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GROOMING THE BEST SALES REPS

Underwriting 101—Veteran Funders Share Tools of the Trade

By Cheryl Winokur Munk

The Seven-Minute Loan Shakes Up Washington and the 50 States

By Paul Sweeney

deBanked Table of Contents

July/August 2018

Featured

Inside

deBanked
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Letter From the Editor

BY SEAN MURRAY

How do you groom the best sales reps? In this issue we interviewed executives at several major companies to hear how they do it. The approach varies but typically the first 60 days will establish if someone has what it takes to become great.

Greatness is exactly what one salesman vowed to achieve after closing just one deal for $2,500 in his first month selling merchant advances. This year he's on pace to close $75 million worth of deals, according to the CEO of the company he works for. Since his humble start, Ed Tucker has soared up the ranks to become one of the top salespeople at Yellowstone Capital.

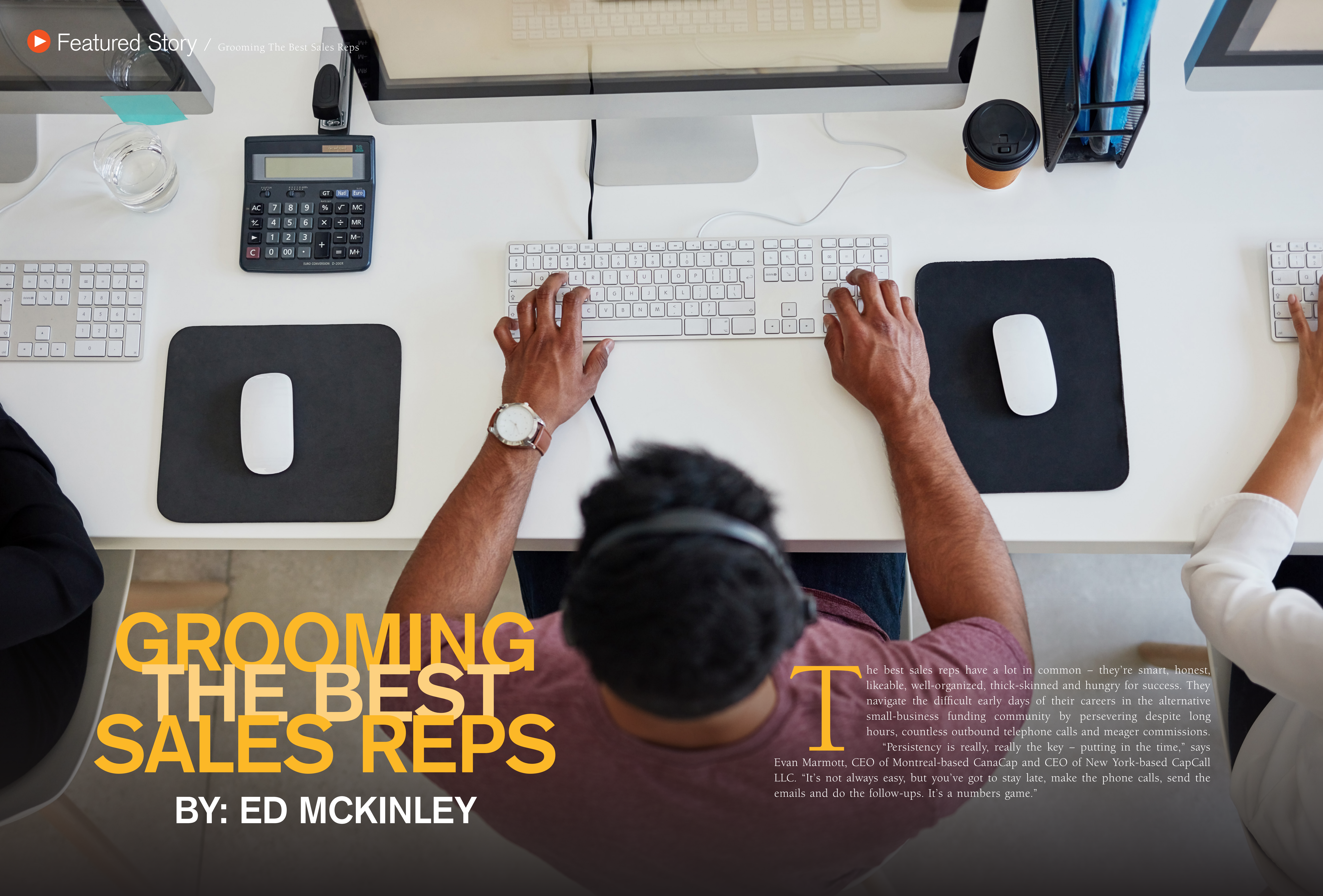
But where there are hungry salespeople, there must be someone managing the risk. That's why we interviewed a handful of industry experts about tools of the underwriting trade. One way to make sure the deal doesn't fall apart once the analysts get involved is to manage an applicant's expectations. Don't overpromise, they say, and make sure you find out what the businesses' weak points are in the beginning and let the underwriters know them up front.

That assumes that humans are at the helm, of course. Kabbage, by contrast, can approve a small business loan in just seven minutes. Kabbage's fully automated approach has helped the company fund $6 billion to small businesses, making them one of the biggest companies in the space. And with that size and speed comes regulatory questions, questions that regulators at both the state and federal level are trying to tackle. In this issue we delve into that debate and the challenges faced.

I hope you enjoy your summer and I look forward to seeing you at our big networking event in San Diego on October 4th. Make sure you register before it's too late at https://www.debankedsandiego.com

Sean P Murray

–Sean Murray



GROOMING THE BEST SALES REPS

BY: ED MCKINLEY

The best sales reps have a lot in common – they're smart, honest, likeable, well-organized, thick-skinned and hungry for success. They navigate the difficult early days of their careers in the alternative small-business funding community by persevering despite long hours, countless outbound telephone calls and meager commissions.

"Persistency is really, really the key – putting in the time," says Evan Marmott, CEO of Montreal-based CanaCap and CEO of New York-based CapCall LLC. "It's not always easy, but you've got to stay late, make the phone calls, send the emails and do the follow-ups. It's a numbers game."

Being relentless counts not only when pursuing merchants but also when matching merchants with funders, Marmott emphasizes. "If they can't get an approval one place, they're going to shop it out until they get approval someplace else so they can monetize everything that comes in," he says.

"It's all mindset and work ethic," in sales, according to Joe Camberato, president at Bohemia, N.Y.-based National Business Capital. His company works to create a culture that supports the right mindset by working with a firm called "Delivering Happiness." Together, they forge to a set of core values based on integrity, innovation, teamwork, empathy, and respect for fellow employees, clients and clients' businesses.

National Business Capital employees learn to live those ideals by working and playing together on the company volleyball team, through work with local and national charities, and at company mixers and staff picnics, Camberato maintains. "We adapt and change, and we're committed to helping small businesses grow," he says of the company culture, "and we have fun while doing all that."

Likeability helps build relationships with customers, says Justin Thompson, vice president of sales for San Diego-based National Funding. "People will do business with people they like and trust," says Thompson. "It's really about establishing a relationship first and then establishing quality discovery." From there, presentation and execution become paramount, he says.

Methodology can make the difference between success and failure in sales, observes Justin Bakes, co-founder and CEO of Boston-based Forward Financing LLC. "Have a defined process and stick to it," he advises. A well-organized approach inspires trust among clients, establishes and maintains a great reputation; and fosters understanding of the customers' needs, wants and business operations that help the rep choose the right financing option and appropriate funder. Using technology to wrangle multiple leads and high volume counts for a lot, too, he says.

