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# How Two Guys Lost God and Found $40 Million

## And sold Wall Street on a shady new kind of finance.

Zeines (left) and Hurwitz at play in Puerto Rico.

Photographer: Christopher Gregory for Bloomberg Businessweek

by **Zeke Faux**

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Abe Zeines's hilltop mansion in Puerto Rico looks like a frat house after a rager. A wrecked golf cart blocks the driveway. An SUV with a blown tire sits on the grass out front. A porch overlooking the Caribbean is littered with beer bottles and cigarette butts.

It's a Monday morning in June, and Zeines is lounging in boxer shorts in his living room, drinking a Blue Moon. Two girls in bikinis are cooking breakfast for him and Meir Hurwitz, his best friend and business partner. The men, natives of Brooklyn, N.Y., are complaining about the restaurants on the island they've decided to call home. "There's no item called eggs," Zeines says. "You have to get the eggs with ham, hold the ham."

Several hours and about a case of beer later, Zeines and Hurwitz are giving a tour of the six-bedroom house. Zeines heads into his bedroom to show off the harbor view, but inside it's dark. His two girlfriends have been fighting over the blinds, he says; one insists on blocking out the sun. Down the hall, Hurwitz produces a leather whip from a bedside drawer. When he shows it to the women he brings home, he says, they're frustratingly blasé: "Maybe that's just what they expect from a guy with a house like this."

Photographer: Christopher Gregory for Bloomberg Businessweek

For Zeines and Hurwitz, their time in the promised land has turned out to be a little disappointing. Given the things they've seen, life's long since lost the ability to surprise. With a pound of lox as a housewarming gift, I've come to their tax-haven sex mansion to hear their improbable story—how two sons of an ultrareligious Jewish neighborhood in Brooklyn witnessed the birth of a new kind of lending, made a fortune, and then saw it all come to an end. Not in the form of an FBI raid, but with Wall Street bankers paying millions to take over the action.

Zeines and Hurwitz made their money in a field that's now called merchant cash advance. It's a legal way to lend money to small businesses at interest rates higher than Mafia loan sharks once charged. Completely unregulated, last year it surpassed the U.S. Small

Business Administration as a source of loans for less than $150,000, according to the industry newsletter *DeBanked*, one of the few places with reliable information. The business was developed a decade ago in a boiler room full of ex-Lubavitcher Jewish teenagers in downtown Manhattan. They figured out how to hook people such as florists and pizzeria owners with promises of fast cash and discovered just how ridiculous the profits could be—even if it meant driving their borrowers into bankruptcy.

Zeines was one of these guys. As I reported on the industry over the past year, he became my tour guide. A curly-haired 33-year-old with a cockeyed grin, he dresses like a tourist, in flip-flops and T-shirts, and speaks with a Brooklyn Yiddish accent that turns *-ing* into *-ink*. Zeines knows all the players and all the tricks to separate people from their money, but he styles himself an outsider, someone who appreciates the absurdities of Ivy League-educated financiers getting in on a seedy business.

Zeines kept telling me he was going to sell his company to a hedge fund for tens of millions of dollars. I didn't believe him, but I told him if it ever happened it would make a good story. Then, one day this spring, I was shown a copy of a letter from Goldman Sachs. It was addressed to Zeines's company. The bank was offering him $100 million.

In the Midwood neighborhood of Brooklyn, men in boxy black suits and black wide-brimmed fedoras speak in Yiddish under the elevated train. Young women block the sidewalk with double-wide strollers, wearing wigs to comply with a religious prescription for modesty. Zeines grew up here, the fifth of 10 children. His father worked as a wedding photographer. The family had so little money to spare that riding the subway was a treat.

All aspects of life were governed by religious rules. Never eat meat and dairy together. No electricity on Saturdays. Tie the left shoe before the right. High school meant Mir Yeshiva, an all-boys institution in the neighborhood. Zeines and other potential future rabbis pored over religious texts in Hebrew and Aramaic for hours each day in an unadorned auditorium full of wood desks evoking 19th century poverty. There was little instruction in math or English. Zeines was a good student, but as he got older, he started to feel as if adults cared more about the technicalities of religious laws than morals. He says he saw swindlers honored for their donations and fathers who could barely afford food buying pricey ceremonial artifacts to flaunt their piety. Zeines started breaking the rules. "The first cheeseburger," he says, "was f---ing awesome."

