

EXHIBIT M

How Two Start-Ups Reaped Billions in Fees on Small Business Relief Loans

Blueacorn and Womply processed one-third of all Paycheck Protection Program loans this year, stepping in when big lenders wouldn't.

June 27, 2021



Dan Bourque, an Uber driver in San Francisco, saw Womply's ads and applied for a loan in mid-April. Seventeen days later, he had a \$10,477 deposit in his bank account. Jim Wilson/The New York Times

Though Congress approved billions in aid for small companies to help

them keep paying their employees during the pandemic, there was a big problem: It wasn't reaching the tiniest and neediest businesses.

Stay up to date with live updates in our app

[Go to app](#)

Then two small companies came out of nowhere and, through an astute mix of technology and advertising — and the dogged pursuit of an opportunity that big banks missed — found a way to help those businesses. They also helped themselves. For their work, the companies stand to collect more than \$3 billion in fees, according to a New York Times analysis — far more than any of the 5,200 participating lenders.

One of the companies, Blueacorn, didn't exist before the pandemic. The other, Womply, founded a decade ago, sold marketing software. But this year, they became the breakout stars of the Paycheck Protection Program, the government's \$800 billion relief effort for small businesses. Between them, the two companies processed a third of all P.P.P. loans made this year, the Times analysis found.

[Blueacorn](#) and [Womply](#) aren't banks, so they couldn't actually lend any money. Rather, they acted as middlemen, charging into a gap between what big banks wouldn't do and what small banks couldn't do. First, they unleashed marketing blitzes encouraging freelancers, gig workers, sole proprietors and other small merchants to apply for loans through their websites. Next, they directed those applications to lenders. In return, they took a hefty cut of the fees that lenders made on each loan.

"Millions of businesses were being left out," said Barry Calhoun, the

chief executive of Blueacorn, which was founded last year solely to help companies obtain P.P.P. loans. "Tiny businesses, self-employed individuals and minority communities are left out in the cold, over and over and over. Addressing that is a core mission for us."

When the government started the Paycheck Protection Program [in April 2020](#), it quickly found that banks, from national giants to regional players, [gravitated to bigger loans to more established businesses](#) because they were easier to make and more lucrative. The program's largest lender, JPMorgan Chase, refused to even make loans of less than \$1,000.

To encourage banks to lend to smaller businesses, Congress in December raised the fees for small loans. And in February, the government [tweaked the program's rules](#) so that unprofitable solo businesses, which had previously been ineligible, could get loans. Suddenly, there was a lot of money to be made — if only someone could get businesses in the door.

"Literally free money for those who qualify," a Blueacorn [advertisement](#) on Facebook read. Womply banners adorned billboards and New York City buses. "Get up to \$50,000 in PPP," read one. "Apply now!"

Those appeals were wildly successful. From late February to May 31, when the program ended, the companies processed 2.3 million loans. Most were for less than \$17,000, and the vast majority went to solo ventures, which are more likely to be run by women and people of color.

All that hustle had downsides, including widespread customer service failures. And some lenders now have regrets about signing rushed deals that delivered most of the profit to their partners.

A Light-Bulb Moment

In December, Congress said that banks making Paycheck Protection Program loans below \$50,000 would be paid 50 percent of the loan's value, up to a maximum of \$2,500. (Earlier, the maximum a lender could earn was 5 percent of a loan's value.) So a \$5,000 loan that previously made the lender \$250 was now worth 10 times more. By making small-dollar loans more profitable for lenders, Congress was hoping to help the neediest.

More small P.P.P. loans were made in 2021 than in 2020 — and even more fees were earned on them.

An increase in the fees that banks received for issuing the smaller loans made them more lucrative.

Number of P.P.P. loans made

Over \$50,000;

up to \$350,000

Over \$350,000;

under \$2 million

\$2 million

or larger

Fees earned on P.P.P. loans

Over \$50,000;

up to \$350,000

Over \$350,000;

under \$2 million

So far in 2021,

the government

has paid \$13.6

billion in fees on

loans of \$50,000

or less.

\$2 million

or larger

But reaching out to borrowers and collecting their paperwork were still challenging — or, for Blueacorn and Womply, a light-bulb moment.

