Long Island
BusinessNEWS
APRIL 22-28, 2016 | VOL. 63 | NO. 17 | $2.00 | LIBN.COM

VIRTUAL LENDING

Online growth proves lucrative for consultants

By CLAUDE SOLNIK

As online lending continues to grow, attracting entrepreneurs and large financial institutions, it is turning into a growing source of work for accountants, lawyers and those providing financial advice to investors.

Any growing sector can attract service providers, but online lending, because of its intricacies, issues, regulations and large sums, is proving to be a key new market for accountants and lawyers, in particular.

Manhattan-based OnDeck lending is providing billions of dollars in loans, while Atlanta-based Kabbage grows into an online lending giant. San Francisco-based Lending Club is turning into another big name, topping $16 billion in nine years with about half of that in the past year.

Meanwhile, conventional lenders are leaping into the space. CIT is doing online lending through Direct Capital, while JPMorgan Chase and Santander get into the act.

Traditional loans can easily take 90 days or longer, while online lenders can arrange funding in days, turning this sector into the new face of finance.

"There are algorithms that collect data and analyze the credit worthiness of borrowing," said Jeffrey Wurst, a partner at Ruskin Moscou Faltischek in Uniondale, targeting online commercial lenders as a growing client base. "I think there has to be some human aspect to it. But they are coming up with methods to streamline the process and turn the credit review around quicker."

Chicago-based TransUnion in a study released this month found that online lenders surpassed banks, credit unions and traditional finance firms in personal loans to prime and near-prime consumers.

They initiated $10.14 billion of these loans during the first three quarters of 2015, more than double the amount the prior year.

"Online lending is no longer alternative," said Vince Passione, CEO of Manhattan-based LendKey, whose online lending platform recently broke the billion-dollar threshold. "It's simply what borrowers have come to expect."

Phillip Laycock, an audit partner at Grassi & Co. in Jericho, said his firm sees the sector as a key growth area likely to continue expanding.

"Online lending has provided new opportunities by creating new entrants into the marketplace that need accounting services," he said. "Grassi & Co. is performing auditing and tax services for online lending platforms."

He said these issues, as they relate to investment and lending, have "changed our workload" and "created new complexities to solve from accounting, auditing and tax perspectives."

The larger size of LendIt, an annual online lending conference in San Francisco filled with consultants as well as lenders, is another sign of the industry's growth.

It expanded from a modest several hundred participants just a few years ago to 4,000 attendees this year, including investors, platforms and service providers such as attorneys, accountants and other consultants.

In cyber lending, where the lender and borrower may never meet face-to-face, there can be a need to manage risks regarding default and even collection.

"I think there's a potential of danger," Wurst said. "You get some high-net-worth people coming in there, thinking this platform is bringing the borrower and lender together. My perception is there's a shortage of due diligence on credit worthiness. Investors are at risk."

The multi-state nature of any online business can be nettlesome when it comes to lending, requiring firms to deal with out-of-state issues.

Wurst worked with a New York-based online lender seeking to collect from a borrower in Colorado. While actions can be brought in New York, that leaves issues regarding collecting out of state.

"It's easy to put money out there," Wurst said. "They don't always structure a transaction in the best way."

Some companies structure loans so they're paid back with transfers from bank accounts or credit cards designed to provide a secure payment stream.

"What happens if that borrower decides to change that account or the credit card sweep, so it goes to a different bank account?" Wurst asked.

He said lenders need to get a deposit account control agreement with the bank and not rely solely on the borrower.

"We're working with them to better document transactions," he said, noting his firm provides services for flat fees and at hourly rates.

While consumer lending tends to be more highly regulate than commercial lending, it's important for lenders to be aware of and follow state and federal rules.

"Commercial finance is lightly regulated, where it's regulated," Wurst said of registering and reporting. "But there are still some compliance issues."

Ruskin Moscou also advises investors about when, whether, where and how to invest, a key service as private equity pours into this space where some firms retain loans and others securitize them.

"A lot of money's being put into it," Wurst said. "There's a lot of venture capital put in it."

The sector itself is leading to new types of online companies and products such as peer-to-peer lending, where investors can take part in larger loans, including real estate. And platforms are forming, letting borrowers compare loans.

"Instead of knocking on doors for different loans, you put your redit worthiness in and they mix it through," Wurst said. "Some have as many as 1,500 lenders participating in their platform."

Online lending also fuels the need for conventional services, related to partnerships and mergers. And tech companies are reaching out, offering new features.

Photo by Bob Giglione

JEFFREY WURST: Online lending is growing, fueling a need for services.

Dallas-based Solutions by Text recently partnered with Lake Forest, Calif.-based Nortridge Software, letting lenders communicate automatically with clients by text.

"We know that the ability for lenders to communicate via text will help improve their collection rates," Nortridge President Greg Hindson wrote in a release. "It's going to be a better method of communication compared to mail, email and even calling."

Like any rapid-growth sector, in particular those involving lending, fraud is a potential problem, leading to litigation as well.

In one case on Long Island, litigation is ongoing regarding funds that allegedly were never used for their intended purpose.

Online lending also has provided another way for companies to raise money, with firms sometimes recommending it to borrowers.

"Online lending has created yet another avenue for clients in sourcing capital," Laycock said. "Those who are familiar with these new capital channels can bring greater value to their clients that may have exhausted more traditional resources in capital formation."

It's also a sector likely to experience change, since, as Laycock said, "the various principles, standards and codes may not have always kept pace with the rate of technological change in this area."

The sector may face additional regulation. But many believe it will continue to grow, leading to a growing need for expertise as well as a new dot-com borrowing boom likely to have at least some dot-bombs.

"I hate to go shopping. If I can do it online, I do it," Wurst said. "I think in the future as you can do it online, more people will go online when they need to borrow money."