

RISING TIDE

Wall Street embraces LA fintech companies shaking up the system

By **PAT MAIO** Staff Reporter

Local fintech companies are moving payments and conducting financial transactions at lightning-fast speeds. They're upending credit score models and lending money to small business owners from underrepresented backgrounds.

But brick-and-mortar Wall Street and traditional big money houses aren't casting a wary eye. Instead, they're funneling billions of dollars into fintech.

In a September report, **S&P Global Market Intelligence** estimated fintech companies in the United States attracted nearly \$7.5 billion in venture capital funding in the second quarter of 2021 across 194 transactions, representing a nearly 70% increase year over year.

A huge slice of these deals was grabbed by companies based in Los Angeles.

In L.A., some fintechs have moved to go public, like West Hollywood-based **Dave Inc.** and Marina del Rey-based **Aspiration Partners Inc.** They've closed deals to go public with blank check companies on Wall Street and expect to begin trading before year-end.

Others are in a buildup phase with hundreds of millions of dollars backing them and are getting ready for their next growth spurts.

These heavily bankrolled firms include **Altruist Corp.**, a Venice-based fintech startup building a digital investment platform for registered investment advisers, and **B.S.D. Capital Inc.**, which does business as **Lendistry**, a downtown-based fintech firm delivering billions in Covid-19 relief funding for minority-owned small businesses.

There's also **Welcome Tech Inc.**, a Brentwood-based digital platform designed to give Latino immigrants access to banking, health care and other daily services without paying predatory fees. Burbank-based **Zest-**

Finance Inc., meanwhile, focuses on credit underwriting standards and software to improve credit scoring methods for financial institutions that want to take the bias out of lending.

These four companies alone — **Altruist**, **Lendistry**, **Welcome Tech** and **ZestFinance** — have received \$238 million in venture capital over the past two to three years.

And investors are standing ready to dump more bags of cash into L.A. fintechs.

Just last week, Santa Monica-based **Grow Credit Inc.**, a Black-owned fintech lender that

cards, cellphones, solar equipment and elective medical procedures.

Big commercial banks and credit unions also are paying attention to the fintech world, largely because the pandemic put a new focus on digital banking due to office closures and limitations on in-person shopping.

Last month, Santa Ana-based **Banc of California Inc.**, which established its dual headquarters on L.A.'s Westside this summer, invested \$8 million in fintech **OneNetworks Inc.**, which does business as **Finexio**, an

and extends that engagement, which is what every business is looking for," Chao said.

New rules

As the fintech sector's popularity has gained across California, so has interest in regulating it.

Of particular interest is peer-to-peers, which run money over the internet between parties without the help of a bank. They operate in a gray zone in the banking world without having to provide much in terms of registration with or licensing by state and federal regulators



Zest Chief Executive Mike de Vere

THOMAS WASPER



Camino Financial Chief Executive Sean Salas



Lendistry Chief Executive Everett Sands

RINGO H.W. CHIU/LABJ

helps consumers leverage their subscription payments to build credit for free with **Equifax Inc.**, **TransUnion** and **Experian**, lined up \$106.3 million in an equity and debt financing deal. Investors include **Jason Robins**, chief executive of sports betting operator **DraftKings Inc.**; **National Basketball Association** All-Star player **Baron Davis**; and New York-based investment firm **Arena Investors**.

In the next few weeks, **Camino Financial Inc.**, a downtown-based fintech lender, plans to double the size of its \$100 million lending platform to underbanked small businesses in the Latino community, according to **Sean Salas**, Camino Financial's co-founder and chief executive.

In July, the business crossed a milestone of lending \$100 million to more than 5,500 underserved small businesses. The fintech now has its eyes on inking a debt deal to boost its credit line to a level much greater than its current lending platform before the end of the year. It's also closing a substantially larger capital raise than its \$8 million Series A, according to Salas.

Old money

In February, the privately held auto lender **Westlake Financial Corp.**, formed in 1978 by billionaire **Don Hankey**, decided to get with the fintech action.

