The sugar rush may be over for the online lending sector, as 2017 is starting to look a lot like 2016, which saw industry angst after layoffs, scandals, and financial underperformance.

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Lending Club, reeling from a data-tampering scandal that triggered the ouster of company CEO Renaud Laplanche, saw loan originations fall 23%, to $1.99 billion in the fourth quarter of 2016 and has seen its stock price move sideways ever since.

Chicago-based online lender Avant shed workers in 2016, reportedly

CAN ALTERNATIVE DATA SOLVE ONLINE LENDERS’ ‘ALGORACISM’ PROBLEM?

By Tim Lloyd

A March 2017 letter written by Congressman Emanuel Cleaver, II (D-Mo.), to Consumer Financial Protection Bureau Director Richard Cordray raises fresh concerns about “algoracism” tainting the credit-risk-scoring models used by online lenders.

Rep. Cleaver’s suspicions draw heavily from a 2016 Harvard Business School paper titled the “State of Small Business Lending,” which addresses digital disruption’s impact on regulation. Cleaver’s letter highlighted five predatory practices cited by the HBS paper as pervasive in the “Wild West” of online lending and alleges that risk-scoring algorithms may be designed to discriminate against minority-owned, small business borrowers.

Minority-owned businesses comprise roughly 15% of the 28.8 million small businesses in the United States, according to a 2016 Small Business Administration report.

Beyond the prevalence of high costs, double dipping, hidden fees, misaligned sales incentives and stacking, the HBS paper opines that new algorithms could “create unfair or discriminatory access to credit.” This problem disproportionately affects black, Hispanic and women-owned businesses, in addition to entities that operate in low-income neighborhoods.

Biased algorithm design can occur if engineers code data correlation parameters with attributes that make inadvertently discriminatory assumptions, which could be violating the Equal Credit Opportunity Act. ECOA prohibits creditors from discriminating against borrowers on the basis of race, color, religion, national origin, sex, marital status, age or because they receive income from a public assistance program.

But it’s difficult to identify biases in fintech credit-scoring models due to regulatory uncertainty about lenders’ obligations.

STATE OF THE MARKETPLACE LENDING SECTOR

By Brian O’Connell

(Note: This is the first in a two-part series on the future of marketplace lending. Part 2 will appear in the next Alternative Lending Report.)

The sugar rush may be over for the online lending sector, as 2017 is starting to look a lot like 2016, which saw industry angst after layoffs, scandals, and financial underperformance.

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EDITORIAL

ADDRESSING THE LACK OF TRANSPARENCY IN SMALL COMPANY LENDING

By Steven Dresner

People who take news reporting seriously consider the “Five W’s” principles to live by. According to the Five W’s, information can only be considered complete if you’ve answered the questions of who, what, when, where, and why. And so I thought it would be fitting to introduce you to The Alternative Lending Report by answering these questions.

Who’s the publisher? DealFlow Financial Products (a/k/a “DealFlow”), is the publisher of The Alternative Lending Report. As a company, we have considerable experience providing news, information, and analysis across a variety of deal markets. Since 2003, our team has worked to make capital markets more efficient by offering unique insight to thousands of clients of our publications, events, and database services.

If you’re a lender, broker, or service provider, we’re working for you – and The Alternative Lending Report is meant to serve as your trade publication.

What does the report cover? The Alternative Lending Report is dedicated to covering the small business lending ecosystem including alternative investment structures, online and marketplace lending, and non-bank financing structures such as factoring, invoice financing, merchant cash advance, and revenue-based financing. As the flag on the cover of this report suggests, we’re focused on innovations in finance and technology, legal and regulatory dynamics, and strategy within the alternative lending segment.

Regarding the borrowers we’ll cover, if you’ve answered the questions of who, regarding the borrowers we’ll cover, there’s very little transparency in this market. Without government-mandated loan reporting, or public aggregation of data, there’s simply not enough information for people to make good business decisions.

Our call-to-action at DealFlow has always been to make markets more efficient through information and data. That’s what we’re aiming to do in the small company lending segment.

What’s our publishing frequency? Our first product, Small Business Lending Daily, is a free electronic newsletter that’s published Monday through Friday and delivered to your inbox. We cover a broad swath of topics in our Daily email such as “traditional” bank lending and the alternative lending segment would be useful to our readers.

In the meantime, we hope to keep an open channel for your feedback. As we enhance our website, new information will be updated daily on SmallBusinessLending.io. If you’d like to subscribe to the report, call us at (516) 876-8006.
Another week, another RICO lawsuit between New York cash-advance lenders and financiers.

Brooklyn-based Capital 7 Funding claims former business partners stole more than $1 million over the last year in a shell game that funneled money to phantom individuals and accomplices. Capital 7’s lawsuit alleges Burgis Sethna and his Wingfield Capital Company siphoned off the money through fake customers and diverted the funds for personal use as well as kickbacks to accomplices who posed as borrowers. Prestige Investment Associates and First Choice Payment Systems, companies allegedly controlled by Sethna, are also named in the 48-page complaint (see complaint: bit.ly/2qoPqou).

Capital 7 says it and Wingfield agreed to invest $2.5 million each for the creation of 3 Leaf Capital, which would provide small businesses with merchant cash advances in exchange for a cut of their daily credit card receipts. Instead, Capital 7 says it never saw any money out of the 3 Leaf arrangement. Its investment was used “as seed capital” for a fraudulent scheme, the company says.

“The defendants orchestrated an ongoing shell game through which they identified a potential customer that, in reality, was simply an alter ego of Defendants or a co-conspirator, transferred money to the bogus customer, and then split the funding proceeds with the bogus customer without any intention of returning any proceeds to 3 Leaf,” the complaint states. In other examples of fraud claimed in the suit, the defendants allegedly made loans to legitimate customers, then transferred any payments to accounts under their sole control.

According to the suit, 3 Leaf Capital was set up as an LLC in November 2015, with an eye toward making MCAs under $500,000. The complaint claims defendants never provided their agreed-upon investment of $2.5 million, drawing exclusively on the infusion from Capital 7, instead. By October 2016, as Capital 7’s demands for a full accounting intensified, Sethna allegedly removed Capital 7 as signatories to the partners’ bank accounts and shut off their access to the business, threatening Capital 7 representatives with trespassing.

Capital 7 also claims Sethna wrote checks off a 3 Leaf account to pay for “phony independent sales organization fees” that went to a phantom broker, and used some of the funding that had supposedly gone to loans to make bogus repayments. Sethna refused to disclose the broker’s identity, Capital 7 says, claiming all ISO fees went to Sethna or his own business. Each ISO fee amounts to 10 points on every MCA outlined in the suit.

Fake MCA repayments were designed to prop up 3 Leaf and create the appearance of legitimate business activity, according to the suit. In other cases, accomplices with actual businesses would receive an MCA and quickly default. The accomplices would then get a kickback, the suit alleges. Capital 7 also accuses Sethna of altering MCA agreements with borrowers so his own business, Wingfield Capital, would receive the repayments, not the 3 Leaf partnership.

Such sham payments were made to 3 Leaf from phony borrowers “in order to conceal the extent of their scheme,” Capital 7 says in the suit. Capital 7 also accuses Sethna of altering MCA agreements with borrowers so his own business would receive repayments, not the 3 Leaf partnership.

MCAs were made mainly to small business owners in the New York boroughs, although the suit lists borrowers scattered throughout the country. Most of the MCAs were made for less than $130,000 and according to the suit many were under $50,000.

While overseeing 3 Leaf, Sethna allegedly hired dozens of employees “none of whom ever were able to close a sale or attract a customer,” the suit says. “Defendants never intended these employees to make any sales but rather saw them as potential sources of income.”

Sethna “extorted money from 3 Leaf’s employees by threatening violence against them and their loved ones if they would not turn over a portion of their wages to Sethna,” Capital 7 further alleges.

Sethna and a 3 Leaf customer named in the suit as Eddie Batiz allegedly threatened to beat 3 Leaf employees with a golf club in July 2016 if the employees didn’t stop asking about payments due.