It's all part of the consultative approach to sales, says Jared Weitz, CEO of Great Neck, N.Y.-based United Capital Source. Long ago, sales reps may have succeeded by mimicking carnival barkers, sideshow pitchman and arm-twisting medicine-show peddlers. Thankfully, those days have ended – if they ever really existed. Most of today's successful salespeople earn clients' respect by becoming knowledgeable, trusted business consultants, says Weitz.

THE CONSULTATIVE SALE

"Someone calls, and there are two ways of handling a deal, right?" Weitz asks rhetorically. Using one method, a salesperson can say, "We'll fund you this much at this rate today – are we good?" he says. The other way calls for understanding the client's business – how long has it been open, does it make more cash deposits or credit card deposits, would it be best-served by an advance, a loan, an equipment lease or a line of credit, how much can it afford in monthly payments?

Establishing how the merchant intends to use the funding plays a crucial role in the consultative sale, Marmott agrees. Objections can arise when a merchant learns that receiving $100,000 this week will require paying back $150,000 in four or five months, he notes. So it's essential to demonstrate that using the money productively will more than pay for the deal. A trucking company can realize more income if it deploys two more trucks, or a restaurant can increase revenue by placing another bar outside for the summer, he says by way of example.

"A lot of salespeople ask a business owner what they need the money for," observes Thompson. "The merchant says, 'Inventory,' and the rep stops right there. I train my reps at National Funding to go two or three clicks deeper." Examples abound. When does the merchant need the inventory? From whom do they order it? How long does it take to ship? How long does it take to turn it over? What are the shipping terms?

The consultative approach can require salespeople to pose a lot of open-ended questions that can't be answered yes or no, according to Thompson. Ideally, the conversation should adhere to the 80-20 rule, with the client talking 80 percent of the time and the sales rep speaking 20 percent, he asserts, adding that "a lot of times it's reversed in this industry."

Sometimes, however, salespeople should set aside the time-consuming consultative approach and instead find funding for a merchant as soon as possible. That's true when the business owner can make an opportune purchase of inventory or when it's time to acquire a competitor quickly. More often, however, it pays to take the time to understand the merchant's needs and search out the best type of funding for that particular case, top sales people maintain.

Much of the alternative small-business finance industry has caught on to the importance of the consultative approach to sales as the array of available alternative financial products has grown beyond the industry's initial offerings of merchant cash advances, according to Weitz. The days of scripted pitches and preplanned rebuttals to objections have ended, he says. Today, management trains reps for success.

THE RIGHT TRAINING

Are top salespeople born that way? "Some people hit the ground running, but sales can be taught – that's for sure," Weitz says. "The tougher thing to teach is integrity." Much of the training process focuses on learning the products to enable a rep to make a consultative sale and shoulder financial responsibility, he maintains.

Believing that some people are born to sell provides a crutch to avoid learning what really works, according to Bakes. Training can teach a smart, motivated person how to succeed, he maintains. They don't have to be born that way.

However, some people do seem born to exert influence, which can translate into sales prowess, says Thompson. Still, those born with a strong work-ethic can overcome other deficiencies, he notes. The work ethic drives them to "come in every day," he notes. "They're organized and disciplined. They follow the National Funding philosophy, and they make a ton of money."

National Funding trains salespeople to view their craft as being defined by two broad elements – art and science, Thompson continues. The science proves easier to master and includes asking the right questions to learn about the customer and the deal. The hard part, the art of the sale, consists of getting to know the business owner, building a relationship and demonstrating expertise. In one example, that's based on learning how many trucks are in the fleet, whether they're long-haul or short haul and whether they use dumpsters versus box trailers, he says.

Beyond those important basics, training should be ongoing because selling techniques change slightly as new products and systems emerge, according to Weitz. "One of the things I like about being a broker is the ability to pivot and add another arrow to your quiver," he says.

Salespeople at United Capital Source talk sales among themselves almost nonstop, which amounts to daily sales training, Weitz observes. That can take the form of describing a challenge and explaining how to overcome it, he notes. A particularly good idea merits an email to the group to share the new piece of wisdom. It's a matter of constantly refining the approach.

Training can help sales reps understand the businesses their clients run, according to Marmott. Knowing the margins in a restaurant, for example, can help the salesperson explain that the increase in revenue from an expansion will quickly pay the cost of capital, he notes.

Training should teach new employees how business works because common elements arise in enterprises ranging from dog grooming to asphalt paving, Thompson notes. There's inventory, marketing, employee expense, payroll taxes, insurance and 401k's in almost any business. "We teach all that to the reps," he says. Then after conversations with thousands of merchants, reps have a solid foundation in the workings of businesses.

National Business Capital's formal two-week classroom training usually lasts three hours a day, focusing on systems, guidelines, product, general business principles and the company's processes, says Camberato. Teachers include the sales management team, company culture leaders and the managers of IT and Tech, Marketing, Processing, and Human Resources.

New hires spend much of their time working with mentors for the first six months and a team leader who works with them indefinitely, Camberato continues. The company sometimes hires in groups and sometimes hires individually, he notes.

National Funding provides three eight-hour days of regimented classroom training on the fundamentals to each of the four groups of 12 to 17 hired each year, says Thompson. The classes cover processes, sales strategy, marketing and the lender matrix. Next comes three months of working with a sales manager dedicated to working with the class. After a total of nine to 12 months, management knows which reps will succeed.

Some shops operate on the opener-closer model, with less experienced salespeople qualifying the merchant by asking questions like how long they're been in business and how much revenue they bring in monthly, Marmott says. If the merchant qualifies, the newer salesperson who's working as an opener then hands off the call to an experienced closer to complete the deal. Good openers become closers, but opening isn't easy because it requires lots of calls, he notes.

National Funding doesn't use the opener-closer approach because the company believes reps should Participate "from cradle to grave," Thompson says. "They hunt the business down, build the relationship and handle the transaction from A to Z." East Coast shops often focus on cold calling and use the opener-closer model, while West Coast shops tend to invest more in marketing and reject the opener-closer method, he noted.

But where do these top salespeople come from?

THE RIGHT BACKGROUND

Prospective sales reps who have just finished college should have a grounding in communications or business, Weitz believes. Experience in sales and a familiarity with dealing with merchants helps prepare reps, he notes. Job history doesn't have to be in the finance industry. Someone who's sold business services in a Verizon store or worked for a payroll company, for instance, has been dealing with small-business owners and may succeed more quickly than those without that background.

Sales experience in other industries counts, Bakes agrees, especially in businesses that require dealing with a large number of leads. "Organization and process is just as important as being born with the traits of a salesperson," he opines.

Life experience that breeds a positive attitude can prove vital, says Marmott. That's especially important in the beginning when a new rep might take home a paltry $300 in the first month. Later, when the rep has a $50,000 month, he or she will see that their optimism wasn't misplaced, he declares.

"The biggest thing I look for is guys who are hungry," Marmott maintains. I don't need somebody with a doctorate or a master's degree or even a degree," he says. "I need somebody who is going to put the work in." Of a roomful of 25 new reps, two or three will succeed and stay on the job, he calculates. "You get to eat what you kill. If you're not killing anything, you don't get to eat."

"We look for potential candidates who come from backgrounds of rejection," says Thompson. Their previous sales experience has taught them not to take the answer "no" personally. "It's part of the business and you continue to move on."