Zeines stopped his religious education and enrolled at Kingsborough Community College. There he met Hurwitz. Even though they'd grown up only minutes apart, they'd never crossed paths, because Hurwitz's family followed a different rabbi. Zeines looked up to his new friend, who was two years older, 4 inches taller, and had seen the world—or at least more of it than he had. On a Birthright trip to Israel, Zeines got the nickname Bugsy, because he and Hurwitz were as tight as gangsters Bugsy Siegel and Meyer Lansky.

In 2005 they were working together at a group home for developmentally disabled adults, earning about $10 an hour. They liked the job but wanted a ticket out of Midwood. That November they found it, in the form of a fat, bald, flashy man named Sam Chanin.

Like Hurwitz, Chanin was raised in the Lubavitch sect, a Brooklyn-headquartered branch of Hasidic Judaism that sends adolescent boys into the streets to recruit Jews to the movement. People who've worked for Chanin say that, by the time he was in his 20s, he was using the persuasiveness he'd developed proselytizing to sell credit-card machines to stores door-to-door. It was a good business—salesmen got a cut every time a customer swiped a card—but once a neighborhood was saturated, it was hard to sell more.

To make extra money, some of the card-processing companies were beginning to make small, expensive loans to their customers on the side. Banks often reject small businesses as too risky to lend to. The card processors' loans almost always got repaid, though, because they took a cut of transactions before a borrower even touched the money. Chanin realized there were lots of businesses that needed money so badly, they'd buy a credit-card machine just to get a loan. And in his old neighborhood, there were a lot of guys like him, who knew how to sell and would work on commission. (Chanin didn't respond to questions sent to him via his lawyer.)

Photographer: Christopher Gregory for Bloomberg Businessweek

Hurwitz was one of the first Lubavitchers Chanin hired for his new cash-advance brokerage, which he named Second Source Funding. The business took off. At the group home, Hurwitz bragged to Zeines that he'd made more than $15,000 in his first month selling loans. That was all Zeines needed to hear. He bought a suit and a copy of the *Wall Street Journal*, and took the subway into Manhattan to join Second Source's growing crew. It was January 2006, and he was 23 years old.

Zeines wasn’t an “always be closing” natural like Hurwitz, who was put in charge of all the other salesmen after a year. But at Second Source, anybody willing to pick up a phone and pitch could make thousands a week. The Orthodox gossip mill caught on. Word spread from the brownstones of Crown Heights to the leafy streets of Borough Park. So many kids were applying for jobs that Hurwitz started doing group interviews. “If you’re not making 20 grand a month, you just don’t belong here,” Hurwitz says he’d tell the applicants.

With no competition, Second Source could charge whatever it wanted. The standard deal it offered small businesses was to borrow $9,000 and pay back $120 a day for six months, or a total of $14,500, equivalent to an interest rate of 250 percent a year.That’s 10 times the legal limit in New York state, which made it a crime in the 1960s to charge more than 25 percent. To get around that, merchant cash-advance companies argue they aren’t actually charging interest—they’re buying the money businesses will make in the future, at a discount. As long as nobody uses the word “loan,” it usually holds up in court, says Robert Cook, a lawyer who advises the industry. Another no-no is chasing down an individual to collect if the business fails. Merchant cash advance is a supercharged version of “factoring,” the age-old practice of trading the right to collect unpaid bills in exchange for cash upfront.

At Second Source, the best customers were the most desperate. Often they were immigrants with poor English. Brokers bragged about their biggest rip-offs. For motivation, Hurwitz would tape $100 bills to the wall. Salesmen who weren’t cutting it would have their chairs taken away. “Why are you sitting on my chair,” Hurwitz would yell, “if you’re not making me any money?”