Brooklyn attorney Gary Tsirelman, the lawyer for Capital 7, said he does not know if criminal charges were ever filed in the threatened assault alleged in the suit. He declined to comment on the case itself, saying while he hoped for a settlement he believes that outcome “is unlikely.” Tsirelman said defendants have yet to respond to the suit filed April 20.

As of April 28, every page of Wingfield Capital’s website displays only a “cash application” form. There is no information on the website about the company, its officers or how to contact them.

Capital 7 is suing for treble damages, plus costs.
A research paper, "When Markets Quake: Online Banks and Their Past, Present and Future," written by two Harvard Kennedy School fellows, Marshall Lux and Martin Chorzempa, describes how online lending is transforming the consumer loan segment. In this interview with The Alternative Lending Report, the authors discuss how the industry is also disrupting loans to small and medium-sized businesses. Lux is an advisor to Boston-based Thomas H. Lee Partners, a private equity firm, and Chorzempa is a visiting fellow at the Peterson Institute for International Economics, a Washington, D.C.-based think tank.

ALR: In a general context, what’s the impact of online lending?
Lux: Probably, the most dramatic area you see is its effect on the mortgage space, where seven of the top 10 mortgage lenders are online lenders. If you look at the impact they’re having on the customer experience, in the past it would take 60 days to get a mortgage. And now you can do it in as little as 15 days. People are striving for 10 days. I talked to a CEO of a financial services company yesterday, and they’re spending $3 billion on technology of which $1 billion will be spent on online lending.

ALR: Online lending is also exerting a major influence on small business lending. How so?
Chorzempa: It’s very similar to what we’re talking about in the consumer space. These technologies are making it economical to lend money to populations that didn’t make sense for banks in the past. It costs a bank the same for a $10,000 small business loan as it does for a million-dollar loan. What’s interesting now is that companies are generating a lot of data that can be crunched, without paying high salaries. People can look over each file individually and that’s changing the game. In the past, banks weren’t particularly interested in small business lending.

ALR: So how is it transforming the industry?
Lux: Financial institutions are recognizing that there is simply a better way to serve customers. Millennials, in particular, expect a different level of service from an online experience. Banks are going to have to develop these models themselves, which is difficult, or find ways of working together.

ALR: You also suggest that online lending is having an indirect effect on lending from traditional banks. In what ways?
Lux: I think the expectation for quality service, speed and being customer-centric will increase. Increasing service quality will be a much bigger differentiator.

ALR: Small businesses, particularly in their fledgling years, were denied loans by most banks. How are online lenders filling the void?
Lux: I think that while a number of banks advertise small business as the cornerstone of their strategy, they’re simply not. The people who are lending [money for] pizza ovens were community banks. It was basically artisanal lending. They knew the pizza owner’s father. Online lenders now have better algorithms and are more sophisticated in vertical industries. Some specialize in jewelry companies and others in restaurants. They do more innovative practices with their money.

ALR: How do online lenders minimize risk?
Lux: It’s pretty risky to lend to start-up businesses. If a business has been operating for a year, that’s a pretty good time frame. Online lenders take the time to know their customer. These guys know jewelry companies and restaurants and know a good restaurant from a bad restaurant. They’ll visit them, ask the right questions and use the right algorithms to figure it out.

ALR: You suggest in your white paper that new regulations may be appropriate. Concerning commercial lending, what do you recommend?
Chorzempa: We don’t think this is an unregulated space. We have enormous regulatory apparatus. Any bank is regulated, depending on what it does, by the FDIC, OCC, the Fed, and the state in which they operate as well. We don’t think there are such large holes in the current regulatory framework.

ALR: Your paper also looks into the future. What more could be done with online lending for small and medium sized businesses that isn’t being done currently?
Lux: If I were them, I’d team up with community banking associations and affinity groups. They could also team up with the SBA and with all sorts of trade groups. It would be marvelous to provide the back-office services for community banks and that’s beginning to happen. They might also team up with banks themselves. There’s a ton of room for entrepreneurship.

The complete whitepaper, “When Markets Quake: Online Banks and Their Past, Present and Future” can be found at this link: bit.ly/2oTR6W1
LIVE OAK CUTS RISK, WOOS WOMEN IN BUSINESS

By Steve Evans

Live Oak Bank has seemingly tapped into a winning formula for small business lending by reducing risk while elevating their corporate image.

One of the Wilmington, NC bank’s latest strategies includes launching new loan products to women-owned businesses just as National Women’s History Month was getting underway. As a result, the bank enjoys a boost in community relations while underwriting loans with minimal risk: Live Oak lends to women with federal contracts, with guarantees through the SBA.

Small business federal contractors must give certain preferential treatment to women-owned businesses. Because the loans are backed by the SBA, with contractually obligated payments from the government to the business, Live Oak has whittled its risk on these products to a minimum.

SBA 7(a) loans are three times as likely to be approved for women-owned companies, says Live Oak managing director Erin Andrew. “This is the fastest growing segment of our business,” she says.

Already 50% of Live Oak borrowers are women-owned businesses, says Patrick Kelly, Live Oak’s VP of strategy, and the bank is looking to do more.

More than 9.8 million women-owned businesses operate in the U.S. today, up nearly 27% since 2007, according to data from the U.S. Census Bureau. Women-owned companies generate $1.4 trillion in annual receipts.

Before joining Live Oak, Andrew worked in the Women’s Business Development Center at the SBA.

“When I came to the SBA in 2010, women had less than 5% of all federal contracts,” she says. “Today, women have exceeded that goal, but women can do even more work with the federal government if they have the financing support they need.”

Live Oak is also pursuing small business owners in general who are trying to break into federal contracting, Kelly says. “There’s explosive growth in it particularly in cybersecurity. If they are bidding we can provide a line of credit and a mobilization loan, a bridge loan. They pay us back over typically 12 months.”

Mobilization and bridge loans are easy-to-sell products since it typically takes 45 days to three months from the date a contract is awarded to a small business until the Fed pays on the first invoice. The bank’s risk is minimal since borrowers repay Live Oak straight from their receivables, which are predictable based on the contract with the government. The Fed requires third-party vendors to file with a liable bank-controlled account.

“Obviously it’s not lost on me there’s talk of a possible government shutdown, so there can be risks,” Kelly says. “However, historically the full faith and credit of the federal government means something. If you land that contract you have a pretty reasonable expectation of doing well with that contract.”

Live Oak also promotes purchase order financing, debt financing and helps with M&A deals so women-owned companies can expand to a size that qualifies them for certain federal contracts.

The bank reported first quarter net earnings in April of $6.1 million, up from $4.7 million for the year-ago period. Overall loan originations are up 65% year-over-year, fueled primarily by small business borrowing. Total nonperforming loans decreased to $22.5 million in the first quarter of 2017 from $23.8 million at the end of 2016.

In guidance to investors, CEO James Mahan said the bank is on track to hit its goal of $1.8 billion to $1.9 billion in loan originations this year.
ONLINE LENDING ASSOCIATIONS

Industry Trade Groups Targeting Fintech and Education

By Brian O’Connell

In the last year, three separate online lending trade groups have opened for business – the Coalition for Responsible Lending (CRBF), the Marketplace Lending Association (MLA), and the Innovative Lending Platform Association (ILPA) (which just announced plans to morph into a new trade group with the CRBF). And those are just the new kids on the block. Already in existence are the Responsible Business Lending Coalition, which got its start last year. The UK-based Peer-to-Peer Finance Association and the Online Lenders Alliance have been around for years.

Here are the main players:

**Peer-to-Peer Finance Association (www.p2pfa.info)**

**Key Members:** Funding Circle, Landbay, MarketInvoice, RateSetter, Zopa.

**Mission:** Founded in 2011 by Zopa, FundingCircle and RateSetter as a self-regulatory body to promote high standards of conduct and consumer protection.

**Innovative Lending Platform Association (www.innovativelending.org)**

**Key Members:** OnDeck, Kabbage, CAN Capital, Breakout Capital, PayNet.

**Mission:** Trade organization representing a diverse group of online lending and service companies serving small businesses.