Although most regard the financial services industry as a white-collar pursuit, "it has blue collar written all over it," Thompson says, referring to the work ethic required for success. But it's not just the volume of work. Sixty good phone calls generate more business than 300 mediocre calls, he emphasizes.

GETTING UP TO SPEED

Succeeding at sales requires taking the time to form relationships, understand guidelines, become familiar with lenders and acquire a working knowledge of how clients' businesses operate, Camberato says. How long does it take? "It's a solid year," he contends while conceding that most who succeed operate at a fairly high level before then.

Others disagree about what constitutes being up to speed and how much time's necessary to achieve it. "I've seen it take 30 days, and I've seen it up to 120 days," says Weitz. "The hope is that it's within 60."

A salesperson should start feeling better after 30 days and should start feeling good after 60 days, Marmott says. Management can usually identify the strong and the weak reps within two to three weeks, he says. "You get the lazy ones that drop out, the guys who aren't making any money, the ones who aren't putting the effort in," he says. "The first two weeks are the toughest because you're learning the product and how to sell it."

"It depends on the person," Bakes says of the time needed to begin selling successfully. "It takes time. It is not something that will just happen overnight." About six months should suffice to become confident as a closer, he estimates.

Even when sales reps hit their stride, some outsell others, Marmott notes, citing the 80-20 rule that 80 percent of the business comes from 20 percent of the salesforce. Outbound sales to merchants who may feel beleaguered by offers of funding requires more effort than when a merchant makes an inbound call to seek funding, he adds.

And even the best salespeople need great marketing and tech support from their companies, sources agree.

INVESTING IN SALES

A shop just starting out might have a marketing budget as low as $2,500 a month, which won't do much more than pay for direct mail pieces that might prompt a few potential clients to pick up the phone, Weitz says. With a little more money to spend, a shop can begin buying leads, he notes. "Don't break the bank before you understand what formula works for you," he advises.

"The key to sales is marketing," says Marmott. "You can be the best sales guy but if you don't have anything qualified to call or follow up with, it's a waste of time." Social media doesn't work as well for business-to-business contact as it does for business-to-consumer marketing, he says. Pay per click and key words have become more expensive and isn't as cost-effective as it once was, especially for smaller shops, he contends. Mailers can work but require heavy volume and repetition, he says, adding that could mean at least 25,000 pieces and at least three mailings.

Besides allocating marketing dollars, companies can invest in sales by paying new sales staffers a salary instead of forcing them to rely on commissions to eke out subsistence during the tough early days. National Business Capital pays a salary at first and later switches reps to commissions and draw, Camberato says. "An energetic person interested in sales can plug into our platform, get trained and do very well," he continues. "We believe in you, as long as you believe in us."

National Funding provides recruits with a salary and commissions so that they have enough income to get by and still reap rewards when they help close a deal, Thompson says.

Investment in technology can help salespeople set priorities, eliminate some of the drudge work in the sale process, measure the sales staff member's success or lack of success, and provide a consistent experience for customers, notes Bakes. "Because of the way our technology is set up we can hold people accountable," he adds.

Every salesperson and every shop should organize the workflow by using a lead-management system or customer relationship management tool (CRM) – such as Zoho or Salesforce –instead of operating with just a spreadsheet, Weitz says.

Brokers can invest in sales through syndication, which means putting up some of the funds involved in a deal. Forward Financing favors syndication in some cases because it aligns the salesperson and the funder, thus demonstrating the sales rep's belief in the validity of the deal and ensuring a willingness to continue servicing that customer, Bakes says.

Some shops offer monthly bonuses for outstanding sales results, but Weitz believes awarding incentives weekly makes more sense. With a monthly cycle, some reps tend to slack off for the first week or so because they believe they can make up for lost time later. With weekly rewards, there's not much room for downtime, he notes.

Whatever form investment takes, it can help build a sterling reputation and a free-flowing "pipeline."

THE RIGHT REPUTATION

"Reputation is huge," especially for repeat business and referrals, Marmott says. Once a merchant has received funding, a blizzard of sales call can follow. Treating customers right by maintaining ethical standards and helping them during hard times can guard against defection to a competitor touting low prices, he says.

Reputation requires differentiation, which usually occurs online, by email or over the phone, notes Bakes. Factors that enhance reputation include referrals by satisfied customers and real-world testimonials from actual customers and good ratings on social media sites, he says.

While it's still uncertain what role social media plays in the industry's reputation-building efforts, it appears that text messages elicit quick responses if the client has agreed to communicate with the company via that format, Bakes says. He notes that unwanted text messages won't work. Email messages provide more information than text messages but seem less likely to prompt response, he says.

THE RIGHT GOAL

So, where does the effort to succeed at sales lead? It's the foundation for building "the pipeline" – the name given to the flow of renewals, referrals and leads that makes every day not just busy, but busy in a productive and profitable way. As a rep's pipeline takes shape, the cost of acquiring new business also goes down, Marmott says. "It just grows from there," he says of the successful salesperson's endeavors at building a pipeline of business. It's what successful salespeople seek.

SKY'S THE LIMIT: HOW ED TUCKER LIFTED OFF WITH MERCHANT FUNDING SALES

By *ED MCKINLEY*

About four years ago, Yellowstone Capital CEO Isaac Stern sat down for a few hands of cards at one of his company's friendly intramural office poker games. On his left sat a new employee he hadn't met. "I know you hear this every day," said the recent hire, a young guy named Ed Tucker, "but I'm going to be your top sales rep."

It wasn't idle chatter. In the intervening years, Tucker clawed his way up from the bottom of the ladder to the top among Yellowstone's 130 or so sales reps, with expectations for $75 million in sales this year, according to Stern. He's arguably No. 1 or No. 2 among that legion of salespeople.

How did he do it? "He willed his way there," Stern says of Tucker's climb. "He deserves everything he gets."

Possessing an engaging personality aided Tucker's ascent. "He's one of the most likeable guys we have," Stern says of Tucker. "All of our ISOs absolutely adore him." Hang out with Tucker at night or on weekends, and you'll find he's often on his cell phone, talking to ISOs, Stern observes.

Tucker handles the high volume of business that comes his way by staying admirably well-organized, Stern continues. Ask Tucker a question a question about a deal, and he immediately pulls up a spreadsheet bearing "all the answers."

The relationships Tucker cultivates with funders serve him well, Stern says. "If you need a deal to be stretched out or you need a higher level of funding or you just need the deal to be massaged a little bit, he can work it out to keep the merchant happy, the ISO happy and the funder happy."

Tucker works with about 20 ISOs who bring him deals, and Tucker then takes the deals to the right funders, says Stern. Tucker finds a funder who can handle the terms, and delivers an appropriate commission to the ISO and right dollar amount to the merchant, he says. "He's always moving," bringing in about 150 deals monthly, he notes of Tucker's output.

While Tucker was working his way up to that position, he also found the time to become buddies with Stern, going skydiving and jockeying jet fighter planes, Stern says. At the same time, Tucker has become important in the lives of his clients, too.

"You should hear about Ed from the ISOs themselves," his boss advises. "He's an easy-to-get-along-with guy who gets the job done and makes it enjoyable to work in our industry." One of those ISOs, Sal Ottomanelli, CEO of Manhattan-based Accel Capital Inc., calls himself Tucker's "No. 1 fan."

