will prove to be a good deal.

Cheryl Conner is a communications expert whose ongoing columns on business appear in the Entrepreneurship channel of Forbes.com. Her entrepreneurial stories have also been published in WSJ, Huffington Post and Yahoo News. Additional reporting for this article provided by writer and editor W. Craig Snapp.

THE RETAIL INVESTOR: Will the Little Guy Decide Alternative Lending's Fate?

BY SEAN MURRAY

When an industry booms, imaginations run wild. In alternative business lending, the unabated evolution of non-bank financing has felt more like a revolution. Lending is not evolving, it's being overthrown, gutted, and replaced with an entirely new system. This is an age of empire building, an era filled with modern day Carnegies, Rockefellers, and Vanderbilts. The concept of sitting inside a bank to apply for a loan and waiting several months for a response is poised to become part of ancient American folklore, an absurdity that may or may not have existed in a bygone simpler time.

When I was your age, I used to walk 5 miles barefoot uphill in blinding snow storms to get to a bank and apply for a loan. We didn't hear a word back until it was halfway through summer…and we counted ourselves lucky back then!

But the rising new world order of lending is susceptible to even greater disruption. What seems like a period of methodical and unstoppable growth could be thrown for a loop all over again. Industry insiders speak of many dangers, the threat of regulations, future economic downturns, and rogue actors that skirt generally accepted best practices. They're all worth keeping an eye on, but it's the blind spots that should keep you up at night. Does another outside force have the power to change everything?

The Retail Investor

Until now, the alternative business lending industry hasn't really encountered retail investors. Syndicates (wealthy investors that participate in merchant cash advances) have been the closest thing thus far and they paved the way for change in fashions many folks didn't notice.

In the immediate aftermath of the financial crisis, trust waned between the companies that funded small businesses and the brokers that originated the applications. To bridge the gap, brokers offered to "participate" in the deals they sold as a token of good faith. By sharing in the risk of the deals themselves, both parties were aligned in the goal of doing nothing less than good business.

As syndication grew, so did the appetite. There was a period when funders called all the shots and the rest of the industry fell in line. That oligarchy crumbled as brokers and account reps essentially became funders of their own. A power shift took place almost overnight and with that, a million different ideas that made sense or made none at all, were unleashed into the market. Factor rates shot up and plummeted. Repayment periods doubled and halved. Commissions were all over the place. Some pegged stacking as the next frontier of opportunity while others saw it as a step towards swift federal regulation. Nobody was in control but the industry grew. And it grew and it grew some more.

The debate over stacking, though bitter, has been relatively tame. It's a debate amongst peers. As different as some beliefs may be, everybody's playing for the same team.

Enter the retail investor. Syndicates typically wield

"Lending is not evolving, it's being overthrown, gutted, and replaced with an entirely new system."

less capital than funders, but on the low end, that could be hundreds of thousands or tens of thousands of dollars, and look at how much change they wrought. With peer-to-peer lenders such as Lending Club or Prosper, everyday retail investors can contribute as little as $25 into a loan. With such low financial barriers to entry, peer-to-peer lending allows virtually everyone to become a funder. In 2014, the average joe is a funder.

What once used to be discussed in board meetings is now being discussed at the dining room table; Interest rates, debt-to-income ratios, default rates, all of it. The masses have gained an entirely new perspective on consumer lending. There's a growing appetite for knowledge on the subject and questions and ideas are

"With such low financial barriers to entry, peer-to-peer lending allows virtually everyone to become a funder."

popping up that may never have otherwise.

In Peter Renton's online Lend Academy forum, peer-to-peer loan investors are devising tax strategies and arguing about whether levels of literacy can predict defaults. Once upon a time there were bankers and there were consumers. Now the consumers are also bankers. The very same folks that decried high interest rates as predatory have had their eyes opened to the risks associated with them. The average joe is developing an appetite for F and G rated loans, the riskiest loans on the platform, but also the ones that charge the highest rates. Some wish it were possible to charge even more to applicants that don't even qualify to be on the platform. They smell opportunity where they never imagined they would. It's like the universe has been flipped on its head.