**Marketplace Lenders Association (www.marketplacelendingassociation.org)**

**Key Members:** Lending Club, Prosper, Affirm, PeerStreet, Avant, Upstart.

**Mission:** To promote a transparent, efficient, and customer-friendly financial system by supporting the responsible growth of marketplace lending, fostering innovation in financial technology, and encouraging sound public policy.

**Online Lenders Policy Institute (mplsummit.org/the_institute.html)**

**Key Members:** Cross River Bank, Boston University’s Center for Finance, Law & Policy, RocketLoans.

**Mission:** To ensure consumers benefit from the lower cost of credit and increased, convenient access to capital provided by marketplace lending while supporting consumer protections and a strong financial system.

**Common Goals**

While each group varies on the initiatives they’re pushing, the common goal is to help consumers and businesses find easier ways to obtain financing.

For example, the ILPA is currently touting the SMART Box Initiative (Straightforward Metrics Around Rate and Total Cost), a way for small businesses to easily compare prices among different online lenders.

In an email to The Alternative Lending Report, the ILPA says that “new members are encouraged to adopt the SMART Box, which allows those members to further empower their small business customers to better assess and compare finance options.”

In terms of leading industry issues, the ILPA cites fintech as both an opportunity and a challenge.

“Financial technology companies are an important and growing source of capital for small businesses,” the ILPA states. “The technological innovations championed by fintech companies increase efficiencies in the payments, lending, and funding processes, while also expanding access to capital for underserved small businesses. However, existing policy and regulatory frameworks never contemplated an internet- or mobile-based economy and are failing to keep pace with such innovation.”

Trade group member companies aren’t exactly in agreement with that sentiment, citing more business-focused concerns like improving customer service.

“The biggest issue in our space is how to scale to service more customers,” says Brett Crosby, COO and co-founder of PeerStreet, a real estate loan marketplace.

**New Sheriff in D.C.**

Regulatory uncertainty is another big issue for companies, and is a big focus for online lending trade groups.

“Regulation that protects consumers is obviously important,” Crosby notes. “It can also be a valuable part of creating defensibility for companies that invest in figuring out a way to thrive within their regulatory framework.” The problem, Crosby says, is when there’s uncertainty around regulations. “That adds challenges to building businesses and helping more people.”

“Fortunately, we’re getting a lot of help on Capitol Hill to simplify the framework for startups and foster more innovation in fintech, and that’s something I generally applaud.”

Another main mission for trade associations is educating the professional community on the best paths forward.

“Education and outreach is still a challenge for many online business lenders,” says Eyal Lifshitz, CEO and founder of BlueVine, which provides working capital through advances on outstanding invoices.

“There’s a big need for the industry to reach out to more business owners and to explain the benefits of different financing solutions to them,” Lifshitz explains. “Banks remain the preferred source of financing for many entrepreneurs when available, but that’s changing. Online lending is growing dramatically and getting more sophisticated thanks to high-level data science and technology.”

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**NatWest Entices SMEs With Three-Minute Loan App**

NatWest, which has over $5 billion earmarked for SME financing, says it’s looking to position itself in competition with alternative lenders through a new platform that will give small business borrowers a decision on their loan application in three minutes. bit.ly/2oVnBHt

**Experian Aims to Make Debt Collection Easier with Two New Products**

Experian has launched two solutions, eResolve, and PowerCurve Collections, to give consumers an easier way to resolve their debt and to streamline the management process for businesses. eResolve is a self-service platform to help consumers negotiate and resolve past due obligations while PowerCurve Collections brings together data, decisions, and the collections workflow in a single, unified system. bit.ly/2oV9C11

**Traxpay Reinvents Itself as a Digital Lender**

After the failure of Traxpay’s original B2B payment network that worked with companies like SAP-Ariba and TradeShift, they are now pivoting to become a bank platform over pure payment software. Looking to add value by connecting ERP systems and networks to banks, they are currently being implemented by NordLB’s factoring business, to digitize the company’s manual-sheet invoice process. bit.ly/2p5LZ4w

**Thrive Platform to Power Business Lending for Horizon Community Bank**

Fintech company Thrive, which is developing a lending infrastructure tool focused on automation and real time risk management, announced a multi-year licensing agreement with Horizon Community Bank, allowing the Arizona-based subsidiary of Horizon Bancorp to use the company’s proprietary cloud-based lending technology. bit.ly/2p5ZroI

**PayPal’s Small Business Lending Tops $3B as Company Launches New Tools**

After topping $3 billion in financing to over 115,000 businesses worldwide, PayPal announced its plans for a new set of tools for small businesses labeled the “Business in a Box.” This “toolbox” will allow merchants access to a set of curated partners, including ecommerce platform WooCommerce and accounting firm Xero. These options will be available both a la carte or full-service. bit.ly/2pIdRiU

**Cathay Bank Introduces New Loan Program for Small Businesses**

Los Angeles-based Cathay Bank announced a new Smart Micro Loan program aimed at providing credit lines to small businesses. Collaborating with local organizations to craft the program including the Asian Pacific Islander Small Business Program, PACE Finance Corporation and SDC Small Business Finance, businesses that sign up will be required to open a business checking account with Cathay to “build a good financial relationship” with the bank. bit.ly/2qFisNM

**LexisNexis Small Business Credit Risk Tools Now Available**

Data analytics firm LexisNexis released two updated small business assessment products: a new and improved 2.0 version of its Business InstantID tool and an updated Small Business Credit Score product. The new products help meet know-your-customer and ultimate beneficial ownership requirements, allowing the ability to credit-risk assess small business clients through nontraditional data sources. bit.ly/2pI43p4

**Lending Technologies Corp. Introduces Leads2Lend CAM Solution**

B2B fintech firm Lending Technologies Corp. announced a new marketing platform for lenders called Leads2Lend, providing a customer acquisition tool to help lenders engage with new customers. Agents can onboard clients, download leads, expedite credit decisions and facilitate loan construction using the technology. bit.ly/2pxgEei

**nCino Enabling Financial Institutions to Take on SME Loans**

Cloud banking firm nCino is broadening its Bank Operating System to give financial institutions a customer-friendly digital experience by adding online application, underwriting automation, and e-signatures alongside integrated document prep tools. bit.ly/2oY8c9y

**Powerlytics Expands Data Analysis for Avant**

Data analytics provider Powerlytics will provide income insights and data for online lender Avant in order to streamline their application process. By utilizing the zip+4 level of the Powerlytics platform, Avant can speed up income verification, while the data will be used to augment Avant’s existing automated income verification systems. bit.ly/2p98MNy3

**Dianrong is Preparing for Full Blockchain Integration**

The newly appointed CFO of P2P lender Dianrong announced plans to switch much of the company’s services to a blockchain. In a statement, Yawn Cui said the company’s focus on transparency and compliance made a natural fit for a widespread use of blockchain technology. bit.ly/2oY2QuU
U.S. Small Business Borrowing Stalls in March

Borrowing by small U.S. firms stalled in March, as business owners remained cautious about investing amidst policy uncertainty, data released in early May showed. The Thomson Reuters/PayNet Small Business Lending Index for March registered 134, down 1% from last March. The index was up 4% from February, which had four fewer working days. bit.ly/2qyKGwC

Colorado Moves to Dismiss Suits Seeking Bank-Originated Loans be Exempt from State Laws

Banks are asserting that Colorado’s lending laws are preempted by federal banking statutes. In the Colorado case, the administrator moved to dismiss the banks’ actions on several grounds. First, the administrator contends that the lawsuits do not present a federal question and thus fail to establish subject-matter jurisdiction. While a federal preemption defense to the enforcement of state lending laws generally does not present a federal question, the Supreme Court has recognized a “complete pre-emption” exception to that rule where a national bank raises the defense. bit.ly/2qqgpfM

McHenry Working with Senate Democrat on New Fintech Bill

Rep. Patrick McHenry (R-N.C.) said in a speech at the American Action Forum in Washington that he is working with a Senate Democrat on a revised “permanent beta test” bill to prod regulators to foster fintech innovation. McHenry introduced the Financial Innovation Act in the House in 2016 for what he said were discussion purposes. It did not advance last Congress. bit.ly/2qCrHkj

