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How New Technology Has Impacted Access to Capital

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Introduction to Foundation

Demond Wilkerson, Director of Partnership Development

- Over 15 years of commercial finance and banking experience with major banks and financial institutions
- Focuses on developing partnerships with agencies and institutions vital to increasing capital access to MWBE businesses nationwide

Foundation is a market leader in developing technology driven small business lending products

- Direct, online lender providing term loans up to \$1mm for all capital-related needs
- Solid financial backing from Goldman Sachs and Garrison Investment Group, a \$4.5bn private equity firm based in NYC
- Partnership-focused business model

Key Partnerships

- Regions Bank
- BancAlliance (consortium of 200+ community banks)
- MBDA
- Other advisors to small businesses

Today I Will Discuss:

- The small business lending market (players and products)
- How technology is driving innovation in small business lending
- The online lending market

Goal of This Presentation:

Help you understand how technology has impacted small business lending, products in the market, the different types of business models, and what it means to your business

Note: The rates and terms shown in this presentation are meant to be directional. Actual rates and terms may vary, based on individual situations and market conditions.

Question:

If your small business needed a loan, whom would you approach first?

A Local bank

B National bank

C Online lender

D Other

MBDA Baltimore Center Small Business Customer Testimonial



GreiBO, 8 Market Place, Baltimore, MD

Customer Name	Shelonda Stokes, CEO and President
Business Overview	A marketing, advertising, and large-scale events company who has been growing incrementally over the past 10 years with clients such as Under Armour, Visit Baltimore, and Pepsi.
Business Need for and Use of Funds	Business Expansion, Working Capital
Their Story and how they came to Foundation	GreiBO knew they needed an infusion of capital to grow their business and pay down their operational debt. They had tried to get funding from other sources but they were denied or had a bad customer experience. With the help of MBDA's Baltimore Center, they developed a 3-5 year business plan to increase revenues. MBDA's partnership with Foundation enabled GreiBO to receive its needed funding after completing Foundation's streamlined online application.
Results	This loan allowed GreiBO to pay some pressing bills, giving them breathing room, and to invest in business development, allowing them to bid on two new projects.
Customer Quote:	"We have been in business now for 15 years and as I look back on our business history, I realize that it would have been a big help to have gotten an infusion of cash earlier on. We weren't able to build the infrastructure that we needed to grow and develop new business using credit cards and accumulating debt. Now with the help of MBDA's Baltimore Center and Foundation's online lending process, we can pay our bills and invest in our future growth."

Small Business Lending Has Evolved

1 Banks tightened up lending criteria

2 New types of lenders entered the marketplace

3 Technology innovations have created a quicker, more efficient underwriting process:

- Real-time data
- Business systems are more efficient
- Sophisticated customer and credit analytics

Small Business Lenders and Types of Loans

	BANKS	ONLINE LENDERS
Participants	<ul style="list-style-type: none">Large, Multinational BanksRegional BanksCommunity Banks	<ul style="list-style-type: none">Online Direct LendersMarketplace/P2P LendersBrokers / AggregatorsMerchant Cash Advance Companies
Types of Small Business Credit Products	<ul style="list-style-type: none">Lines of CreditSBA LoansTerm LoansEquipment Financing	<ul style="list-style-type: none">Lines of CreditTerm LoansMerchant Cash AdvancePayment Contract Loans

Considerations When Deciding on Which Lender to Approach

	BANKS	ONLINE LENDERS
Collateral	<ul style="list-style-type: none"> • May require collateral such as real estate, equipment or inventory 	<ul style="list-style-type: none"> • Collateral is not always required
Personal Guarantee	<ul style="list-style-type: none"> • Required 	<ul style="list-style-type: none"> • Almost always required
Interest Rate	<ul style="list-style-type: none"> • Almost always the lowest rate option 	<ul style="list-style-type: none"> • Interest rate may be slightly higher, to higher, than that of banks
Time to Funding	<ul style="list-style-type: none"> • Often takes at least a few weeks 	<ul style="list-style-type: none"> • May be as few as 2—3 business days
Term	<ul style="list-style-type: none"> • Up to 10 years, in certain cases 	<ul style="list-style-type: none"> • Usually capped at 5 years; many only offer shorter term
Origination Fees	<ul style="list-style-type: none"> • Usually approximately 1.0% to 3.0% of loan amount 	<ul style="list-style-type: none"> • Usually approximately 2.0% to 5.0% (or of the loan amount)
Prepayment Penalty	<ul style="list-style-type: none"> • Borrower may be subject to a fee when paying the loan off early 	<ul style="list-style-type: none"> • Depends on lender and product • Some may assess prepayment penalties
Documentation Required	<ul style="list-style-type: none"> • Full financial package--tax returns, bank statements, debt schedule and personal financial statement 	<ul style="list-style-type: none"> • Depends on lender and product • Ranges from 3 months of bank statements full financial package

The Most Important Question IsWhy Are You Borrowing?