In fact, Ottomanelli credits Tucker with a key role in launching Accel two years ago, helping to navigate the minefield that a new business encounters as it works to establish its reputation. "He was the first ISO we signed up," Ottomanelli recalls.

When Ottomanelli started Accel, he had already been friends with Tucker for a while. So before the furniture was set up in the new office, Ottomanelli persuaded Tucker to get involved. "He came in and helped me get my processes going and everything else," he says of Tucker.

Dealing with the right people – which certainly includes Tucker – has helped Accel achieve prodigious growth, Ottomanelli maintains. "Ed is good at a lot of things," he says. "He's a lot smarter than your normal ISO. He knows how to work the deals the way we know how to work the deals."

That includes underwriting, funding and so many aspects of the business. "We're looking for the same stuff," Ottomanelli says of the simpatico relationship with Tucker. "We have the same goal."

Hearing that sort of praise can raise a question: How did Tucker become the man that so many hold in high regard? To understand, it helps to start at the beginning. Tucker was born in Manhattan in 1987 but grew up across the Hudson River in Paramus, N.J., a town noted for its abundance of shopping malls. The Wall Street Journal once referred to Paramus as "the quintessential suburb."

Left to right is: Yellowstone Capital's Juan Monegro, Ed Tucker, and CEO Isaac Stern

After graduating from Paramus High School, Tucker earned a degree in criminal justice at St. Thomas Aquinas College in Rockland County, N.Y., in 2009. He had realized by sophomore year in college that he didn't want a career in law enforcement, but his parents wanted him to finish college so he persevered.

Upon completing school, Tucker faced a question that confronts many recent graduates. "Now what do I do?" he asked himself. While trying to find his niche, he worked as a sales rep in a couple of Verizon stores near his house, making what would have amounted to about $40,000 annually.

He then devoted six or eight months to selling "business packages" that help fledgling entrepreneurs set up a website, launch a marketing program and generally get a new business underway. The staff at the business-package place called leads on the phone and made a pitch.

"It wasn't going that badly," Tucker recalls when he reflects upon those days of selling business packages. After all, new businesses are starting all the time and most of the owners could use plenty of guidance. His annual pay there would have amounted to about $75,000.

But he happened to keep in touch when a friend left the business-package company and went to work for Yellowstone. When Tucker saw how much his friend was earning there in commissions, he began nagging his friend to help him land a job interview.

"I really had no idea what the heck this business was, but I knew people were making money doing it," Tucker remembers. He went to the interview in the old Yellowstone offices in Manhattan – it was before the company moved to Jersey City, N.J. They told him he could start the next day.

For the first two weeks, Tucker didn't have a desk. He'd simply grab the workspace of someone who didn't show up at the office that day. "I remember asking some of the kids there, 'What is it that we do here?'" he says of those baffling initial days on the job.

> *"IF YOU PUT IN THE WORK, YOU'LL GET THE RESULTS, ... NOTHING GETS HANDED TO YOU IN THIS BUSINESS."*

Soon, however, Tucker knew the business well enough that he was making phone calls to 300 merchants a day, he recalls. The leads were six months old, and a lot of business owners hung up immediately. "They had probably been called 300 times before me," he estimates.

"My first month, I closed one deal for $2,500 and made $500," Tucker says. "You weren't on salary. It was strictly commissions. It's all performance-based." With so little income in his first weeks in the industry, his savings were dwindling. He saw discouraged fellow workers give up and quit the business.

But by the time Tucker had been on the job for a month, the alternative-funding scene began to make sense. He listened carefully to what the more-senior reps said and then tweaked their knowledge to make it work for himself.

The second month, he made six deals. Month after month, his totals increased. He began building the "pipeline" of referrals and renewals that keeps salespeople busy and makes them productive. "You start getting better at it without really realizing it," he observes.

Once a rep has encountered nearly every different circumstance that can arise, the job becomes easier, he says. When a challenge arises, the rep knows how to handle it because it's happened before.

Five or six months after starting at Yellowstone, Tucker began to feel he was working effectively. He was feeling confident on the phone and could close the tough ones. Eventually, he felt he knew where the conversation was going in just the first few minutes of a phone call.

Meanwhile, he began refusing to let deals die. If a merchant began missing payments, Tucker took over collection duties and worked to get the deal back on track. That way, he nearly assured himself of a renewal in a few months. It also earned him the trust of funders who knew he would be there to handle any issues that arose.

Tucker got a break that helped lay the foundation of his career. When calls come in on Yellowstone's toll-free number, they're assigned randomly to reps. He happened to get a call that way from an ISO – a fairly rare occurrence – and he convinced the ISO to sign up with him.

From that point on, Tucker wasn't just selling financial products to merchants and matching them with funders. In addition to that, other ISOs began sending him deals to place with funders.

"I started learning which funders like which deals," Tucker says. "You get relationships with them over time." Some funding companies shy away from large deals or high-risk situations, he notes.

Then another break materialized. Someone Tucker had grown up with was working in the industry, and that helped Tucker sign up another ISO to send deals.

When people left that company to start their own ISOs, they also agreed to send deals to Tucker because he had won their trust. "Over time, it snowballed," he says of amassing ISOs.

By now, 40 to 50 ISOs have signed up with Tucker, and he's in daily contact with 20 to 25 of them, he estimates. Many of those ISOs keep generating more business as they add reps. To service the ISOs, he places deals with 10 to 12 funding companies.

His stake in the business has grown phenomenally. In his first year at Yellowstone, Tucker received about 20 submissions a week from ISOs. Now, he gets more than 200 daily. Because the growth came gradually, he's been able to adjust to handling the volume. In his best month he closed deals worth $6.4 million.

Although Tucker works primarily with ISOs, sometimes getting on the phone to help them close deals when issues arise, he still works directly with merchants. Many of the merchants he handles directly have been repeat customers from his earliest days at Yellowstone.

In the beginning he devoted 90 percent of his phone time to speaking with merchants and 10 percent to funders. These days, he devotes about 25 percent to merchants, and splits the rest evenly between ISOs and funders, he estimates.

Tucker "syndicates" some deals, putting up some of the money himself to make funders more comfortable. "I would have skin in the game, too, in case something happened to the deal," he says. Reps collect their commissions at the beginning of the deal and thus have almost no incentive to take action if the deal goes sour, he notes.

Some reps already have connections when they enter the industry and can thus sign up an ISO during the first week on the job. When Tucker started, he knew almost no one in the business, so he appreciated it greatly when he began to get ISOs, he says. Therefore he worked hard to maintain his relationships with them, he contends.

He prides himself on treating every deal with the same care, whether it's for $5,000 or $500,000, he says. Some reps become nervous when working on larger deals, but that's unwarranted, he maintains. The same questions and answers arise no matter how much funding is at issue, he says. "Don't be intimidated by the big merchants," he advises.

What's more, today's small merchant may become tomorrow's large merchant. Tucker has clients who were earning $10,000 in monthly revenue four years ago and now bring in $200,000 monthly.

Not every deal goes smoothly and when one goes badly, Tucker always attempts to learn a lesson. "Never make the same mistake twice," he advises new reps.

Stay late and make another call, he says. Don't stop to celebrate after scoring a big deal – keep calling and maintain the momentum, he cautions. "Don't leave any money on the table," he continues. "There's always somebody willing to do more work than you."

He races against the clock during his 12-hour work days. He never takes the time to go out for lunch. After all, a merchant could get a better offer while Tucker's lingering over dessert and coffee. If he can fund every deal within an hour that leaves little time for a competitor to intervene with a better offer.