VPC Specialty Lending Investments Reports Disappointing 2016

VPC Specialty Lending Investments PLC (LSE:VSL.L) released their 2016 annual results last week and according to Chairman Andrew Adcock, results continued to disappoint. Shares in the specialty investment fund that invests in a variety of online lending assets continue to trade at a significant discount to net asset value. AdCock commented on the fact that balance sheet assets had performed better than marketplace loans. bit.ly/2qC3lH9

China Rapid Finance Announces Pricing of IPO

China Rapid Finance (NYSE:XRF) announced that its initial public offering of 10,000,000 American depositary shares was priced at $6.00 per ADS, with a total offering size of $60 million. Each ADS represents one Class A ordinary share of China Rapid Finance. Morgan Stanley, Credit Suisse and Jefferies are acting as joint bookrunners for the offering. bit.ly/2pGe8CV

U.S. Bank Survey: Times Are Good for Small Business Owners

Business owners are more optimistic than any time in the eight-year history of the U.S. Bank Small Business Annual Survey. Owners report revenue growth, preparing for capital investments and modestly adding staff, even though 61% report having difficulty finding quality employees. “Business owners are gaining confidence in the economy. For most owners, the recession is long over and now they’re making plans to expand,” said John Elmore, vice chairman of Consumer and Business Banking at U.S. Bank. bit.ly/2pVX2SD

Funding Circle is Looking to Build its U.S. Capital Markets Team

Funding Circle is currently advertising for a number of capital markets jobs, all based in San Francisco. Among the listed jobs is a newly created Head of U.S. Capital Markets role. A Funding Circle spokesperson told AltFi that Sachin Patel is now running capital markets for the firm globally. Patel is reportedly looking to re-model the U.S.
CFPB to Hold Hearing on Small Business Loans

The Consumer Financial Protection Bureau said that it will hold a public hearing May 10 in Los Angeles on small business lending, an area likely to spark concern from bankers. The consumer agency typically releases proposed rule makings on the same day as a field hearing. bit.ly/2purS3a

GAO's Fintech Report Highlights Data Security, Lack of Clarity on Regulatory Oversight

The study, which identifies four sub-sectors for the industry — marketplace lenders, mobile payments, digital wealth platforms and distributed ledger technology — and the risks involved with each, comes one year after Congress requested an update from the Government Accountability Office on the fintech industry. The GAO last released a report on fintech in 2011, but legislators last year asked for updated guidance, since the industry was largely made up of peer-to-peer lending in 2011 and has since expanded. bit.ly/2p6JaAX

CashCall Sues Attorneys for Malpractice, Claiming $500 Million in Damages

CashCall has sued law firm Katten Muchin Rosenman and a KMR partner for malpractice, claiming damages of more than $500 million, according to court documents. The complaint contends the law firm convinced CashCall to partner with a tribal lender to avoid state lending laws. Katten’s spokeswoman said the claims by CashCall are without merit. bit.ly/2qwj2JU

Equipment Leasing and Finance Association Releases Survey of Economic Activity

The Equipment Leasing and Finance Association’s Monthly Leasing and Finance Index, which reports economic activity from 25 companies representing a cross section of the $1 trillion equipment finance sector, showed that new business volume for March was $8.9 billion, up 10% year-over-year from new business volume in March 2016. Receivables over 30 days were 1.40%, down from 1.50% the previous month and up from 1.20% in the same period in 2016. Charge-offs were 0.68%, up from 0.38% the previous month, and up from 0.51% in the year-earlier period. bit.ly/2p3Lh7B

Trump Reportedly Aiming for Two-tiered Regulatory System for Banks

During a meeting with over a hundred community bankers, Trump administration officials said they favored a system with different rules for small and big banks. Community bankers have long sought so-called two-tiered regulation, but policymakers are generally unwilling or unable to shake up the existing system, which imposes many of the same regulations across the spectrum of institutions. bit.ly/2qCh9Sb

Republicans Look to Weaken CFPB’s Power, but Face Tough Opposition from Democrats

According to the Financial Times, some of the proposed Dodd-Frank reforms include stripping the Consumer Financial Protection Bureau of its supervisory powers, making its complaints database private and creating an inspector general to watch over it, appointed by the president. The new entity — renamed the Consumer Law Enforcement Agency — would end up looking like the Federal Trade Commission. bit.ly/2p6ZzT

Federal Regulator Ratchets Up Effort to Regulate Tribal Lenders, Suing Four in California

The Consumer Financial Protection Bureau launched another salvo in its battle against the tribal lending industry, which has claimed it’s not subject to regulation by the agency. The regulator sued four online lenders affiliated with a Native American tribe in Northern California, alleging they violated federal consumer protection laws by making loans with annual interest rates starting at 440% in at least 17 states. In a lawsuit filed Thursday in U.S. District Court in Chicago, the bureau alleged that Golden Valley Lending, Silver Cloud Financial and two other lenders owned by the Habematolel Pomo of Upper Lake tribe violated usury laws in the states and thereby engaged in unfair, deceptive and abusive practices under federal law. bit.ly/2qwv1rd

S&P Releases Credit Market Pulse Report

S&P Global Market Intelligence has published their April edition of Credit Market Pulse. In this April issue, there’s discussion around sovereign and regional trends, political risk, industry shifts, changes in creditworthiness of some of the biggest movers and shakers in the market, and post-mortems on recent defaults. bit.ly/2qyOs9C

Have news that may be of interest to readers? Please email us at editor@smallbusinesslending.io
Select Banks with Significant Exposure to Small Business Loans

A cross-section of publicly traded community banks with at least 4% of assets in small business loans with outstanding principal of $1M or less, according to FDIC Call Data. Market data as of May 2, 2017.

