ORANGE COUNTY
REGISTER

SATURDAY, SEPT. 14, 2013

BUSINESS

TODAY'S FOCUS **GROWTH**

OUTLOOK: Consumer spending, a driver of the economy, grew slightly in August. **Page 7**

ED CRISOSTOMO, ORANGE COUNTY REGISTER

Jose Lavaro of Aliso Viejo borrowed $12,000 through Lending Club to refinance mounting debt on four credit cards. He says the lending process took him about two weeks.

CROWD-SOURCED LOANS FILL IN AS BANKS BACK OFF

Peer-to-peer online lending platforms have originated close to $2 billion in U.S. loans, including millions in Orange County.

MARNI USHEROFF
REGISTER WRITER

Struggling under the weight of mounting debt on four credit cards, Jose Lavaro was in a tight spot. The Aliso Viejo nurse had pared back his work hours so he could take courses to prepare for a health care management MBA. But as his workweek dwindled, his debts piled up.

Relief arrived in April in the form of a mailer telling Lavaro he'd been pre-approved for a loan to consolidate and refinance his credit. Lavaro went to the online site for Lending Club Corp. and posted his request for a three-year, $12,000 loan with a fixed annual percentage rate of around 11 percent. Then he watched as more than 60 anonymous investors snapped up slices of his loan in pieces as small as $25.

"The whole process took about two weeks from the day I submitted the form to when I got the money in my bank account," said Lavaro, whose interest rate was effectively chopped in half.

The notion of soliciting loans from online strangers to pay for everything from home improvements to quarterly tax payments to small-business startup costs doesn't seem so bizarre now that we've crowd-sourced everything from feature film funding (via Kickstarter) to travel accommodations (Airbnb) and freelance work (TaskRabbit).

SEE **LENDING** • PAGE 3

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Trader Joe's to send some to health exchanges

The company will give part-time employees $500 a month to obtain their own coverage.

BLOOMBERG NEWS

Trader Joe's Co., the closely held grocery store chain, will end health benefits for part-time workers next year, directing them instead to new insurance marketplaces created by the Affordable Care Act.

Employees with fewer than 30 hours a week will no longer be given health coverage as of Jan. 1, and instead will get a $500 payment to help them buy insurance elsewhere, the Monrovia-based company said.

The move makes Trader Joe's the latest U.S. employer to cut benefits or reduce hours in response to the 2010 act, which requires companies to offer affordable coverage to full-time workers starting in 2014. Trader Joe's, the owner of about 400 stores, said most of the affected employees will find a better deal on the health-law exchanges, where buyers will be eligible for federal subsidies.

"Depending on income earned outside of Trader Joe's, we believe that with the $500 from Trader Joe's and the tax credits available under the ACA many crew members should be able to obtain health care coverage at very little, if any, net cost," the company said in its statement Thursday.

The health care law mandates that companies provide coverage for those who work more than 30 hours a week or pay a $2,000-per-person penalty. Some large U.S. employers have pulled back on health benefits citing the law's expenses and new insurance options as part of the reason.

WHAT'S NEXT

- The chain said more than 77 percent of its employees would see no change to their current coverage.
- For those who are affected, the company estimated more than 70 percent will pay less for comparable health insurance.

MORE INSIDE

AIRLINE TO HONOR FREE TICKETS

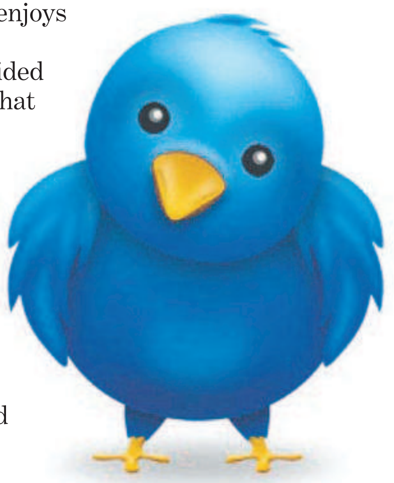
United Airlines will let customers who bought cheap or free tickets during a computer glitch use them. The wrong fares were available for only a few hours, and United wouldn't say how many it had sold. **Page 2**