Business Expansion	<ul style="list-style-type: none">• I have new opportunities to capitalize on• Possible Solution: Term loan, project-based financing
Working Capital or Lack of Consistent Cash Flow	<ul style="list-style-type: none">• I need help meeting payroll; Cash flow has been inconsistent and I expect it to pick up• Possible Solution: Line of credit, Term line of credit, Bridge financing
Purchase Inventory	<ul style="list-style-type: none">• I need new inventory• Possible solution: Line of credit, Term loan
Purchase Equipment	<ul style="list-style-type: none">• I have equipment I need to buy• Possible solution: Term loan, Equipment lease
Refinance Existing Debt	<ul style="list-style-type: none">• I need to recapitalize• Possible solutions: SBA 7a loan, term loan

Overview of the Types of Common Small Business Lending Products

Lines of Credit	<ul style="list-style-type: none">• Allow borrower to draw funds when they need• Monthly or bimonthly payment• Banks: Typically 4%—10%+ APR, Online lenders: 7%—50%+ APR
Term Loans	<ul style="list-style-type: none">• Monthly or bimonthly payment• 1—5 year term• Banks: Typically 4.0%—10.0% APR; Online lenders: 8.0%—30.0% APR
SBA Loans	<ul style="list-style-type: none">• Banks offer government-backed lines of credit and term loans• 5—10 year term• Typically 4%—7% APR
Equipment Finance	<ul style="list-style-type: none">• Borrow utilizing equipment as collateral• Typically 4%—10%+ APR
Merchant Cash Advance & Payment Contract Loans	<ul style="list-style-type: none">• Daily or weekly payment• 3—36 month term• Approximately 30%—120% APR

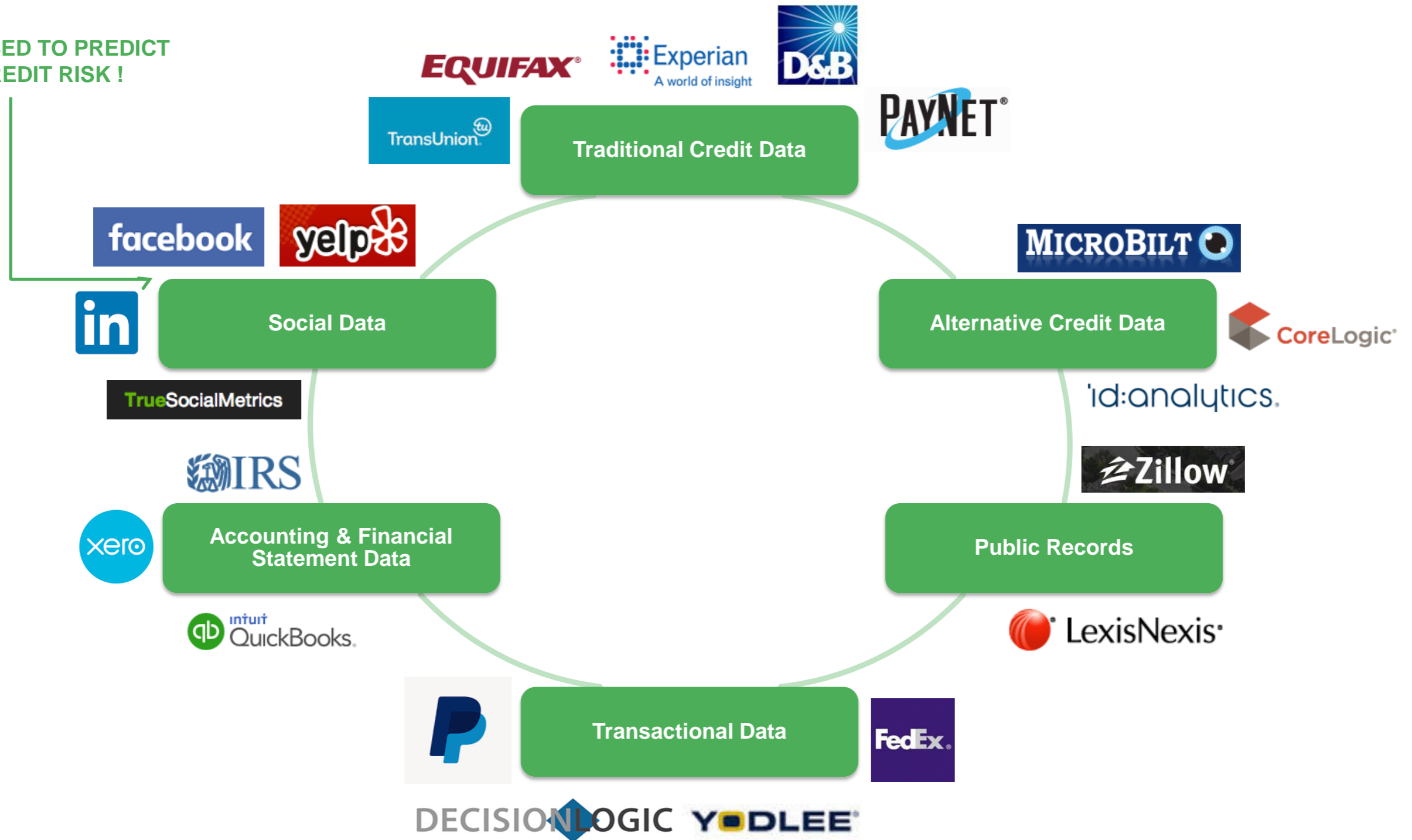
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The Digital Experience Unlocked