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<td>Farmers &amp; Merchants Bank</td>
<td>FMCB</td>
<td>509.48</td>
<td>630.00</td>
<td>15.6%</td>
<td>31.5%</td>
</tr>
<tr>
<td>GrandSouth Bank</td>
<td>GRBB</td>
<td>52.72</td>
<td>14.75</td>
<td>13.5%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Trinity Bank, N.A.</td>
<td>TYBT</td>
<td>69.99</td>
<td>63.00</td>
<td>26.0%</td>
<td>21.5%</td>
</tr>
<tr>
<td>CA Bank of Commerce</td>
<td>CABC</td>
<td>115.45</td>
<td>19.65</td>
<td>45.5%</td>
<td>16.8%</td>
</tr>
<tr>
<td>Greeneville Federal</td>
<td>GVFF</td>
<td>18.34</td>
<td>8.75</td>
<td>2.9%</td>
<td>16.5%</td>
</tr>
<tr>
<td>Signature Bank</td>
<td>SBNY</td>
<td>7,381.97</td>
<td>137.51</td>
<td>(0.1%)</td>
<td>14.4%</td>
</tr>
<tr>
<td>Community Shores Bank</td>
<td>CSHB</td>
<td>10.54</td>
<td>2.57</td>
<td>10.3%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Idaho First Bank</td>
<td>IDFB</td>
<td>16.73</td>
<td>6.25</td>
<td>(3.8%)</td>
<td>11.4%</td>
</tr>
<tr>
<td>Mission Valley Bank</td>
<td>MVLY</td>
<td>23.51</td>
<td>12.00</td>
<td>50.0%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Community Bank of the Bay</td>
<td>CBYA</td>
<td>21.61</td>
<td>5.00</td>
<td>9.9%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Frederick County Bank</td>
<td>FCBI</td>
<td>35.46</td>
<td>23.50</td>
<td>4.0%</td>
<td>10.6%</td>
</tr>
<tr>
<td>The Bank of South Carolina</td>
<td>BKSC</td>
<td>102.72</td>
<td>20.70</td>
<td>31.8%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Bank First National</td>
<td>BFINC</td>
<td>233.01</td>
<td>34.70</td>
<td>22.8%</td>
<td>9.2%</td>
</tr>
<tr>
<td>First Sentry Bank, Inc.</td>
<td>FTSB</td>
<td>47.45</td>
<td>33.00</td>
<td>3.1%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Southern First Bank</td>
<td>SFST</td>
<td>248.43</td>
<td>34.60</td>
<td>35.6%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Clarion Cty. Community Bank</td>
<td>CCYY</td>
<td>11.48</td>
<td>7.47</td>
<td>20.7%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Howard Bank</td>
<td>HBMD</td>
<td>184.04</td>
<td>18.85</td>
<td>52.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td>American Riviera Bank</td>
<td>ARBV</td>
<td>70.18</td>
<td>16.30</td>
<td>50.1%</td>
<td>8.8%</td>
</tr>
<tr>
<td>US Metro Bank</td>
<td>USMT</td>
<td>5.74</td>
<td>2.90</td>
<td>52.6%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Ojai Community Bank</td>
<td>OJCB</td>
<td>29.70</td>
<td>13.00</td>
<td>116.7%</td>
<td>8.5%</td>
</tr>
<tr>
<td>United American Bank</td>
<td>UABK</td>
<td>17.10</td>
<td>18.00</td>
<td>(2.7%)</td>
<td>8.3%</td>
</tr>
<tr>
<td>Pacific West Bank</td>
<td>PWBO</td>
<td>8.12</td>
<td>11.50</td>
<td>13.9%</td>
<td>8.2%</td>
</tr>
<tr>
<td>BlueHarbor Bank</td>
<td>BLHK</td>
<td>21.89</td>
<td>8.00</td>
<td>6.0%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Com. Bank of Santa Maria</td>
<td>CYSM</td>
<td>20.13</td>
<td>10.20</td>
<td>29.9%</td>
<td>7.9%</td>
</tr>
<tr>
<td>New Resource Bank</td>
<td>NWBN</td>
<td>34.26</td>
<td>5.88</td>
<td>17.7%</td>
<td>7.9%</td>
</tr>
<tr>
<td>York Traditions Bank</td>
<td>YRKB</td>
<td>38.97</td>
<td>18.00</td>
<td>52.5%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Macatowa Bank</td>
<td>MCBC</td>
<td>334.36</td>
<td>9.85</td>
<td>43.6%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Pacific Premier Bank</td>
<td>PPBI</td>
<td>1,483.10</td>
<td>37.25</td>
<td>56.7%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Freedom Bank of Virginia</td>
<td>FDVA</td>
<td>74.55</td>
<td>12.01</td>
<td>47.0%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Pacific Mercantile Bank</td>
<td>PMBC</td>
<td>183.07</td>
<td>7.90</td>
<td>4.9%</td>
<td>7.3%</td>
</tr>
<tr>
<td>mBank (Mackinac Financial)</td>
<td>MFNC</td>
<td>90.71</td>
<td>14.41</td>
<td>36.6%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Sunshine Bank</td>
<td>SBCP</td>
<td>176.37</td>
<td>21.94</td>
<td>56.5%</td>
<td>7.1%</td>
</tr>
<tr>
<td>German American Bancorp</td>
<td>GABC</td>
<td>757.27</td>
<td>33.08</td>
<td>49.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Ameris Bank</td>
<td>ABCB</td>
<td>1,737.74</td>
<td>46.80</td>
<td>49.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>United Community Bank</td>
<td>UCBI</td>
<td>1,924.78</td>
<td>27.12</td>
<td>34.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Commonwealth Bus. Bank</td>
<td>CWTB</td>
<td>139.16</td>
<td>15.30</td>
<td>44.5%</td>
<td>5.9%</td>
</tr>
<tr>
<td>CBT Bank</td>
<td>SVNB</td>
<td>36.62</td>
<td>36.80</td>
<td>32.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Towne Bank</td>
<td>TOWN</td>
<td>1,958.44</td>
<td>31.65</td>
<td>50.6%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Adirondack Trust Company</td>
<td>ADKT</td>
<td>67.92</td>
<td>1698.00</td>
<td>8.5%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Sandy Spring Bank</td>
<td>SASR</td>
<td>1,040.96</td>
<td>43.50</td>
<td>51.4%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Specialty Finance Companies with Exposure to Small Business Loans

Publicly traded companies engaged in small business lending through commercial finance operations or BDCs, with at least $500M in market cap. Market data as of May 2, 2017.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>TIKER</th>
<th>MKT. CAP ($M)</th>
<th>CURRENT PRICE ($)</th>
<th>12-MO. CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Express Bank</td>
<td>AXP</td>
<td>71,091.20</td>
<td>79.54</td>
<td>21.1%</td>
</tr>
<tr>
<td>Intuit Inc.</td>
<td>INTU</td>
<td>32,205.93</td>
<td>125.91</td>
<td>23.2%</td>
</tr>
<tr>
<td>Prospect Capital Corp.</td>
<td>PSEC</td>
<td>3,359.42</td>
<td>9.35</td>
<td>25.8%</td>
</tr>
<tr>
<td>Pitney Bowes Bank</td>
<td>PBI</td>
<td>2,844.50</td>
<td>15.27</td>
<td>(27.0%)</td>
</tr>
<tr>
<td>FS Investments</td>
<td>FSIC</td>
<td>2,402.50</td>
<td>9.80</td>
<td>6.2%</td>
</tr>
<tr>
<td>Main Street Capital Corp.</td>
<td>MAIN</td>
<td>2,230.89</td>
<td>40.36</td>
<td>29.2%</td>
</tr>
<tr>
<td>Hercules Capital, Inc.</td>
<td>HTGC</td>
<td>1,282.44</td>
<td>15.49</td>
<td>29.1%</td>
</tr>
<tr>
<td>TPG Specialty Lending</td>
<td>TSX</td>
<td>1,256.02</td>
<td>20.99</td>
<td>27.3%</td>
</tr>
<tr>
<td>Golub Capital BDC, Inc.</td>
<td>GBDC</td>
<td>1,155.70</td>
<td>20.28</td>
<td>16.1%</td>
</tr>
<tr>
<td>New Mountain Finance</td>
<td>NMFC</td>
<td>1,110.54</td>
<td>14.85</td>
<td>18.9%</td>
</tr>
<tr>
<td>TPC Capital Corp.</td>
<td>TCPC</td>
<td>995.42</td>
<td>17.15</td>
<td>17.8%</td>
</tr>
<tr>
<td>Solar Capital Ltd.</td>
<td>SLRC</td>
<td>954.25</td>
<td>22.58</td>
<td>28.6%</td>
</tr>
<tr>
<td>Goldman Sachs BDC, Inc.</td>
<td>GSBD</td>
<td>905.30</td>
<td>24.91</td>
<td>26.1%</td>
</tr>
<tr>
<td>Fifth Street Finance Corp.</td>
<td>FSC</td>
<td>634.32</td>
<td>4.50</td>
<td>(16.0%)</td>
</tr>
<tr>
<td>PennantPark Investment</td>
<td>PNNT</td>
<td>572.04</td>
<td>8.05</td>
<td>29.2%</td>
</tr>
<tr>
<td>BlackRock Capital Inv. Corp.</td>
<td>BKCC</td>
<td>537.32</td>
<td>7.38</td>
<td>(9.7%)</td>
</tr>
</tbody>
</table>

Online Lenders

Publicly traded companies engaged in online lending to consumers as well as businesses. Market data as of May 2, 2017.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>TIKER</th>
<th>LOAN TYPE</th>
<th>CURRENT PRICE</th>
<th>12-MO. CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending Club</td>
<td>LC</td>
<td>Consumer/ Business</td>
<td>5.85</td>
<td>(26.2%)</td>
</tr>
<tr>
<td>OnDeck</td>
<td>ONDK</td>
<td>Business</td>
<td>4.68</td>
<td>(43.6%)</td>
</tr>
<tr>
<td>Yirendai</td>
<td>YRD</td>
<td>Consumer (China)</td>
<td>24.80</td>
<td>115.5%</td>
</tr>
<tr>
<td>Elevate Credit</td>
<td>ELVT</td>
<td>Consumer (U.S. &amp; U.K.)</td>
<td>7.64</td>
<td>n/a</td>
</tr>
<tr>
<td>Square</td>
<td>SQ</td>
<td>Business</td>
<td>18.81</td>
<td>34.4%</td>
</tr>
<tr>
<td>IOU Financial</td>
<td>IOU</td>
<td>Business (U.S. &amp; Canada)</td>
<td>0.17</td>
<td>(55.8%)</td>
</tr>
<tr>
<td>China Rapid Finance</td>
<td>XRF</td>
<td>Consumer (China)</td>
<td>7.87</td>
<td>n/a</td>
</tr>
</tbody>
</table>
M&A + Partnerships (April 19 through May 2)
During the period April 19 through May 2, 2017, M&A deal activity and strategic partnership announcements in the alternative lending and small business lending segments included the following companies/transactions.