TWITTER COULD LEARN FROM FACEBOOK

When Twitter announced that it had filed papers as a first step to a public stock offering, market watchers made a quick comparison with Facebook and offered some suggestions about what Twitter might do differently. **Page 3**

MOVING BEYOND ONLINE SALES

Christmas-tree marketer Balsam Hills enjoys success as an Internet retailer, but the company, like some other retailers, decided to expand its business with a strategy that bucks conventional wisdom – with a physical store. **Page 4**



DOW RECORDS BEST WEEK SINCE JANUARY

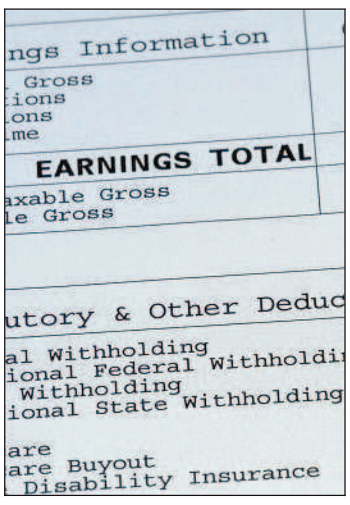
U.S. stocks rose, with the Dow Jones industrial average capping its best week since January, as economic data fueled bets that any Federal Reserve stimulus cuts this month would be moderate. **Page 5**

All employers in state will pay new minimum wage

By **LILY LEUNG**
ORANGE COUNTY REGISTER

The Legislature voted Thursday to increase the state minimum wage for more than 2 million workers. Gov. Jerry Brown is expected to sign it into law in the next month. Here are some key points.

- **How much?**
  The bill will raise California's minimum wage from $8 to $10 an hour by 2016, in two stages. The last time it was changed was in 2008, when it rose from $7.50. The federal minimum wage is $7.25 an hour.
- **Who pays it?**
  All employers.
- **Who gets it?**
  All hourly wage earners.
- **When does it take effect?**



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The first increase, to $9 an hour, will take place in July. The next, to $10, will take effect in January 2016.

- **What supporters say:**
  "I think it's a good step in the right direction. ... But it's also worth noting that it's still very difficult for families to make ends meet even with the new minimum wage and working full time." – Eric Altman, executive director of the Orange County Communities Organized for Responsible Development, a community-labor group
- **What opponents say:**
  "It's not good for business and especially not good for small business, which has enough problems in this economy. ... Businesses will have to absorb the cost or pass it on to the consumer. Ultimately, it's the consumer who loses." – Jerry Wheeler, president and CEO of the Huntington Beach Chamber of Commerce

MARKET RECAP

Dow Industrials	Nasdaq Index	S&P 500 Index	10-year Treasury:	Oil per barrel:	O.C. gas prices:
Close: 15,376.06	Close: 3,722.18	Close: 1,687.99	Close: 2.89%	Close: $108.21	Gallon: $3.995
Change: +75.42	Change: +6.22	Change: +4.57	Change: -0.02	Change: -$0.39	Change: +$0.021

MORE ON PAGE 5

Investing in the crowd

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- Who can invest: California residents must have a net worth of at least $200,000; or an annual gross income of at least $85,000 and a net worth of at least $85,000. Otherwise, they must not invest more than $2,500. California investors also must not invest in excess of 10 percent of their net worth.
- What investors can see: Online loan listings employ an anonymous ID for each borrower. Information about the borrower may include their occupation, length of employment, income, credit score, homeownership status, other open credit lines and debt-to-income ratio. Also, the borrower gets to write a description of the need for the money.
- How investors get paid: Payments are deposited monthly into investors' accounts on the sites. Lenders can reinvest these funds in other loans or transfer them to a bank account.
- If your borrower defaults: If a borrower is late on a payment, the sites may try to collect funds directly or resort to an external collections agency. Investors are updated on any collection activity. Loans made through these sites are not protected by the FDIC.

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LENDING: Luring some high-profile investors

FROM PAGE 1

For borrowers, the rise of peer-to-peer lending is helping to fill a void left by banks, which have retained tight lending standards and high credit-card rates even as the economy recovers. For investors, the online platforms – led by industry heavyweights Lending Club and Prosper Marketplace Inc. – offer a chance to beat the wafer-thin returns of CDs and bonds.