His vacations are short but intense. He joins forces with Stern and other colleagues do things like fly to Florida on a Saturday morning, go skydiving or take the joystick of a jet fighter plane to do some barrel rolls that afternoon, and then fly home that evening. They'll catch a World Series game without missing a day of work. His longest breaks from the office have been 48 or 72 hours.

"I get anxiety if I'm not here," he says about time away from the office. "I'm missing out on deals. It consumes a big part of your life. The ISOs are depending upon you." And though it might sound clichéd, Tucker believes strongly in something: "If you put in the work, you'll get the results," he maintains. "Nothing gets handed to you in this business."

UNDERWRITING 101—VETERAN FUNDERS SHARE TOOLS OF THE TRADE

By *CHERYL WINOKUR MUNK*

For brokers, funding partnerships are critical to success. But making the most of these connections can be elusive.

"Transparency, efficiency and a thorough scrubbing on the front end can help the whole process," says William Gallagher, president of CFG Merchant Solutions, an alternative funder with offices in Rutherford, N.J. and Manhattan.

Gallagher recently moderated an "Underwriting 101" panel at Broker Fair 2018, which deBanked hosted in May. The panel featured a handful of representatives from different funding companies discussing various hot-button items including striking the proper balance between technology and human underwriting, trade secrets of the submission process and stacking. Here are some major takeaways from that discussion and from follow-up conversations deBanked had with panel participants.

1 GET TO KNOW EACH FUNDER'S MODUS OPERANDI

Each funder has slightly different processes and requirements. Brokers need to understand the different nuances of each firm so they know how to properly prepare merchants and send relevant information, funders say.

Many brokers sign up with funders without delving deeper into what the different funders are really looking for, says Jordan Fein, chief executive of Greenbox Capital in Miami Gardens, Fla., that provides funding to small businesses.

For example, there are a growing number of companies that rely more heavily on advanced technology for their underwriting, while others have more human intervention. Brokers need to know from the start what the funder's underwriting process is like—the nitty gritty of what each funder is looking for—so they can more effectively send files to the appropriate funder.

"They will look poor in front of the merchant if they don't really know the process," Fein says.

Certainly, it's a different ballgame for brokers when dealing with funders that are more human based versus more automated, says Taariq Lewis, chief executive and co-founder of Aquila Services Inc., a San Francisco-based company that offers merchants bank account cash flow analysis as well as funding that ranges from 70 days to 100 business days.

At Aquila, the process is meant to be totally automated so that brokers spend more time winning deals faster, with better data to do so. This means, however, that some of the underwriting requirements differ from some other industry players. Aquila's most important requirement is that a merchant's business is generally healthy and shows a positive history of sales deposits. Other funders require documents and background explanations, whereas Aquila strives to be completely data-driven, Lewis says. These types of distinctions can be important when submitting deals, funders say.

Stacking is another example of a key difference among funders that brokers need to understand. It's a controversial practice; some funders are open to stacking, while others will only take up to a second or third position; a number of funders shy away from the practice completely. Brokers shouldn't waste their time sending deals if there's no chance a funder will take it; they have to do their research upfront, funders say.

Most times, brokers "don't invest enough time to understand the process," Fein says.

2 WHITTLE DOWN YOUR FUNDER LIST

Some brokers may feel competitive pressure to sign up with as many funders as possible, but it can easily become unwieldy if the list is too long, funders say. Better, they say, to deal with only a handful of funders and truly understand what each of them is looking for.

"There are brokers that deal with 20 [funders], but I don't think it's a good, efficient practice," says Rory Marks, co-founder and managing partner of Central Diligence Group, a New York funder that provides working capital for small businesses.

He suggests brokers select funders that are easy to work with and responsive to their phone calls and emails. Not all funders will pick up the phone to speak with brokers who have questions, but he believes his type of service is paramount, he says. "It's something we do all the time," he says.

He also recommends brokers consider a funder's speed and efficiency of funding as well as document requirements and their individual specialties. There are plenty of funders to choose from, so brokers shouldn't feel they have to work with those that are more difficult, he says.

To prevent a broker's list from becoming too unwieldy, Gallagher of CFG Merchant Solutions suggests brokers have two to three go-to funders in each category of paper from the highest quality down to the lowest. Having a few options in each bucket allows greater flexibility in case one funder changes its parameters for deals, he says.

Brokers "sometimes just shotgun things and throw things against the wall and hope they stick," Gallagher says. Instead, he and other funders advocate a more precise approach –proactively deciding where to send files based on what they know about the merchant and research they've done on prospective funders.

3 INCLUDE RELEVANT BACKGROUND INFORMATION

It used to be that when sending files to funders, brokers would provide some background on the company in the body of the email. This was helpful because even a few sentences can help funders gain some perspective about the company and better understand their funding needs, says Fein of Greenbox Capital.

These days, however, Fein says he's getting more emails from brokers that simply request the maximum funding offer, without providing important details about the business. The financials on ABC importing company aren't necessarily going to tell the whole story because funders won't know what products they import and why the business is so successful and needs money to grow. Providing these types of details could help sway the underwriting process in a merchant's favor. Brokers don't have to say a lot, but funders appreciate having some meaty details. "A few sentences go a long way," Fein says.

4 MANAGE YOUR MERCHANTS' EXPECTATIONS

Many brokers make the mistake of overpromising what they can get for merchants and how long the process could take, funders say. Both can cause significant angst between merchants and brokers and between brokers and funders.

If a company is doing $15k in sales volume and asking for $50k in funding, the broker should know off the bat, the merchant is not going to get what he wants, says Marks of Central Diligence Group. By managing merchant's expectations, brokers are doing their clients—and themselves—a favor. Why waste time on deals that won't fund because they are fighting an uphill battle? Brokers shouldn't knowingly put themselves in the position of having to backtrack later, Marks says.

Instead, explain to the merchant ahead of time he's likely to receive a smaller amount than he'd hoped for. To show him why, walk the merchant through a general cash flow analysis using data from the past three to four months, says Gallagher of CFG Merchant Solutions. This will help merchants understand the process better, and it can help raise a broker's conversion rate, he says.

"It's about setting realistic expectations," Marks says.

5 DIG DEEPER

Sometimes brokers take only a cursory look at a merchant's financials, and because of this, they overlook important details that can delay, significantly alter, or sink the underwriting process, funders say.

Heather Francis, founder and chief executive of Elevate Funding in Gainesville, Fla., offers the hypothetical example of a merchant who has total deposits of $80k in his bank account. On its face, it may look like a solid deal and the broker may make certain assurances to the merchant. But if it comes out during underwriting that most of the deposits are transfers from a personal savings account as opposed to sales, there can be trouble. Based on the situation, the merchant may only be eligible for $30k, but yet the owner is expecting to receive $80k based on his discussions with the broker. Now you have an unhappy merchant, a frustrated broker and a funder who may be blamed by the merchant, even though it's really the broker who should have dug deeper in the first place and then managed the merchant's expectations accordingly. "We see that a lot," says Francis.

6 PROVIDE FULL DISCLOSURE

To get the most favorable deals for merchants, some brokers only present the rosiest of information in the hopes that the funder won't discover anything's amiss. Several panelists expressed frustration with brokers who purposely withhold information, saying it puts deals at risk and makes the process much less efficient for everyone.