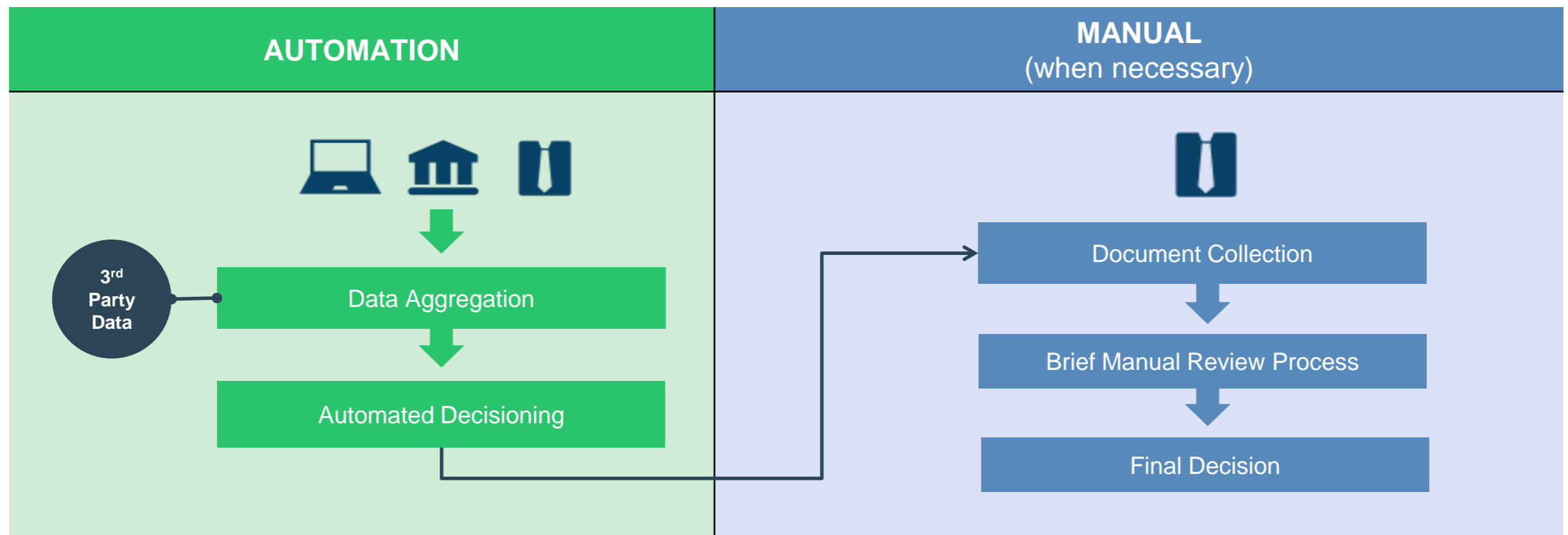
Data Aggregation – Capturing Data Available on You and Your Business

NOT USED TO PREDICT CREDIT RISK!



THERE IS A LOT OF DATA OUT THERE. KNOW WHAT LENDERS ARE LOOKING AT!