<table>
<thead>
<tr>
<th>DATE</th>
<th>COMPANIES</th>
<th>STRUCTURE</th>
<th>DEAL DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/19/17</td>
<td>Revolut, Trussle</td>
<td>Partnership</td>
<td>Through this partnership, Revolut customers will have access to Trussle’s mortgage brokering service that has 90+ lenders available — all through the company’s app home screen.</td>
</tr>
<tr>
<td>4/20/17</td>
<td>Marlin Business Services, NewTek</td>
<td>Partnership</td>
<td>Marlin Business Services Corp., a provider of credit products and services to small businesses, announced it has entered an agreement with NewTek, Inc. Marlin will provide financing options for NewTek customers throughout the U.S.</td>
</tr>
<tr>
<td>4/20/17</td>
<td>AltaPacific Bank, Commerce Bank</td>
<td>Merger</td>
<td>AltaPacific Bancorp announced that they have terminated the Agreement and Plan of Reorganization and Merger, dated as of September 1, 2016 previously entered into with Commerce Bank of Temecula Valley.</td>
</tr>
<tr>
<td>4/20/17</td>
<td>United Community Banks, HCSB Financial</td>
<td>Merger</td>
<td>United Community Banks, Inc. and HCSB Financial Corporation announced a definitive agreement for United to acquire HCSB and its wholly-owned bank subsidiary, Horry County State Bank, in an all-stock transaction.</td>
</tr>
<tr>
<td>4/20/17</td>
<td>ApplePie Capital, Funding Solutions</td>
<td>Acquisition</td>
<td>ApplePie Capital, an online lender solely dedicated to the franchise industry, announced the acquisition of Funding Solutions, LLC, a national franchise lending consultancy that specializes in SBA, conventional and equipment finance loans.</td>
</tr>
<tr>
<td>4/21/17</td>
<td>Biz2Credit, Oriental Bank</td>
<td>Partnership</td>
<td>Biz2Credit announced it has formed a partnership with Puerto Rico’s Oriental Bank to help develop a digital lending platform for the bank’s commercial clients.</td>
</tr>
<tr>
<td>4/24/17</td>
<td>First Financial Bancorp, Gayle &amp; Bill Cook Center for Entrepreneurship</td>
<td>Partnership</td>
<td>Cincinnati-based First Financial Bancorp is partnering with the Gayle &amp; Bill Cook Center for Entrepreneurship at Ivy Tech Community College Bloomington on a new micro-lending program benefiting small business.</td>
</tr>
<tr>
<td>4/25/17</td>
<td>Powerlytics, Avant</td>
<td>Partnership</td>
<td>Powerlytics will provide income insights and data for Avant, the lending platform that is lowering the costs and barriers of borrowing for consumers.</td>
</tr>
<tr>
<td>4/25/17</td>
<td>SmartBiz Loans, Five Star Bank</td>
<td>Partnership</td>
<td>SmartBiz Loans, the SBA loan marketplace and bank-enabling technology platform, today announced the addition of Five Star Bank to the Company’s unique technology ecosystem.</td>
</tr>
<tr>
<td>4/27/17</td>
<td>OnDeck Canada, Lightspeed</td>
<td>Partnership</td>
<td>OnDeck Canada, an online lender to small businesses in Canada, and Lightspeed, a cloud-based point-of-sale platform for independent retailers and restaurants, have announced a partnership that will allow Lightspeed users to secure OnDeck loans. The new offering will be available to Lightspeed customers in Canada and the U.S. providing up to $500,000 term loans and $100,000 lines of credit.</td>
</tr>
<tr>
<td>4/28/17</td>
<td>Live Oak Bank, Reltco Inc., National Assurance Title Inc.</td>
<td>Acquisition</td>
<td>Live Oak Bancshares Inc. bought two nationwide title companies in Tampa, Reltco Inc. and National Assurance Title Inc.</td>
</tr>
<tr>
<td>4/28/17</td>
<td>Central Valley Community BankCorp, Folsom Lake Bank</td>
<td>Acquisition</td>
<td>Central Valley Community Bancorp and Folsom Lake Bank jointly announced that a definitive merger agreement has been signed by both parties. Under the terms of the agreement, Folsom Lake Bank, with three full-service branches located in Folsom, Rancho Cordova, and Roseville, will merge with Central Valley Community Bank.</td>
</tr>
<tr>
<td>4/28/17</td>
<td>BayCom Corp, First ULB Corp.</td>
<td>Acquisition</td>
<td>BayCom Corp announced the successful acquisition of First ULB Corp., headquartered in Oakland, California, by BayCom Corp and the merger of United Business Bank, FSB into Bay Commercial Bank, effective after close of business on Friday, April 28, 2017.</td>
</tr>
<tr>
<td>5/2/17</td>
<td>First Bancorp, ASB Bancorp, Inc.</td>
<td>Acquisition</td>
<td>First Bancorp announced the signing of a definitive merger agreement under which First Bancorp will acquire ASB Bancorp, Inc. in a cash and stock transaction with a total current value of approximately $175 million, or $43.12 per share based on First Bancorp’s closing share price on April 28, 2017.</td>
</tr>
</tbody>
</table>

New Investments (April 19 through May 2)
During the period April 19 through May 2, 2017, new investment activity in issuers operating in the alternative lending and small business lending segments included the following companies/transactions.

<table>
<thead>
<tr>
<th>DATE</th>
<th>COMPANY</th>
<th>BUSINESS DESCRIPTION</th>
<th>AMOUNT</th>
<th>STRUCTURE</th>
<th>USE OF PROCEEDS</th>
<th>INVESTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/20/17</td>
<td>DadeSystems</td>
<td>DadeSystems, LLP develops payment processing software solutions.</td>
<td>$2,000,000</td>
<td>Venture</td>
<td>To accelerate engineering and product enhancement efforts as well as expand the team</td>
<td>Ocean Azul Partners</td>
</tr>
<tr>
<td>4/26/17</td>
<td>QUOVO INC.</td>
<td>QUOVO INC. develops and markets a platform that provides financial analytics, data management, and insights to small- and mid-sized investors.</td>
<td>$10,000,000</td>
<td>Venture, Series B</td>
<td>To accelerate the growth of its suite of data analytics offerings</td>
<td>F-Prime Capital Partners, FinTech Collective, Inc., Long Light Capital, LLC, Napier Park Financial Partners</td>
</tr>
<tr>
<td>4/28/17</td>
<td>Tradeplus24</td>
<td>Tradeplus24 AG provides receivables financing and insurance services to small and medium companies in Switzerland.</td>
<td>$100,000,000</td>
<td>Debt</td>
<td>The new capital will be used to fund future loan growth for Swiss SME</td>
<td>OceanoOne</td>
</tr>
</tbody>
</table>
Indices of Interest
All data as of May 3, 2017 or last reported date. Constituents refer to either stocks or individual loans included as members of the index. Information sources include Nasdaq and company websites.

<table>
<thead>
<tr>
<th>INDEX</th>
<th>TICKER</th>
<th>VALUE</th>
<th>CONSTITUENTS</th>
<th>TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td>KBW/Nasdaq Fintech Performance Index</td>
<td>KFTX</td>
<td>1,148.66</td>
<td>50</td>
<td>Fintech</td>
</tr>
<tr>
<td>Cliffwater Direct Lending Index</td>
<td>CDLI</td>
<td>3,139.00</td>
<td>&gt; 6,000</td>
<td>Comm. Loan</td>
</tr>
<tr>
<td>Orchard U.S. Consumer Online Lending Index</td>
<td>n/a</td>
<td>1,500.08</td>
<td>1,350,355</td>
<td>Cons. Loan</td>
</tr>
</tbody>
</table>

Funds of Interest
All data as of May 3, 2017 or last reported date. Information sources include Nasdaq and company websites.