Marks of Central Diligence Group offers the hypothetical example of a merchant whose sales volume dipped in two of the past six months. To push the deal through, a broker might submit only four months of data, hoping the funder doesn't ask about the other two months. Some funders might accept only four statements, but other shops will want to see six. If a funder then asks for six, the broker's omission creates unnecessary friction, he says.

Funders say it's better to be upfront and disclose relevant information such as sales dips or some other type of temporary setback that weighs a merchant's financials. Kept hidden, even small details could easily become game-changers—or deal-breakers—a losing proposition for merchants, brokers and funders alike.

"If we have the full story upfront and we're going in eyes wide open, we can look at the file in a little bit of a different way," says Gallagher of CFG Merchant Solutions.

INDUSTRY *NEWS*

5/21
It's reported that Kabbage, an online business lender, would launch a payment processing service by the end of the year

StreetShares, an online business lender, announced they would no longer be deducting origination fees from the loan amount automatically. Instead, merchants can choose to pay it off via their weekly payment.

5/23
Real estate investing platform PeerStreet surpassed $1 billion in loans funded

New Federal Reserve report revealed that more small employer owned firms applied for merchant cash advances than they did for factoring. See: http://dbnk.news/1B

5/24
GreenSky, Inc. gets listed on the Nasdaq

Prosper Marketplace raised its maximum loan size to $40,000

5/29
OU Financial reported a net income of $797,198 (CAD) for Q1. They originated $24.5 million (CAD) in loans.

5/30
Breakout Capital announced new $15 million credit facility with Medalist Partners

6/4
Gibraltar Capital Advance rebranded to Wellen Capital, LLC following the successful sale of related company Gibraltar Business Capital, LLC to TZ Mountain Capital Holdings, LLC

Far West Capital announced their merger and platform sale to Advantage Business Capital, Inc. of Houston, TX

NYC-based installment lender Fig Loans raised a $2.6 million seed round

LeaseQ, an online marketplace for equipment financing, announced a partnership with SEFA, a non-profit association of leading supply and equipment dealers in the food industry

6/5
Fora Financial acquired a significant stake in US Business Funding

BlueVine raised $60 million in Series E led by Menlo Ventures

Cross River Bank hired Kevin Gallagher to head its SBA loan division. Gallagher previously led business development efforts at Empire State CDC: The 504 Company.

6/6
In Australia, online small business lender Prospa, delayed its IPO after regulator concerns about their business model

6/8
Strategic Funding closed on the issuance and sale of $105 million of fixed-rate asset-backed notes in a 144a private securitization. Guggenheim Securities served as sole structuring advisor and sole initial purchaser of the notes.

The Alternative Finance Bar Association held their 2nd annual conference

6/11
The Online Lenders Alliance hired Mary Jackson, a 10-year board member, as its new CEO

The New York Institute of Credit celebrated 100 years and honored executive director Harvey Gross

Ranger Direct Lending disclosed that it would be winding the fund down

Australia-based Westpac Bank ended its referral relationship with Prospa, five days after Prospa postponed its IPO

6/13
The Federal Reserve hiked its benchmark rate to 1.75% – 2.00%

6/14
National Funding announced as title sponsor of deBanked CONNECT San Diego

6/18
Payment company Square was approved for a cryptocurrency license in New York

6/19
It's disclosed that the long-running stacking lawsuit between RapidAdvance and Pearl Capital was settled before trial

National Business Capital announced a new hybrid SBA loan product, called the Hybridge SBA Loan

6/20
KeyBank acquired the digital lending platform created by Bolstr

6/21
A federal judge in New York ruled that the CFPB's structure is unconstitutional and therefore has no standing to bring lawsuits

P2Binvestor secured more than $17 million in debt and equity to grow its new bank partnership program

LendUp announced Capital One co-founder Nigel Morris had joined as board chair and QED Investors founding partner Frank Rotman had joined as board member

6/25
Venmo launched its own MasterCard debit card

6/27
Facebook reversed its cryptocurrency ad ban

A class action lawsuit filed in San Mateo County, CA alleged that XRP tokens are really just unregistered securities peddled by Ripple Labs Inc.

6/28
Kalamata Capital and Kings Cash Group merge. New company called Kalamata Capital Group (KCG)

LendingPoint announced an increase in its credit facility with Paragon Outcomes Management to $52.5 million

Amazon Express announced plans to to partner with Amazon on a co-branded Amazon credit card for small businesses

7/3
Breakout Capital acquired the technology of defunct real estate tech company HomeZen

7/5
It's reported that Square had withdrawn its bank charter application

7/6
Goldman Sachs' Marcus went on a hiring spree in London in anticipation of launching its first consumer banking business in the UK

7/9
OnDeck hired Stephen Klimas as Head of Investor relations. Klimas was previously at Avolon, a global commercial aircraft leasing company, where he served as Managing Director for Finance and Capital Markets following the company's acquisition of CIT Aerospace in 2017.

Yellowstone Capital expanded its credit facility to $120 million

7/10
Lendistry became a member of the Federal Home Loan Bank of San Francisco

Equifax and Thinking Capital announced the launch of BillMarket, a service that will now provide Canadian small businesses with a credit grade, A through E

Axiom Bank acquired Allied Affiliated Funding

7/11
The New York Department of Financial Services published its required report on online lending. See: http://dbnk.news/1A

iAdvance Now hired John Kuriger as Chief Revenue Officer. Kuriger was formerly a vice president at Lendio.

7/13
It's announced that LendingTree would acquire Student Loan Hero, a personal finance website dedicated to helping student loan borrowers manage their student debt

7/16
Kabbage hired Scott Rosenberg as CFO. Rosenberg was previously the president and CFO for Purchasing Power, LLC and before that, the CFO of eBay Enterprise

Lending Club hired Ronnie Momen as Chief Lending Officer. Momen was previously the Chief Credit Officer of GreenSky

It's reported that the CFA exam will now include sections about cryptocurrency and blockchain

7/18
OnDeck completed two new international credit facilities of nearly $100 million collectively in Australia and Canada

The Bureau of Consumer Financial Protection hired Paul Watkins to lead the Bureau's new Office of Innovation. Watkins was previously at the Arizona Office of the Attorney General, where he was in charge of the office's fintech initiatives.

7/19
P2Binvestor and Amalgamated Bank form alliance that allows Amalgamated Bank to participate in larger financing deals with lower risk for early-stage small- to medium-sized businesses that typically would not qualify for bank financing

7/22
It's reported that Snapchat would terminate its Snapcash payment service on August 30th

7/24
It's announced that eBay would begin rolling out Apple Pay acceptance by fall

nCino, a cloud-based lending platform, partnered with Santander Bank

THE SEVEN-MINUTE LOAN SHAKES UP WASHINGTON AND THE 50 STATES

By *PAUL SWEENEY*

It takes seven minutes for Kabbage to approve a small-business loan.

"The reason there's so little lag time," says Sam Taussig, head of global policy at the Atlanta-based financial technology firm, "is that it's all automated. Our marginal cost for loans is very low," he explains, "because everything involving the intake of information – your name and address, know-your-customer, anti-money-laundering and anti-terrorism checks, analyzing three years of income statements, cash-flow analysis – is one-hundred-percent automated. There are no people involved unless red flags go off."

One salient testament to Kabbage's automation: Fully $1 billion of the $5 billion in loans that it has made to 145,000 discrete borrowers since it opened its portals in 2011 were made between 6 p.m. and 6 a.m.