Blueacorn, based in Scottsdale, Ariz., was founded in April 2020 to help small businesses find P.P.P. lenders. After Congress made the fee change, the group of entrepreneurial coders who founded the start-up decided to build a system to simplify the paperwork, betting that it would encourage more lenders to make loans to the smallest businesses.

In San Francisco, Toby Scammell, the chief executive of Womply, had a similar idea. Founded in 2011 by Mr. Scammell and [backed by venture capitalists](#), Womply provides restaurants, retailers and other small enterprises with tools to manage their customer lists, marketing campaigns and payments. Mr. Scammell had earlier discovered that banks didn't want to bother with P.P.P. loans for many of Womply's clients.

"We tried to convince lenders to serve the smallest businesses and they said no," Mr. Scammell said in an interview last month. "I just couldn't get them to do it. I finally got fed up and said, 'Here, we can hand it to you on a silver platter.'"



An advertisement for Womply on a New York City bus. Stacy Cowley/The New York Times

So [in late February](#), Womply started a web-based interface called Fast Lane through which borrowers could apply for P.P.P. loans of up to \$50,000. Womply gathered their information, handled borrowers' questions, ran fraud and identity checks and bundled the loan documents into a package that it steered to one of its partner lenders. All the lender would have to do, Womply said, was submit the paperwork to the government and fund the loan.

A Big Impact

When Blueacorn and Womply started their systems in late February, the volume of P.P.P. lending shot up. Largely because of the two companies' efforts, lenders made 5.8 million loans of \$50,000 or less this year, up from 3.6 million in 2020. The program's average loan size dropped from just over \$100,000 last year to \$41,560 this year. And the six most active lenders this year each partnered with Blueacorn or Womply, or both.

Blueacorn worked with just two lenders: Prestamos CDFI, a nonprofit lender, and a small mortgage lender called Capital Plus Financial. Last year, Prestamos made 935 P.P.P. loans totaling \$27 million. This year, working with Blueacorn, it made 494,415 loans — more than any other lender — for a total of \$7.7 billion.

David Adame, the president and chief executive of Chicanos Por La Causa, in Phoenix. Cassidy Araiza for The New York Times

"What we did together is absolutely incredible," said David Adame, the chief executive of Chicanos Por La Causa, the parent organization of Prestamos. "The myth that you can't serve communities of color, or underserved communities, with a technology model, at scale — we've blown that away."

Womply's impact was even broader. It teamed with 17 lenders and processed 1.4 million loans, totaling more than \$20 billion — about 7 percent of the total P.P.P. money given out this year. "It was an amazing team effort," said Adam Seery, the managing director of Harvest Small Business Finance, Womply's largest lender.

Also in late February, Blueacorn and Womply got an unexpected tailwind from a major rule change by the Small Business Administration, which oversaw the loan program. Concerned that women and minority-led businesses were being disproportionately left out, the Biden administration [overhauled the loan formula](#) to award sole proprietors — a group that includes contractors and gig workers — loans based on their reported revenue rather than profit. Overnight, millions more qualified for help. Drawn in by the marketing campaigns, they stampeded toward the two companies.

By early March, "we were overrun with demand," said Blueacorn's Mr. Calhoun, a private equity veteran who joined the company that month to help manage its growth. "We had a 24-hour period where we went from 15,000 new customer service tickets to 27,000," he recalled. "Those are Amazon-like levels."

Blueacorn rented call centers and trained hundreds of temporary workers to troubleshoot. Womply redeployed nearly all of its 200 employees to work on loan issues. Both companies still struggled to keep up. On [Reddit groups](#) and social media sites, thousands of borrowers complained about delays, poor communication and problems resolving errors.

Louis Glatthorn, an Uber driver in Boone, N.C., who goes by Bob, applied on Womply's website on April 7 and signed the paperwork two

weeks later for a \$7,818 loan. But the money — which is listed in government records as approved — has not been paid by Benworth Capital, one of Womply's partners. Mr. Glatthorn's attempts to reach Womply for help have been unsuccessful.

"You can never talk to a person or actually make contact," he said. A Womply representative declined to comment on Mr. Glatthorn's experience.

