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ELECTRONIC INVESTOR

Web Lenders See Opportunity in Banks' Woes

By MIKE HOGAN | **MORE ARTICLES BY AUTHOR**

Another way to get a loan.

THINKING SHE'D ESTABLISHED HER CREDITWORTHINESS, Cyndi Kroop asked her first mortgage holder about a car loan. His response: "Cyndi who?" Over the next several weeks, she had to fill out new paperwork, resubmit tax records and sign a notarized second-trust deed on her house.

Put off by that experience, the 39-year-old insurance executive turned to the Internet and, within 24 hours, had $18,000 deposited for the car to her account by FirstAgain (www.firstagain.com), which qualified Kroop and her self-employed husband, based solely on their good payment history and income.

FirstAgain, a three-year-old San Diego company, completes loans of up to $100,000 over the 'Net -- it accepts a client's digital signature on loan docs -- and never asks for a trust deed or even a car pink slip for collateral.

FirstAgain is one of a growing number of alternative finance companies using new technology and unconventional lending practices to fill the void left by conventional banks that -- burned by a credit debacle -- are now shy about new loan requests.

"It doesn't matter whether you have bad credit or good credit; everyone is being painted with the same subprime brush," says FirstAgain president and co-founder Dave Zeller, whose company is taking advantage of the opportunity. "We look for those superprime borrowers who have a history of repaying loans and will continue to repay on time and in full."

That's roughly a third of borrowers, he explains, and includes those who might have a ding or two on their credit reports. FirstAgain doesn't rely on credit bureaus or FICO scores (http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx) for good reason. When the California Public Interest Research Group (www.calpirg.org) last sampled credit reports from the Big Three credit bureaus -- Experian (www.experian.com), Equifax (www.equifax.com), and TransUnion (www.transunion.com) -- they found that eight in 10 contained errors.

"SEVERAL STUDIES SINCE the early 1990s have documented sloppy credit-bureau practices that lead to mistakes on credit reports -- for which consumers pay the price," notes the report. Uncorrected, these can adversely affect a borrower's FICO score (find yours at www.myFICO.com or www.AnnualCreditReport.com) and delay or undermine a loan application.

The Kroops' reports contained such errors. But they are exactly the kind of customers whom FirstAgain looks for: They own a house and a business and have a history of steady employment and regular payments on a variety of installment accounts. That usually produces a strong FICO figure north of 700.

But the important point, says Zeller, is that traditional credit-scoring approaches aren't granular enough to separate good risks from bad. FirstAgain uses the latest in fraud-detection technology, proprietary credit-scoring algorithms and plain old common sense to avoid the relatively few loans -- some fraudulent -- that can destroy a lender's margins.

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Unregulated by government agencies, First-Again has funneled $100 million from its private underwriters to borrowers since opening its virtual doors in 2006. Coincidentally, in roughly the same time frame a number of other companies introduced novel approaches to noncollateralized lending over the Web, says Jim Bruene, editor of online-banking report NetBanker (www.netbanker.com).

Among the largest is Prosper (www.prosper.com), an affinity-based lender that employs an eBay-style online auction to facilitate loans among its nearly 800,000 members. Borrowers post loan requests of up to $25,000 and the maximum interest rate they're willing to pay. Lenders do the same, making individual commitments of as little as $50. Besides criteria like credit score and payment history, they have access to a borrower's personal history, affiliations, photos and endorsements from friends.

Once an auction ends, loan commitments are packaged into a single debt with ongoing loan-administration through Prosper -- including collections, if necessary. Prosper, which has distributed more than $150 million since launching in February 2006, has recently begun advertising on radio and TV, and has registered with the Securities and Exchange Commission to make a secondary market in its notes.

Another peer-to-peer social network matching lenders to borrowers is Zopa (www.zopa.com), a worldwide lender. Friends, family and empathetic strangers make personal loans to Zopa members who post their requests on the site. Zopa's credit-union partners actually provide the loans, says Bruene, and offer certificates of deposit and other banking services. Zopa now has 250,000 members.

Although affinity lenders have had trouble securing capital of late, five more will launch by year-end.

What all have in common is a focus on what Bruene refers to as "la crème de la crème:" All hope to uncover creditworthy customers like the Kroops at the intersection of new screening methods and social networking. While each Web lender claims a different secret sauce, at the bottom of all the business models is a philosophy best expressed by FirstAgain's Zeller: "We're betting on customers, not collateral."

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