Now compare that hair-trigger response time and 24-hour service for a small business loan of $1,000-$250,000 with what occurs at a typical bank. "Corporate credit underwriting requires 28 separate tasks to arrive at a decision," William Phelan, president, and co founder of PayNet—a top provider of small-business credit data and analysis – testified recently to a Congressional subcommittee. "These 28 tasks involve (among other things): collecting information for the credit application, reviewing the financial information, data entry and calculations, industry analysis, evaluation of borrower capability, capacity (to repay), and valuation of collateral."

A "time-series analysis," the Skokie (Ill.)-based executive went on, found that it takes two-to-three

weeks – and often as many as eight weeks—to complete the loan approval process. For this "single credit decision," Phelan added, the services of three bank departments – relationship manager, credit analyst, and credit committee – are required.

The cost of such a labor-intensive operation? PayNet analysts reckoned that banks incur $4,000-$6,000 in underwriting expenses for each credit application. Phelan said, moreover, that credit underwriting typically includes a subsequent loan review, which consumes two days of effort and costs the bank an additional $1,000. "With these costs," Phelan told lawmakers, "banks are unable to turn a profit unless the loan size exceeds $500,000."

According to the National Bureau of Economic Research, the country's very biggest banks—Bank of America, Citigroup, J.P. Morgan Chase, and Wells Fargo—have been the financial institutions most likely to shut down lending to small businesses. "While small business lending declined at all banks beginning in 2008," NBER's September, 2017 report announces, "the four largest banks"—which the report dubs the 'Top Four'—"cut back significantly relative to the rest of the banking sector."

NBER reports further that by 2010—the "trough" of the financial crisis—the annual flow of loan originations from the Top Four stood at just 41% of its 2006 level, which compared with 66% of the pre-crisis level for all other banks. Moreover, small-business lending at the "Top Four" banks remained suppressed for several years afterward, "hovering" at roughly 50% of its pre-crisis level through 2014. By contrast, such lending at the rest of the country's banks eventually bounced back to nearly 80% of the pre-crisis level by 2014.

That pullback—by all banks—continues, says Kenneth Singleton, an economics professor at Stanford University's Graduate School of Business. Echoing Phelan's testimony, Singleton told deBanked in an interview: "Given the high underwriting costs, banks just chose not to make loans under $250,000," which are the bread-and-butter of small-business loans. In so doing, he adds, banks "have created a vacuum for fintechs."

All of which helps explain why Kabbage and other fintechs making small business loans are maintaining a strong growth trajectory. As a Federal Reserve report issued in June notes, the five most prominent fintech lenders to small businesses—OnDeck, Kabbage, Credibly, Square Capital, and PayPal—are on track to grow by an estimated 21.5 percent annually through 2021.

Their outsized growth is just one piece—albeit a major one—of fintech's larger tapestry. Depending on how you define "financial technology," there are anywhere from 1,400 to 2,000 fintechs operating in the U.S., experts say. Fintech companies are now engaged in online payments, consumer lending, savings and investment vehicles, insurance, and myriad other forms of financial services.

Fintechs' advocates—a loose confederacy that includes not only industry practitioners but also investors, analysts, academics, and sympathetic government officials—assert that the U.S. fintech industry is nonetheless being blunted from realizing its full potential. If fintechs were allowed to "do their thing," (as they said in the sixties) this cohort argues, a supercharged industry would bring "financial inclusion" to "unbanked" and "underbanked" populations in the U.S. By "democratizing access to capital," as Kabbage's Taussig puts it, harnessing technology would also re-energize the country's small businesses, which creates the majority of net new jobs in the U.S., according to the U.S. Small Business Administration.

But standing in the way of both innovation and more robust economic growth, this cohort asserts, is a breathtakingly complex—and restrictive—regulatory system that dates back to the Civil War. "I do think we're victims of our own success in that we've got a pretty good financial system and a pretty good regulatory structure where most people can make payments and the vast majority of people can get credit." says Jo Ann Barefoot, chief executive at Barefoot Innovation Group in Washington, D.C. and a former senior fellow at Harvard's Kennedy School. But because of that "there's been more inertia and slower adoption of new technology," she adds. "People in the U.S. are still going to bank branches more than people in the rest of the world."

Barefoot adds: "There are five agencies directly overseeing financial services at the Federal level and another two dozen federal agencies" providing some measure of additional, if not duplicative oversight, over financial services. "But there's no fintech licensing at the national level," she says. And because each state also has a bank regulator, she notes, "if you're a fintech innovator, you have to go state by state and spend millions of dollars and take years" to comply with a spool of red tape pertaining to nonbanks.

At the federal level, the current system—which includes the Federal Reserve, Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC)—developed over time in a piecemeal fashion, largely through legislative responses to economic panics, shocks and emergencies. "For historical reasons," Barefoot remarks, "we have a lot of agencies" regulating financial services.

For exhibit A, look no further than the Consumer Financial Protection Bureau created amidst the shambles of the 2008-2009 financial crisis by the 2010 Dodd-Frank Act. Built ostensibly to preserve safety and soundness, the agencies have constructed a moat around the banking system.

Karen Shaw Petrou, managing partner at Federal Financial Analytics, a Washington, D.C. consultancy, is a banking policy expert who frequently provides testimony to Congress and regulatory agencies. She wrote recently that the country's banking sector has been protected from the kind of technological disruption that has upended a whole bevy of industries.

"The only reason Amazon and its ilk may not do to banking, brokers and insurers what they did to retailers—and are about to do to grocers and pharmacies," she observed recently in a blog—"is the regulatory structure of each of these businesses. If and how it changes are the most critical strategic factors now facing finance."

Cornelius Hurley, a Boston University law professor and executive director of the Online Lending Policy Institute, is especially critical of the 50-state, dual banking system. State bank regulators oversee 75 percent of the country's banks and are the primary regulators of nonbank financial technology

companies. "The U.S. is falling behind other countries that are much less balkanized," Hurley says. "Our federal system of government has served us well in many areas in our becoming a leading civil society. It's given us NOW (Negotiable Order of Withdrawal) accounts, money-market accounts, automatic teller machines, and interstate banking. But now it's outlived its usefulness and has become an impediment."

Take Kabbage, which actually avoids a lot of regulatory rigmarole by virtue of its partnership with Celtic Bank, a Utah-chartered industrial bank. The association with a regulated state bank essentially provides Kabbage with a passport to conduct business across state lines. Nonetheless, Kabbage has multiple, incessant, and confusing dealings with its bank overseers in the 50 states.

"Where the states get involved," says Taussig, "is on brokering, solicitation, disclosure and privacy. We run into varying degrees of state legislative issues that make it hard to do business. Right now we're plagued by what's been happening with national technology actors on cybersecurity breaches and breach disclosures. We are required to notify customers. But some states require that we do it in as few as 36 hours, and in others it's a couple of months. We've lobbied for a national breach law of four days," he adds, which would "make it easier for everyone operating across the country."

Then there's the meaning of "What is a broker?'" says Taussig, who as a regulatory compliance expert at Kabbage sees his role as something of an emissary and educator to regulators and politicians, the news media, and the public. "The definitions haven't been updated since the 1950s and now we have wildly different interpretations of brokering and solicitation," he says. "The landscape has changed with e-commerce and each state has a different perspective of what's kosher on the Internet."

Washington State is a good example. It's one of a handful of jurisdictions in which regulators confine nonbank fintechs to making consumer loans. In a kabuki dance, fintech companies apply for a consumer-lending license and then ask for a special dispensation to do small-business lending.