Others had a smoother run. Dan Bourque, an Uber driver in San Francisco, saw Womply's ads and applied for a loan in mid-April. Seventeen days later, he had a \$10,477 deposit — funded by Fountainhead SBF, another of Womply's partner lenders — in his bank account. For that loan, the process "was flawless," he said.

The Money Pours In

The millions of tiny loans the two tech companies enabled, coupled with Congress's decision to make small loans more lucrative, led to gigantic payouts for small lenders. Last year, Prestamos made \$1.3 million for its lending. This year, it will collect nearly \$1.2 billion, according to a New York Times calculation of lenders' fees based on [government data](#).

José Martinez, the president of Prestamos, in Phoenix. He said that Blueacorn will get a "significant" portion of the \$1.2 billion that Prestamos is collecting from the government. Cassidy Araiza for The New York Times

But because of the deals they struck with Blueacorn and Womply, the lenders will keep only a fraction of their earnings. Blueacorn will get a "significant" portion of the \$1.2 billion that Prestamos is collecting, said José Martinez, the lender's president. He declined to disclose the

deal's terms, but said they were "fair and aligned" with each partner's contribution.

Prestamos made over a billion dollars in P.P.P. loan fees in 2021.

A significant portion of those fees will be paid to Blueacorn, the company it partnered with.

	2020	2021
Number of P.P.P. loans	935	494,415
Total amount loaned	\$27 million	\$7.7 billion
Total fees earned	\$1.3 million	\$1.2 billion
Fees per \$100 loaned	\$4.71	\$15.30

Blueacorn declined to comment on its fees. But an earnings report this month from Capital Plus Financial, the other lender that partnered with Blueacorn, provides some clues. This year, Capital Plus made 473,241 Paycheck Protection Program loans totaling \$7.7 billion, for which it will collect \$1.1 billion in fees. In the [earnings report](#) for the quarter that ended April 30, the publicly traded parent company of Capital Plus said that the lender earned \$464 million in fees during the quarter for its loans. Of that amount, it kept just \$150 million.

Through its two partners, Blueacorn will take in at least \$1 billion this year on the loans it processed, according to a Times calculation and two people familiar with the matter.

Capital Plus Financial began making P.P.P. loans only this year.

It partnered with Blueacorn (and Womply) to make the loans.

	2020	2021
Number of P.P.P. loans	0	473,241
Total amount loaned	\$0	\$7.7 billion
Total fees earned	\$0	\$1.1 billion
Fees per \$100 loaned	n/a	\$14.66

Womply is poised for an even bigger haul. Seven lenders that partnered with Womply on Fast Lane agreed to pay the company at least half — and often much more — of what they collected on each loan, according to five people with knowledge of the financial arrangements. The company is likely to take in fees of \$1.7 billion to \$3 billion, according to a Times analysis.

Toby Scammell, the founder and chief executive of Womply.Womply

But Womply is locked in fee disputes with some of its partners. At least three lenders signed deals that they believed would operate on a sliding scale, where they would owe Womply the top rate — 80 percent of the lender fee — only on loans above a certain volume threshold. But when it came time to collect, Womply told two of them that it believed it was owed its top rate on every loan it had processed.

Womply's fees for the small loans added up.

For several lenders, the fees they owed to Womply increased — from 50 percent of what they collected to 80 percent — as Womply sent more loans their way. That, coupled with a flat \$250 per-loan charge, left lenders owing Womply their entire fee on some loans.

--	--	--	--

	\$10,000 loan	\$3,000 loan	\$1,000 loan
Fee paid to lender	\$2,500	\$1,500	\$500
Lowest amount paid to Womply	\$1,500	\$1,000	\$500
Highest amount	\$2,250	\$1,450	\$500
Lender kept	\$250 - \$1,000	\$50 - \$500	\$0

Womply declined to comment on its fees. In a statement, the company said it was “incredibly proud” of its work delivering P.P.P. funding to one million businesses through its partners.

Two lenders said they would never work with Womply again. “At those rates, I’m in the hole and losing money on many of these loans,” said one lender, who asked for anonymity because Womply’s loan contract prohibits lenders from disclosing its terms. “It’s disturbing and disgusting.”