"To an extent, alternative business lenders are not that much unlike the banks that preceded them. Nobody on the outside really understands how they work."

Such a catastrophic shift has not yet come to alternative business lending but it will. Peer-to-peer lenders are just now starting to test the waters there, Funding Circle to name one. It is the merchant cash advance companies that will likely be left vulnerable. Some have convinced themselves that the greatest threat to the status quo is government. While the feds breathe fire when stirred, the retail investor is a flood that can't be stopped.

They come in many forms, but it is the IPO that will bring them forth to business lending. Folks speculate that Kabbage, OnDeck Capital, and CAN Capital are on the short list to become public. When and if that does happen (and it doesn't necessarily have to be one of those three), the power to spur change or set best practices will be redistributed from funders, brokers, and syndicates, to millions of average joes nationwide. Commissions will rise and fall at the behest of shareholders. Conversations about stacking will be had at bars, family barbecues, and on stock forums.

Online communities like Investors Hub will breed new ideas about merchant cash advances and business lending in ways no one has even thought up yet. Stock analysts will want to know it all and rate companies based on every perceived opportunity and threat.

To an extent, alternative business lenders are much like the banks that preceded them. Nobody on the outside really understands how they work. That will change when everybody and anybody has an opportunity to share in their financial success. What a world it will be to talk about payment splits, stacks, and ACH processing with retail investors.

Embrace the Zeitgeist brothers and sisters. This is the age of empires and through lending a chapter in human history will come to a close, one where credit was controlled by a few, and misunderstood by all. Though some lenders will rise like Carnegie, Rockefeller, and Vanderbilt, they will be shaped and influenced by the one guy no one saw coming, the retail investor.

Sean Murray is the Chief Editor of DailyFunder and an 8-year veteran in the merchant cash advance industry. He regularly blogs about his experience on www.MerchantProcessingResource.com.

The Electronic Transactions Association played host to the Transact 14 convention in Las Vegas April 8-10. Leaders from the payments industry met to discuss the state of the industry. (Top) The Priority Payment Systems party at Mix atop THEhotel gave guests a stunning view of downtown Las Vegas. (Left) Noah Breslow and Paul Rosen of OnDeck Capital delivered this message on the exhibit hall floor: we actually want to lend to small businesses. (bottom right) Jeanna Searcy and Celine Romanus of CAN Capital.

(Top) Seth Broman (Merchant Cash and Capital), Sean Murray (DailyFunder), Matthew Washington (Fora Financial), Michael Hollander (Next Level Funding), and Andrew Mallinger (Fora Financial) at Minus5 Ice bar. (Right) Mitch Levy (AmeriMerchant) and Sean Murray (DailyFunder) at Minus 5 Ice Bar. (Above) The DailyFunder was a media sponsor for Transact 14.

(Top) Seth Broman of Merchant Cash and Capital shows off CAMS on the exhibit hall floor. (Left) More than 200 vendors displayed their wares on the exhibit hall floor to an audience of more than 3,000 payment industry professionals.

The Trade Show

(Top) Michael Hollis, Heather Francis and Andy Roberts of Merchant Cash Group encouraged visitors to their booth to try their luck at slots. (Below) The second issue of the DailyFunder magazine hit the stands at Transact 14. Copies went quickly.

DIRECTORY OF ADVERTISERS

Yellowstone Capital
855-972-2748
iso.yellowstonecap.com

United Capital Source
855-933-8638
unitedcapitalsource.com

Merchant Cash Group
866-610-6569
www.merchantcashgroup.com

Meridian Leads
877-730-4500
merchantfinancingleads.com

MCA Track
www.mca-track.com

StreetWide Asset Recovery Group
732-217-3445
www.streetwiderecoveryinc.com

Singularity University
singularity.org

Capital Stack
888-STACK-10