And let's not forget New Mexico, Nevada and Vermont where a physical "brick-and-mortar" presence is required for a lender to do business. Digital companies, Taussig says, would have to seek a waiver from regulators in those states. "Many companies spend a lot of money on billable hours for local lawyers to comply with policies and procedures," Taussig reports, "and it doesn't serve to protect customers. It's really just revenue extraction."

All such restraints put fintechs at a disadvantage to traditional financial institutions, which by virtue of a bank charter, enjoy laws guaranteeing parity between state-chartered and federally chartered national banks. The banks are therefore able to traverse state lines seamlessly to take deposits, make loans, and engage in other lines of business. In addition, fintechs' cost of funds is far higher than banks, which pay depositors a meager interest rate. And banks have access to the Fed discount window, while their depositors' savings and checking accounts are insured up to $200,000.

The result is a higher cost of funds for fintechs, which principally depend on venture capital, private equity, securitization and debt financing as well as retained earnings. And that translates into steeper charges for small business borrowers. A fintech customer can easily pay an interest rate on a loan or line of credit that's three to four times higher than, say, a bank loan backed by the U.S. Small Business Administration.

Kabbage, for example, reports that its average loan of roughly $10,000 typically carries an interest rate of 35%-36%. It's credits are, of course, riskier than the banks'. The company does not report figures on loans denied, Taussig told deBanked, but Stanford's Singleton says that the fintech industry's denial rate is roughly 50 percent for small business loans. "Fintechs have higher costs of capital and they're also facing moderate default rates," notes Singleton. "They're not enormous, but fintechs are dealing with a different segment. Small businesses have much more variability in cash flows, so lending could be riskier than larger, established companies."

Even so, venture capitalists continue to pour money into fintech start-ups. "I've gone to several conferences," Singleton says, "and everywhere I turn I'm meeting people from a new fintech company. One of the striking things about this space," he adds, "is that there are lot of aspiring start-ups attacking very specific, very narrow issues. Not all will survive, but someone will probably acquire them."

Contrast that to the world of banking. Many banks are wholeheartedly embracing technology by collaborating with fintechs, acquiring start-ups with promising technology, or developing in-house solutions. Among the most impressive are super-regionals Fifth Third Bank ($142.2 billion), Regions Financial Corp. ($123.5 billion), and BBVA Compass ($69.6 billion), notes Miami-based bank consultant Charles Wendel. But many banks are content to cater to familiar customers and remain complacent. One result is that there's been a steady diminution in the number of U.S. banks.

Over the past ten years, fully one-third of the country's banks were swallowed whole in an acquisition, disappeared in a merger, failed, or otherwise closed their doors. There were 5,670 federally insured banks at the end of 2017, according to the Federal Deposit Insurance Corp., a 2,863-bank, 33.5% decrease from the 8,533 commercial banks operating in the U.S. in 2007.

It does appear that, to paraphrase an old expression, many banks "are going out of style." In recent years there have been more banking industry deaths than births. Sixty-three banks have failed since 2013 through June while only 14 de novo banks have been launched. In Texas, which is known for having the most banks of any state in the country, only one newly minted bank debuted since 2009. (The Bank of Austin is the new kid on the Texas block, opening in a city known as a hotbed of technology with its "Silicon Hills.")

One reason there's so little enthusiasm among venture capitalists and other financial backers for investing in de novo banks is that regulators are known to be austere. “If you’re a company in the U.S.,” says Matt Burton, a founder of data analytics firm Orchard Platform Markets (which was recently acquired by Kabbage), “and you tell regulators that you want to grow by 100 percent a year – which is the scale you must grow at to get venture-capital funding – regulators will freak out. Bank regulators are very, very strict. That’s why you never hear about new banks achieving any sort of scale.”

But while bank regulators “are moving sluggishly compared to the rest of the world” in adapting to the fintech revolution, says Singleton, there are numerous signs that the status quo may be in for a surprising jolt. The Treasury Department is about to issue (possibly by the time this story is published) a major report recommending an across-the-board overhaul in the regulatory stance toward all nonbank financials, including fintechs. According to a report in The American Banker, Craig Phillips, counselor to Treasury Secretary Steven Mnuchin, told a trade group that the report would address regulatory shortcomings and especially “regulatory asymmetries” between fintech firms and regulated financial institutions.

Christopher Cole, senior regulatory counsel at the Independent Community Bankers Association—a Washington, D.C. trade association representing the country’s Main Street bankers—told deBanked that, among other things, the Treasury report would likely recommend “regulatory sandboxes.” (A regulatory sandbox allows businesses to experiment with innovative products, services, and business models in the marketplace, usually for a specified period of time.)

That’s an idea that fintech proponents have been drumming enthusiastically since it was pioneered in the U.K. a few years ago, and it’s something that the independent bankers’ lobby, whose member banks are among the most threatened by fintech small-business lenders, says it too can support. Treasury’s Phillips “has said in the past that he’d like to see a level playing field,” the ICBA’s Cole says. “So if (regulators) are going to allow a sandbox, any company could be involved, including a community bank. We agree with him, of course, because we’d like to take advantage of that.”

In March, 2018, Arizona became the first state to establish a regulatory sandbox when the governor signed a law directing that state’s attorney general (and not the state’s banking regulator) to oversee the program. The agency will begin taking applications in August with approval in 90 days, says Paul Watkins, civil litigation chief in the AG’s office. Watkins told deBanked that he’s been most surprised so far by “the degree of enthusiasm” from overseas companies. With the advent of the sandbox, he adds, “Landlocked Arizona has become a port state.”

The OCC, which is part of the Treasury Department, may also revive its plan to issue a national bank charter to fintechs, sources say – a hugely controversial proposal that was put on ice last year (and some thought left for dead) when former Commissioner Thomas J. Curry’s tenure ended last spring. At his departure, the fintech bank charter faced a lawsuit filed by both the New York State Banking Department and the Conference of State Bank Supervisors. (Since then, the lawsuit was tossed out by the courts on the ground that the case was not “ripe” – that is, it was too soon for plaintiffs to show injury).

Taussig, the regulatory expert at Kabbage, reports that the Comptroller of the Currency, Robert J. Otting, has promised “a thumbs-up or thumbs-down” decision by the end of July or early August on issuing fintechs a national bank charter. He counts himself as “hopeful” that OCC’s decision will see both of the regulator’s thumbs pointing north.

The Conference of State Bank Supervisors, meanwhile, has extended an olive branch to the fintech community in the form of “Vision 2020.” CSBS touts the program as “an initiative to modernize state regulation of non-bank financial companies.” As part of Vision 2020, CSBS formed a 21-member “Fintech Industry Advisory Panel” with a recognizable roster of industry stalwarts: small business lenders Kabbage and OnDeck Capital are on board, as are consumer lenders like Funding Circle, LendUp and SoFi Lending Corp. The panel also boasts such heavyweights in payments as Amazon and Microsoft.

Working closely with the fintech industry is a “key component” of Vision 2020, Margaret Liu, deputy general counsel at CSBS, told deBanked in a recent telephone interview. CSBS and the fintech industry are “having a dialogue,” she says, “and we’re asking industry to work together (with us) and bring us a handful of top recommendations on what states can do to improve regulation of nonbanks in licensing, regulations, and examinations.

“We want to know,” she added, ‘What the main friction points are so that we can find a path forward. We want to hear their concerns and talk about pain points. We want them to know the states are not deaf and blind to their concerns.”