The lending outfits themselves have caught the eye of some very high-profile investors. Google recently acquired a minority stake in Lending Club, and Silicon Valley legend Sequoia Capital injected $10 million into Prosper.

"There's a lot of things that allow us to have significantly lower operating costs than a bank would, one-third to one-half of a typical bank," said Lending Club Chief Operating Officer Scott Sanborn. "Essentially, that's the savings that we're passing on to investors and borrowers in the form of lower rates and better returns."

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Borrowing and lending on both of these platforms is legal in California, provided investors meet certain net-worth and other criteria. However, they're not allowed to accept loan applications from a handful of states, and roughly a third of the states won't allow residents to invest.

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"This is all relatively new," said banking consultant Bert Ely in Alexandria, Va. "We haven't been through a credit cycle or two to see how well this actually works."

Ely wonders whether the rates charged on peer-to-peer loans are high enough to make them a viable investment. "We got into a situation where there's so much competition to make these loans that interest rates are going too low and not sufficiently compensating the lenders or investors for the amount of risk that they're taking."

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"It kind of just makes sense," Bonderer said of peer-to-peer lending. "I'm trying to get more involved in this and getting out of the stock market."

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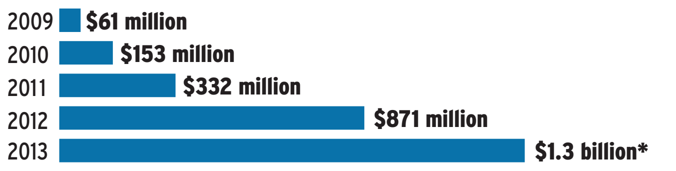
Peer lending powers up

Nationwide lending by the two biggest peer-to-peer online services, Prosper Marketplace and Lending Club.



*2013 data only through August
Source: Prosper Marketplace, Lending Club The Register

Next step for peer loans: pooling

For those who don't want to pick through individual peer-to-peer loan offerings, investment professionals are willing to do it for you – for a fee.

You could compare it to equity investments, which evolved from individual stock picking to investors also buying into mutual funds.

In the case of peer-to-peer loans, investors buy into a fund, and the fund's managers take the pool of cash and purchase portions of a diverse group of loans. One such fund, run by William Jordan Associates of Laguna Hills, develops its own criteria for choosing loans that go beyond the credit ratings these platforms assign to loans. Most such funds make their money by collecting a fee from investors.

"We're simply not going to just lend on anything that Prosper issues," said William Jordan, president of the eponymous firm. "We'll cherry-pick based on our proprietary criteria."

What Twitter learned from Facebook IPO flop

Microblogging site won't make same mistakes when it makes its debut.

By BENJAMIN PIMENTEL
MARKETWATCH

SAN FRANCISCO • The day before Twitter Inc. disclosed that it has filed papers for an initial public offering, Facebook Inc. Chief Executive Mark Zuckerberg was asked what advice he would give to the microblogging site about going public.

Obviously referring to what's now remembered as a flop of a public trading debut, Zuckerberg quipped at the TechCrunch Disrupt conference in San Francisco that he was "the last person you'd want to ask about how to make a smooth IPO."

In fact, Twitter appears to have learned key lessons from Facebook.

The biggest one is focused on a question that beset the Menlo Park, Calif. social media giant in the months leading up to its IPO: Can it make money from mobile?

That's not a concern today given Facebook's rapidly growing mobile business, which now makes up 41 percent of the company's total ad revenue, up from essentially zero a year ago.

But it was such a huge concern last year that Facebook disclosed in IPO filings that its ability to grow its mobile business was "unproven."

That's a hurdle Twitter has to show it can clear, said Howie Schwartz, CEO of mobile ad company Human Demand, who said Facebook suffered from its "lack of vocalizing a strategy initially around mobile advertising."

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"Much of Twitter's growth comes from its strong mobile business," eMarketer Vice President Clark Fredricksen said in an email. "More than half of the company's ad revenues are expected to come from mobile ad revenue this year, both in the U.S. and globally."

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These efforts appear to be based on Facebook's own pre-IPO struggles in projecting its advertising potential to businesses – a problem that turned into a public-relations embarrassment when General Motors announced just days before the Facebook IPO that it was pulling from the site because they didn't work.