Technology Driven Underwriting



- Personal credit history
- Business credit history
- Personal and business related public records
- Business verification and fraud related data
- Industry performance related data
- Quantifies / scores risk using proprietary algorithms
- Some automated systems deliver offers in real time

- Verification of information
- Review of key risk factors found during Automated process
- Depending on the company or size of the loan requests, a cash flow analysis may be performed



The Online Lending Market

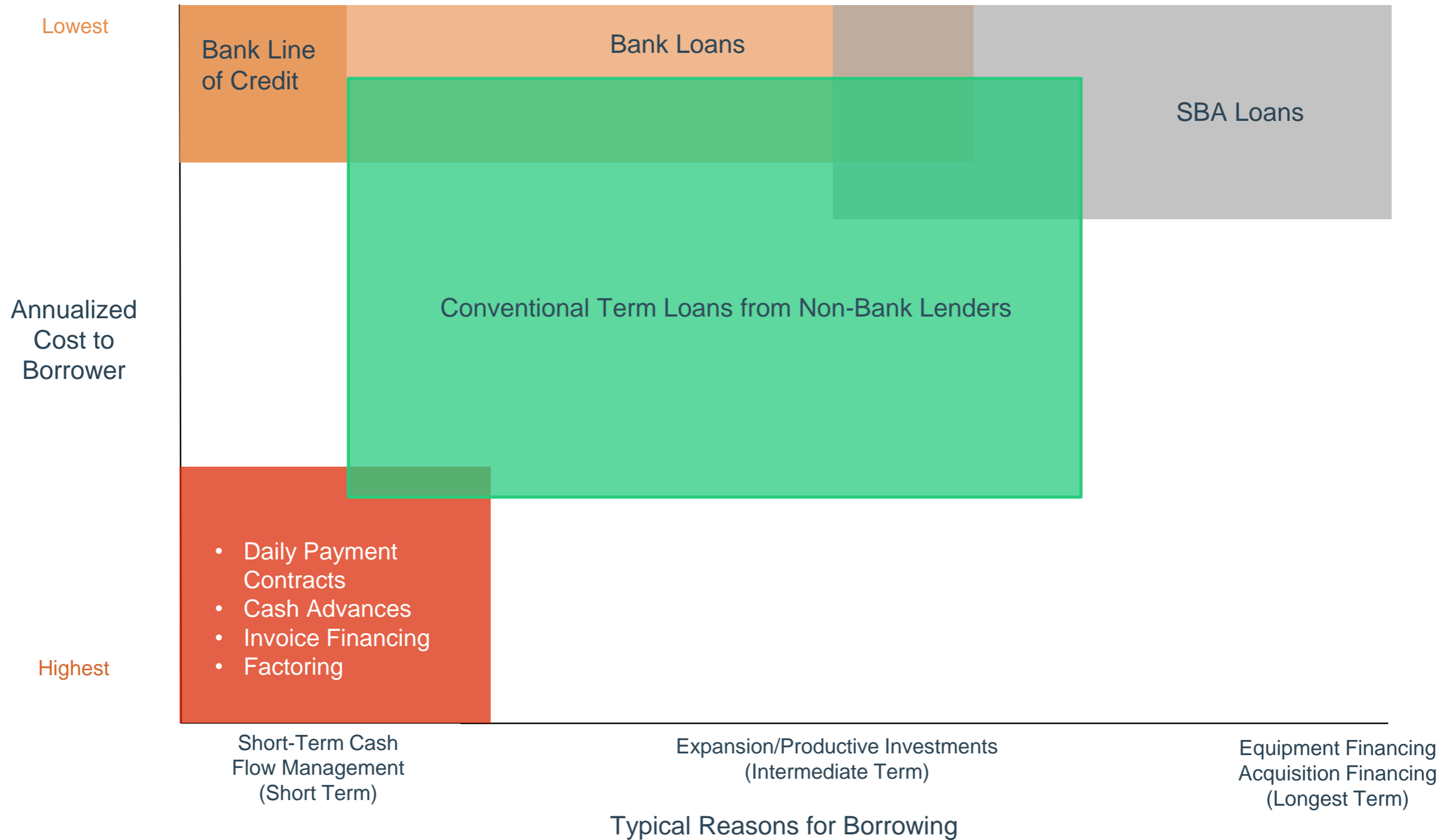
Business Models “What Seems Similar May NOT Be Similar”

Sourcing Customers	Underwriting & Risk Management	Servicing & Collections	Capital	Who
AGGREGATOR				
“MARKETPLACE LENDERS”				
DIRECT LENDERS AND CASH ADVANCE COMPANIES				
	“CREDIT SOLUTIONS PROVIDER”			

Hybrid Models
(Aggregators that also Deploy a Balance Sheet)