<table>
<thead>
<tr>
<th>FUNDS</th>
<th>TICKER</th>
<th>MKT. CAP</th>
<th>CURRENT PRICE</th>
<th>12-MO. % CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>VPC Specialty Lending (in GBP)</td>
<td>VSL</td>
<td>n/a</td>
<td>$0.820</td>
<td>(11.65%)</td>
</tr>
<tr>
<td>Ranger Direct Lending (in GBP)</td>
<td>RDL</td>
<td>n/a</td>
<td>$9.14</td>
<td>(5.04%)</td>
</tr>
<tr>
<td>SME Loan Fund PLC (in GBP)</td>
<td>SMIF</td>
<td>n/a</td>
<td>$97.03</td>
<td>0.10%</td>
</tr>
<tr>
<td>River North Marketplace Lending (in USD)</td>
<td>RMPLX</td>
<td>n/a</td>
<td>$25.27</td>
<td>n/a</td>
</tr>
</tbody>
</table>

SBA Year Over Year Activity Comparison (For week ended April 28, 2017)
The following table includes information about Small Business Administration loans for the current year to date, broken down by size, and compares that activity with the similar period from last year in order to gauge changes in credit formation and composition.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>YOY CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Activity YTD (7A)</td>
<td>$12,784,530,000</td>
<td>$13,975,833,500</td>
<td>9.32%</td>
</tr>
<tr>
<td>Existing vs. New Business (% of All)</td>
<td>64%</td>
<td>36%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Size Breakdown

<table>
<thead>
<tr>
<th>Size Breakdown</th>
<th>2016 Amount</th>
<th>2017 Amount</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150K and Under</td>
<td>$1,254,797,700</td>
<td>$1,220,788,100</td>
<td>9%</td>
</tr>
<tr>
<td>&gt;$150K - $350K</td>
<td>$1,484,196,200</td>
<td>$1,516,753,400</td>
<td>11%</td>
</tr>
<tr>
<td>&gt;$350K - $2M</td>
<td>$6,049,925,400</td>
<td>$6,359,035,900</td>
<td>45%</td>
</tr>
<tr>
<td>&gt;$2M</td>
<td>$3,995,610,700</td>
<td>$4,879,256,100</td>
<td>35%</td>
</tr>
</tbody>
</table>

SBA Year Over Year Activity Comparison ($Billions)
For week ended April 28, 2017

SBA Loan Size Breakdown
YTD as of April 28, 2017

- $150K and Under: 9%
- >$150K - $350K: 11%
- >$350K - $2M: 45%
- >$2M: 35%
Thomson Reuters/Paynet Small Business Indices (As of March 2017)

The Thomson Reuters/PayNet Small Business Indices track credit activity within the U.S. small business sector. The nearby chart graphs two of these measures, the Thomson Reuters/PayNet Small Business Lending Index (SBLI), which tracks the net volume of new commercial loans and leases to small businesses, and the Thomson Reuters/PayNet Small Business Delinquency Index (SBDI), which measures the percentage of small businesses that are 91 to 180 days past due (DPD) on payment as an indicator of financial stress and default risk. Taken together, the indices provide meaningful insights into business cycle trends, economic growth, capital investment and employment within the small business niche of the U.S. economy.

Net Percentage of Banks Tightening Standards for C&I Loans to Small Businesses

Taken from the U.S. Federal Reserve’s quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices, the nearby chart shows the net percentage of banks polled that have indicated they are tightening credit standards for small businesses. Declines in the measure suggest fewer banks are raising standards, and thus suggest easing credit conditions; rises mean businesses may encounter greater difficulty obtaining financing. Gray areas indicate periods of recession.

U.S. 10-Yr./3-Mo. Spread Versus Recession Probability

Declines in the yield spread between 10-year U.S. Treasury bonds and 3-month U.S. Treasury bills tend to lead increases in the chances of a recession. The nearby chart shows the yield spread (blue line) graphed against the U.S. Federal Reserve’s Recession Probability Indicator (background) back to January 1988. Sharp drops in the spread generally foreshadow rises in the probability indicator, increasing the likelihood of recessionary conditions exist 12 months later. Currently, the gradual saw-tooth movement down in spreads since the end of the financial crisis has broadly coincided with global zero-interest rate policies and quantitative easing, and has not yet generated a meaningful increase in recession probability, which although off its 2016 lows, remains very low.
tion to disclose their algorithms to the public. Most of these credit models are built in-house and not covered by standard federal loan disclosure requirements, according to the HBS paper. CFPB Spokesperson Sam Gilford said his agency has chief rulemaking authority over ECOA in general.

If fintech lenders are discriminating against minority-owned small business borrowers, Arora said it stems from two causes: thin credit histories and a higher percentage of these borrowers being incorporated as sole proprietorships and single-member limited liability corporations.

Firstly, Arora said that minority-owned small businesses have limited credit histories and proof of repayment behavior, which leads fintech algorithms to issue them higher-risk borrower scores by default. For some minority groups, Arora attributes their lack of borrowing history to deep-seeded cultural traditions of thrift.

While financially responsible, this non-borrowing leads to a smaller sample size of credit data, with far less depth. From a risk-scoring standpoint, this puts previously frugal borrowers at a disadvantage because “the unknown is always a higher risk,” he said.

Further, a 2016 American Banker story supports Arora’s view, with its finding that “half of the small businesses tracked by traditional commercial credit bureaus have only one line of credit, and usually it’s a credit card.”

Shifting to Arora’s second point, a nationwide Biz2Credit survey of 1,500 minority business owners found more than two-thirds were registered as sole-props or LLCs. In an ecosystem, where most small businesses’ are single-member entities and the only borrowing history inputs come from a single credit card, it’s easy for unsophisticated algorithms to conflated the individual’s credit risk with that of the individual’s business.

Arora said that for many of these business owners, the business is their life. But a “business entity should have a life of its own,” he added.

Incorporating Alternative Data into Risk Models

To improve fintech credit access and pricing for minority business owners, former SBA Administrator Karen Mills, who co-authored the HBS paper, told The Alternative Lending Report that the industry needs a “broader set of credit predictors.”

Mills’ thinking is aligned with the CFPB, which is advocating for the use of so-called “alternative” data to improve credit access for protected groups, according to a February 2017 press release. Alternative data are the “footprints” a legal entity leaves while conducting business, according to the American Banker story.

Examples of non-traditional data points include: bill payments, the activation and continued use of telephone lines and utilities; licensing and registration applications; transactional data; and people closely connected to the business owner, whose credit profiles could be used as a type of co-signing mechanism to develop a better picture of the proprietor’s risk score.

Reily imagines future models where lenders factor social benefits like job creation, crime reduction, health and keeping kids in school into their risk scores. He said that improving the economic foundation of neglected communities could produce better credit performance for institutions in the long run.
said the company’s risk-scoring model factors applicants’ accounts receivable above all else.

In fact, FastPay’s loan algorithm is over 80% weighted towards the credit risk of the brand counterparties, which typically average 90-days sales outstanding before they pay their creative and advertising technology vendors. Despite prolonged payment terms, Proctor & Gamble and other Fortune 500 brands pose extremely low credit-default risks to invoice financiers like FastPay.

At Biz2Credit, Arora has been experimenting with image recognition and identified an encouraging correlation between “good” image scans and portfolio loan performance. He said that image scanning technology has moved beyond pattern recognition and is now able to make more insightful correlations. For example, if “you don’t see proper signage, that’s not a good sign,” he said.

Ultimately, Arora attributes flawed credit-risk modeling in fintech to the big banks that refuse to share data. But banks in the U.S., unlike in Singapore and the UK, where lenders are open-sourcing their loan algorithms, see no incentive to make accountholder data available to third parties.

