



Businesses try to Net financial assistance

By Greg Farrell, USA TODAY

It's a universal truth that small-business owners need money to grow. The problem is that most don't qualify for bank loans with an 8% interest rate, and even more don't want to do business with predatory lenders who charge 40% and remind them of Tony Soprano.

Since the credit crunch of 2007, some 400 banks have opted out of the federal government's guaranteed small-business-loan program, making it tougher than ever for entrepreneurs to get attractive loans.

But now, thanks to the Internet and the power of automation, a new wave of online financiers has emerged to fill the gap.

The market is real, and the potential for growth is huge, at least according to James Robinson III, former CEO of American Express. He is leading a consortium of venture capitalists backing On Deck Capital, a financing network designed to provide loans to small businesses that can't pass muster with banks.

On Deck is not the first to target this financing niche. Other entrants in the field of microlending, as it's known, include:

•**Virgin Money.** Formerly known as Circle Lending, and acquired by British entrepreneur Richard Branson last year, Virgin specializes in managing "friends and family" loans to entrepreneurs.

•**Prosper.** The online peer-to-peer lending service is modeled on eBay, and provides an online forum through which lenders match up with borrowers.

•**Zopa.** This is a social lending website that offers investors a fixed rate of return, and provides a list of vetted borrowers who need support. Backed by credit unions, Zopa guarantees CD investments up to \$100,000. Many investors accept less than the 3.75% rate of return to fund start-ups, sometimes in return for equity. "We underwrite the loans, but we let investors decide who they give the benefit to," CEO Doug Dolton says.

At On Deck, the company has spent the past year fine-tuning its approach to vetting borrowers. Banks turn down seven out of 10 small-business applications, On Deck CEO Mitch Jacobs says, because they focus almost exclusively on an entrepreneur's credit rating. And, since most sole proprietors finance their operations with personal credit cards, they tend to have lower credit ratings than what the banks are looking for.

Instead of focusing on credit scores alone, On Deck also studies cash flow charts generated by the companies' Visa and MasterCard customer transactions.

"When you look at credit scores, you're looking at the struggles of a business," Jacobs says. "When you look at cash flow, you're looking at the success of a business. We've entered the market to be an ally of these business owners."

Anne Sullivan started The Soccer Locker in Lansing, Mich., four years ago with savings from her past career at KPMG Peat Marwick. Eventually, she used credit cards to help finance the business, which does about \$500,000 a year in sales. But she had no luck with banks.

"Mostly they turned me down because the loans would be unsecured," Sullivan says. "I didn't have any tangible assets that I could put up against a loan. With retail, your inventory is not something a bank could sell."

She explored merchant advance services, but didn't like the conditions they imposed: In her case, they would have taken 25% of her daily credit card sales, and charged interest of 40%. "If you're going to borrow \$20,000, you're up to \$28,000 already," Sullivan says.

Trolling around online for sources of funding, Sullivan discovered On Deck and started doing business with the company in December. The interest rate wasn't cheap — between 18% and 20% — but On Deck deducts a defined dollar amount from her sales every day.

"It's working great," Sullivan says. "I would do it again. I like the fact that the daily payment is a stable amount. I can plan for it."

Entrepreneurs such as Sullivan represent a huge opportunity, says Matt Harris of Village Ventures, an early investor in On Deck. "Banks are not set up to calibrate risk and reward," he says. "In fact, they're set up to minimize risk. We just think there's a better way."

Bob Seiwert of the American Bankers Association says there is always credit available for businesses with good track records.

As for going to non-bank lenders online, he advises caution. "If you're a businessman, ask yourself a fundamental question: if something doesn't go right, who can I talk to? You can do that with a community banker, but it's tough to do it online with someone you've never met."