Product Landscape



Conventional Term Loan Loans

- Several online lenders offer a term loan with a very similar structure to a bank loan or a mortgage
- Online, conventional term loans are more affordable and comfortable for a business's cash flow than payment contract loans, but usually have higher rates than banks due to the cost of capital (typically 6%—30%)
- Online delivery of loan decisions dramatically speeds up funding process, allowing businesses to attain a bank-like loan in days instead of weeks
- Term loan providers offer longer terms and larger loan amounts than payment contract or cash advance lenders

- Term loan providers offer longer terms and larger loan amounts than payment contract or cash advance lenders
- No prepayment penalty allows a borrower to pay off the loan early and save on interest
- Depending on loan size, documents required can be as little as 3 months of bank statements and as much as a full financial package
- Product is an option for business expansion (new locations, employees, products, etc.), inventory, equipment, capital improvements/renovations, working capital, and refinancing higher cost debt

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Payment Contract vs. Conventional Term Loans

	MERCHANT CASH ADVANCE AND FIXED REPAYMENT TERM LOANS	FUNDATION CONVENTIONAL FULLY-AMORTIZING TERM LOAN
Loan Amount	\$100,000	\$100,000
Repayment	1 Year	1 Year
Quoted Rate	Contractual Repayment Rate of \$1.10 on the \$1.00 Usually quoted as “10% interest”	10% Interest Rate
Total Interest Over Life of the Loan	\$10,000 10% of the original loan balance	\$5,291 ²
Total Payments if Paid Through Maturity	\$110,000	\$105,291 ³
Total Payments if Paid Back the Next Day	\$110,000	\$100,028
Effective Annual Percentage Rate if paid through maturity	~19%	10%

¹ This chart is for illustrative purposes only.

² Based on semi-monthly payments instead of one payment per month. One payment per month would result in \$5,499 total interest over the life of the loan

³ Based on semi-monthly payments. One payment per month would result in \$105,499 total payments if paid through maturity

Benefits of Working with Foundation and Your Local MBDA Business Center

Access to Foundation's industry-leading product and process

A fully amortizing conventional term loan—only pay interest on the outstanding principal

Loan amounts from \$20,000-\$1,000,000 with terms of 1-4 years

Foundation's technology enabled process renders credit decisions in as little as one day, and funding in 1-3 business days

No prepayment penalties and light collateral security

MBDA Business Center experts will walk you through how to secure a business loan

Key Criteria for Foundation Approvals

Customer Profile	Tenured businesses looking to improve the viability and stability of their business
Minimum Tenure	≥ 2 Years
Minimum Sales	$\geq \$100,000$
Owner FICO	≥ 620
Bank Balances	Avg. Balance $\geq \$2,000$
MCA Policy	Will Refinance Up to \$100,000 of MCA Debt
Lien Policy	Will Pay Off Small Liens
Bankruptcy Policy	No Personal or Business Bankruptcy in Prior 3 Years
Profitability	Must be Profitable in Prior Year

Approved loan amounts will be determined based on a global cash flow analysis

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SELECT LOCATION

ANCHORAGE	ATLANTA	BALTIMORE	BOSTON
BRIDGEPORT	CHICAGO	DALLAS	DENVER
DETROIT	EL PASO	FRESNO	HONOLULU
HOUSTON	LOS ANGELES	MEMPHIS	MIAMI
MINNEAPOLIS	PHILADELPHIA	PHOENIX	RALEIGH
RIVERSIDE	SAN ANTONIO	SAN FRANCISCO	SAN JOSE
SANTA FE	SILVER SPRING	SOUTH BRONX	ST. LOUIS
TACOMA	TULSA	WASHINGTON, DC	

Foundation is one of the nation's leading digitally enabled small business lenders. The U.S. Department of Commerce Minority Business Development Agency (MBDA) has partnered with Foundation to provide minority business enterprises (MBEs) with expanded access to capital.

Conclusions

- Online lenders use technology to accelerate the underwriting process and service a segment of the market underserved by banks
- There are a lot of ethical companies in the non-bank commercial lending market, but there are also bad actors. Protect yourself by asking the right questions and understanding the financing arrangement you may enter
- Product structure and cost can vary wildly from APRs in the high single digits to over 100%. Conventional term loans offer the most affordable terms for those who qualify. Payment contract loans are fast options for working capital and short-term cash flow management
- Having a clear idea of the key players, the loan products available and your financing needs will allow you to navigate the landscape to find the best fit for your business
- Be prepared for the application process with the documents you may need to provide, and prepare a thorough explanation of why you are seeking funds
- If you are having trouble attaining financing do not get discouraged! Utilize the experts at your local MBDA office to help your business qualify for future financing

Apply Directly at mbda.foundation.com

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