Mills seconded Arora’s point, speculating that the “most fruitful place” for alternative data sources may be in bank balances and bank transactions. If data is, in fact, banks’“most valuable asset” as Mills said, then their ability to leverage data deposits at scale suggests they may have a competitive edge over fintech lenders with limited predictive cycle inputs.

Regardless, Mills said Kabbage, which charges an annual percentage rate, ranging from 24% to 99%, is an interesting fintech small business lender because they factor variables like borrower credit card data and the company’s Facebook page into their risk scoring models.

Personal Guarantees May Signal Bias

But in this non-transparent lending niche, how can borrowers determine a predatory platform from a business-friendly one? Baysal said the most discriminatory lenders are those that require a personal guarantee from the borrower.

“This is an indication that underwriting is skewed to personal credit-worthiness,” which denotes an “inherent bias,” he said. As such, small business borrowers, minorities and otherwise, that are considering a fintech solution should seek out a lender that offers unsecured, or collateral-free, loans. A March 2017 Nerd Wallet article identified Kabbage, OnDeck, Lending Club, Fundbox and Street Shares as the top unsecured lenders in the fintech space. These companies provide financing in the range of $2,000 to $300,000 per loan, charging between 8% and 99% APR.

Despite Rep. Cleaver’s Dodd-Frank jitters, his words have made an impact. An April 2017 CFPB Fair Lending Report published a month after his letter said:

“Congress expressed concern that women-owned and minority-owned businesses may experience discrimination when they apply for credit, and has required the CFPB to take steps to ensure their fair access to credit. Small business lending supervisory activity will also help expand and enhance the Bureau’s knowledge in this area.”

Central to this growing supervisory impetus is enhanced small business credit data collection. The CFPB report highlights Section 1071 of Dodd-Frank, which is currently in the pre-rule stage (not yet enacted), and requires financial institutions to keep detailed records and submit credit application data for women-owned and minority-owned small businesses to the bureau.

If Dodd-Frank 1071 were to pass, fintech lenders may be legally required to disclose data points like: number of the application; date the application was received; type and purpose of loan or credit applied for; the amount of credit applied for and approved; the type of action taken with regard to each application; the census tract of the principal place of business; and the race, sex, and ethnicity of the principal owners of the business.

But with no current regulatory regime demanding data collection for small business loan origination, Mills said “we are flying blind.”
laying off 60 staffers, and dropped plans to roll out fresh business lines in credit cards and refinanced auto loans.

More recently, there’s talk that BizFi, an SME marketplace lender, is experiencing difficulties tied to obtaining additional financing. Industry insiders speaking with The Alternative Lending Report have indicated the company has recently laid off as many as 30 to 40 people, and is rumored to be up for sale. According to one source, BizFi is over-leveraged and that’s been a major problem in obtaining new financing.

“Growth for growth’s sake has a lot of industry players chasing the carrot, and many were hurt by holding long-term paper,” one industry veteran says. “The entire industry is stretched right now.”

**While Banks Prosper, Alt Lenders Struggle**

All the bad news comes at a time when banks and traditional lenders continue to prosper, as alternative lenders grind away.

According to the latest Biz2Credit Small Business Lending Index, a monthly analysis of more than 1,000 small business loan applications, “Big banks’ ($10 billion-plus in assets) loan approval rates were stagnant in the last month, but remained at an all-time index high. Meanwhile, loan approval rates at credit unions and alternative lenders continue to falter.”

Loan approval rates dropped at alternative lenders by two-tenths of a percent in March, as they granted 58.2% of the loan requests. This marks the ninth consecutive month of decreases in this category of lenders, the index reports.

“As their competitive advantage – speed in processing loans – becomes less and less, alternative lenders continue to struggle to take market share away from lenders,” explained Rohit Arora, CEO of New York-based Biz2Credit.com. “The advancements in technology at big banks and institutional lenders channels more creditworthy borrowers to these institutions and leaves alternative lenders with less attractive borrowers.”

In comments to The Alternative Lending Report, Arora calls the problems hovering over the marketplace lending sector “well documented,” but says he sees shoots of green emerging from the rubble.

“In the past year or so, the sector has seen a lot of problems, especially with OnDeck and Lending Club,” he points out. “But the disruption that marketplace lenders caused will remain.”

“The aura and the excitement has gone away,” Arora adds. “However, marketplace lenders are not on the way out. Rather, a convergence is happening between traditional lenders and marketplace lenders. Banks are getting more and more into it. So yes, the disruption caused by marketplace lenders is here to stay. When that happens within any industry, the incumbents eventually will adopt the disruption. Don’t write the epitaph yet.”

Other lending experts also see more of a balanced industry landscape – a natural occurrence in a relatively nascent industry where many companies aren’t yet ten-years-old.

Gary Bechtel, president of real estate lender Money360, says “Marketplace lenders and other non-bank lenders are generally nimble and more streamlined than traditional lending sources. The use of technology increases the speed in which loans can be closed, and streamlines the process.”

Bechtel said that some of the challenges in the marketplace lending sector of last year were the result of some lenders being reliant on a handful of large institutional investors. And while those cases received a lot of attention, the problem isn’t as pervasive as one might think – specifically, as in his case, in the commercial real estate space.

Bechtel added, “More federal oversight of the industry may be needed, but the outlook for the industry is strong.”

**Stiff Competition from Big Banks**

Brayden McCarthy, vice president of strategy at Fundera and a former White House economic policy advisor, says that marketplace lenders are starting to face stiff competition from big banks like Goldman Sachs who have rolled out their own fintech lending initiatives.

But that trend he says, should not have been a surprising one for alternative lenders, nor should it be an insurmountable one.

“Now, we’re seeing those online lenders forced to compete with banks like Goldman Sachs, Wells Fargo, Chase and others – and that will be the most interesting next chapter,” McCarthy says.

McCarthy, who has co-authored two Harvard Working Papers on the subject of online lending to small businesses with former SBA Administrator Karen Mills, says increased competition from banks was inevitable.

“While online lenders are nimble and tech driven, banks have a larger deposit base and brand recognition that borrowers’ trust,” he explains. “The real dial will turn when banks spot the opportunity and go online.”

Additionally, “The jury is still out on whether or not the MPL model is sustainable, but it is clear that there are some pain points,” McCarthy states.

“First and foremost, no online lender has lent through a downturn,” he notes. “Because of that, credit models aren’t tested – it’s an open question of whether or not investors want to put money into medium term lenders with no skin in the game, when they’re responsible for underwriting and segmenting risk.”
Thus, the institutional investor has to trust the online lender, and that is difficult for two reasons, McCarthy explains.

- **Alignment of interests.** Investors may want the lender and investors to be aligned and therefore might want lenders to put skin in the game, McCarthy says. “Investors have to trust that lenders are appropriately pricing risk. It is unclear if the intermediary model will persist without a requirement for medium term lenders to participate alongside institutional investors.”

- **Institutional investors are relatively fickle, compared to banks.** “Investors are willing to pump money into intermediary lenders because they need yield, particularly in a low yield environment, when they want to earn a return. When that changes, as rates go up, that makes online lending a little less attractive to institutional investors.”

“When there are hiccups at an online lender, as we saw in 2016, institutional investors tend to run because their cash isn’t guaranteed,” McCarthy adds. “Given their lack of deposit base, it’s an open question whether this model is sustainable.”

**Slow and Steady Wins the Race**

Still, industry experts insist that growth prospects are strong for online and marketplace lenders.

Citing data from Morgan Stanley, McCarthy says the total addressable market for online SME lenders is $280 billion and the industry will grow at a 47% annualized rate through 2020. “They estimate that online lenders will constitute nearly a fifth of the total SME lending market by that point,” he says.

Yet getting to that point will surely mean undergoing what experts across the board call “growing pains” for marketplace lenders.

“As the MPL industry matures, it is adopting, or being forced to adopt, best practices from other types of consumer lending such as third party quality control and review, increased investor transparency, and the use of verified third-party employment and income information,” states Geoffrey Hickman, managing director of Equifax Capital Markets.

“I think any rapidly growing lending segment will experience growing pains,” Hickman adds. “The buy side will reward MPL originators that provide added transparency and demonstrate more comprehensive underwriting practices.”

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