In April, the Mid-Wilshire-based lender — with profit last year of \$755 million on revenue of \$2.3 billion — reorganized as a fintech. Its new name is **NowLake Technology**, which is the entity that oversees **Westlake**, its auto lending business and all other lines of business.

NowLake has businesses that develop software for automotive finance, technology, real estate and insurance industries. It also is looking at tapping the software to help in lending for jewelry purchases, consumer loans, credit

Orlando, Fla.-based payment service provider for businesses. **Banc of California** wants an exclusive right to use **Finexio's** payment service to expand its product offerings for its business clients and use the fintech software to build out payment and related loan and deposit services, **Ernest Rolfson**, **Finexio's** founder and chief executive, said.

"They are really a major player in Southern California business economy and growing throughout the state," Rolfson said. "I think they're trying to expand."

Downtown-based **City National Bank** is making investments in the fintech space, as are some local credit unions through a venture capital group startup aimed at investing in fintechs.

Nearly two dozen credit unions around the country banded together to form their own venture capital fund, called **Curql Collective**, to invest heavily in fintechs like **Zest**.

Based in Des Moines, Iowa, **Curql Collective** unveiled its \$150 million war chest in April. Local members include Torrance-based **Unify Financial Credit Union** and Santa Ana-based **SchoolsFirst Federal Credit Union**.

As for **City National**, it bought two Silicon Beach-based companies, **Filmtrack** and **Exactals**, in the past two years, said **Verna Grayce Chao**, **City National Bank's** executive vice president in charge of its fintech subsidiaries.

Filmtrack modernized **City National's** entertainment payments space, and **Exactals** is a cloud-based platform that enables the bank's entertainment clients to calculate, track and analyze billions of dollars of distribution revenue and participation payments.

The more recent deals build on **City National's** 2010 acquisition of El Segundo-based **Datafaction**, an accounting solution software developer.

"It deepens our relationship with our clients

because they do not technically charge interest or fees for their services.

In May, the new Office of Financial Technology Innovation, which is the main government body focused on all things fintech in California, named consumer fintech lawyer **Christina Tetreault**, to the lead the agency.

Her office emerged from a shakeup in California's new Consumer Financial Protection law. The office is not a regulatory body but will play a critical role in defining new rules for fintech. It'll raise red flags about how new technologies might harm consumers.

"We are here to help entrepreneurs understand our expectations and support responsible innovation and job creation in California," Tetreault said.

"The office itself allows us to better coordinate efforts so that we can place greater attention on how the department tracks the arrival of new financial products and services," she added. "Technology is at the nexus of all of these developments. This office's engagement with these entrepreneurs is essential to help us understand the ways in which these new products may or may not pose unique legal questions."

Jason Wilk, chief executive of digital banking app **Dave**, welcomes the dialogue with Tetreault.

"It's still relatively the early days, and we're seeing more conversations happening; people are generally interested in getting to know more about the (fintech) companies because of the number of customers that we all are acquiring. It's natural that there's going to be some interest in oversight of the industry to make sure that the good actors are actually good and kick out the bad," he said.

"If anything, we are a fan of oversight to make sure people are not going to try and ruin the party for everyone else."

ZEST AI

ZESTFINANCE INC.,
DBA ZEST AI

HEADQUARTERS: Burbank

FOUNDED: 2009

BUSINESS: Fintech

CEO: Michael de Vere

EMPLOYEES: 85

NOTABLE: The company has raised roughly \$100 million in venture capital funding since its founding.

lendistry

B.S.D. CAPITAL INC.,
DBA LENDISTRY

HEADQUARTERS: Downtown

FOUNDED: 2015

BUSINESS: Fintech

FOUNDER AND CEO: Everett Sands

EMPLOYEES: 300

NOTABLE: Lendistry has delivered more than \$4 billion in Covid-19 relief funding for minority-owned small businesses throughout the nation.