To be sure, Twitter has had some problems with the high-profile hacking of the accounts of some famous brands, including Burger King and Jeep.

But Darren Heffernan, chief financial officer at Trintech, a financial software company, also noted how Twitter has put a lot of emphasis on how companies can use the site to communicate directly with customers.

"While they had a lot of celebrities build up the brand, I think they realized, 'We can probably make more money from this by having businesses utilize it more,' " he told MarketWatch.

But Heffernan also warned that "markets are very unforgiving," adding, "If you say you're going to do X, and you do Y, they're going to hammer you. That's what happened to Facebook."

Tweets on Twitter

Here are some quick facts about Twitter in 140 characters or less, the limit of tweets.

- MT@Twitter We've confidentially submitted an S-1 to the SEC for a planned IPO.
- FunFact: In the first hour of @Twitter sending that IPO announcement tweet, 7,872 people retweeted the message.
- According to @APStylebook: "The verb is to tweet, tweeted. A Twitter message is known as a tweet."
- The company was founded 2006 by Jack Dorsey, Biz Stone and Evan Williams. Their handles: @Jack, @Biz and @Ev
- Users on @Twitter: More than 200 million. @Facebook has 1.16 billion. That's nearly six times as many. /QuickMath
- The public offering comes at a time of heightened investor interest in the IPO market – 131 IPOs have priced so far this year.
- The company hasn't said if it makes a profit or how much revenue it takes in. /FadOrFuture? Wonder if @WarrenBuffett will buy stock.
- Most of Twitter's revenue comes from advertising. @eMarketer estimates $582.8 million this year, up from $288.3 million in 2012.
- Compare: In latest quarter, Facebook had $1.6 billion in ad revenue. By 2015, Twitter's annual ad revenue is expected to hit $3.1 billion.

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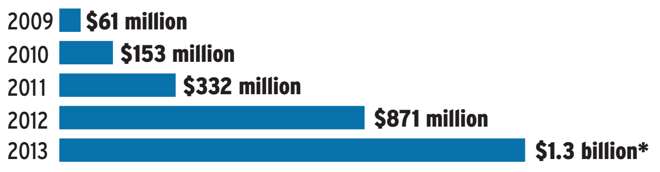

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These efforts appear to be based on Facebook's own pre-IPO struggles in projecting its advertising potential to businesses – a problem that turned into a public-relations embarrassment when General Motors announced just days before the Facebook IPO that it was pulling from the site because they didn't work.

To be sure, Twitter has had some problems with the high-profile hacking of the accounts of some famous brands, including Burger King and Jeep.

But Darren Heffernan, chief financial officer at Trintech, a financial software company, also noted how Twitter has put a lot of emphasis on how companies can use the site to communicate directly with customers.

"While they had a lot of celebrities build up the brand, I think they realized, 'We can probably make more money from this by having businesses utilize it more,' " he told MarketWatch.

But Heffernan also warned that "markets are very unforgiving," adding, "If you say you're going to do X, and you do Y, they're going to hammer you. That's what happened to Facebook."

Tweets on Twitter

Here are some quick facts about Twitter in 140 characters or less, the limit of tweets.

- MT@Twitter We've confidentially submitted an S-1 to the SEC for a planned IPO.
- FunFact: In the first hour of @Twitter sending that IPO announcement tweet, 7,872 people retweeted the message.
- According to @APStylebook: "The verb is to tweet, tweeted. A Twitter message is known as a tweet."
- The company was founded 2006 by Jack Dorsey, Biz Stone and Evan Williams. Their handles: @Jack, @Biz and @Ev
- Users on @Twitter: More than 200 million. @Facebook has 1.16 billion. That's nearly six times as many. /QuickMath
- The public offering comes at a time of heightened investor interest in the IPO market – 131 IPOs have priced so far this year.
- The company hasn't said if it makes a profit or how much revenue it takes in. /FadOrFuture? Wonder if @WarrenBuffett will buy stock.
- Most of Twitter's revenue comes from advertising. @eMarketer estimates $582.8 million this year, up from $288.3 million in 2012.
- Compare: In latest quarter, Facebook had $1.6 billion in ad revenue. By 2015, Twitter's annual ad revenue is expected to hit $3.1 billion.