Brokers who had the knack made more money than they’d ever imagined. Some would shave their beards, put away their yarmulkes, and go out on the town after they got a few paychecks. Others discovered whiskey and cocaine. “Ridiculous amounts of money are coming your way,” says Dovid Sandomire, one of the salesmen. “It’s like, ‘Let’s go spend $1,000 at the strip club. It’s all on me.’” Chanin got a blue Bentley and a driver. Hurwitz bought a tall wooden throne for his office and a life-size statue of a lion.

Zeines went on trips to Atlantic City with the other brokers, but he was slower than some to join the debauchery. “As much as he was already rebellious,” says his brother Sholom, “he went into that office as a yeshiva boy.” It took Zeines more than two years of hawking loans for Second Source to move out of his parents’ house.

When the economy crashed in 2008, it was like somebody turned off the money spigot. Second Source depended on small credit-card-processing companies to fund its advances, and they started turning away borrowers. Chanin fired most of the salesmen. Hurwitz, who says Chanin bilked him out of $2 million in pay, went motorcycling across India. But Zeines wasn’t ready to get out of the game. If the processing companies wouldn’t put up their money anymore, he reasoned, why couldn’t he just lend out his savings?

Zeines teamed up for a time with a trader named David Glass, who’d just pleaded guilty to insider trading and was famous in the cash-advance industry for inspiring the 2000 movie *Boiler Room*. Glass recruited the brokers, and Zeines funded the advances with his Second Source earnings, at rates as high as 750 percent annualized. The money was so good, Hurwitz was lured back; after about a year, everyone tired of sharing the profit. The two friends broke up with Glass in 2011 and started their own company, called Pearl Capital, after the street their building was on.

Cash advance was no longer a secret. Lots of former colleagues from Second Source were opening brokerages, and venture capitalists and private equity funds were discovering the trade. In February 2011 a lender called OnDeck Capital, which uses algorithms to identify the best borrowers and undercut companies such as Pearl, raised $25 million from Silicon Valley venture firms. CAN Capital, another competitor, raised $30 million in 2012 from early Facebook investor Accel Partners. Others raised tens of millions of dollars more.

Competition brought out Zeines's ingenuity. Instead of building his own boiler room, he became a wholesaler. He told brokers to send him their shakiest customers. He also came up with ways to squeeze even more money from businesses that already had advances. He offered them a second loan, making it due in just two or three months, so it would get paid off before their existing debt. Other funders would lend only against credit-card sales, but Zeines would fund anyone with a bank account from which he could automatically withdraw payments.

The strategy worked so well, Zeines and Hurwitz say, they were doubling their money a few times a year. They started Pearl with $1 million and earned $8 million in 2012, their first full year. Profit doubled in 2013, and loan volume reached $100 million.

The borrowers included people like Dermot O'Hare, a 60-year-old immigrant from Belfast, Northern Ireland, who ran an Irish pub with his wife in Susquehanna, Pa. As he was tending bar one day in 2013, worrying about how to get through the winter, a broker called. O'Hare took out one cash advance at about 500 percent, and then another one from Pearl at 400 percent. The daily payments turned out to be unmanageable. O'Hare filed for bankruptcy in February 2014, and a bank foreclosed on the bar. He moved to Ohio to live with his in-laws and took a job at a Lowe's store. "It broke our hearts leaving the joint, but what can you do?" O'Hare says. "Shame on me for falling for it."

In 2013, Pearl's profits caught the attention of Vector Capital, a private equity fund whose investors include the endowments of Harvard and MIT. The fund, ostensibly focused on turning around struggling software makers, had just used some of its clients' money to invest in a payday-loan company set up offshore to circumvent U.S. usury laws. According to Zeines and other people who met with Vector, it was looking to put as much as $100 million more to work in high-interest loans. Maybe it would buy Pearl.

Zeines scrambled to make his company look a little more respectable. He fired an employee who was awaiting sentencing for running a marijuana-smuggling ring. He obtained an opinion letter from law firm Stroock & Stroock & Lavan describing Pearl's activities as legal. But Vector lost interest, Zeines and Hurwitz say, when the payday company ran into trouble with regulators. A spokesman for Vector says the Pearl talks were only preliminary.

The flirtation helped Zeines and Hurwitz realize just how much money they could get from Wall Street. And their accountants had a suggestion: Why not move to a tax haven, so they wouldn't have to pay half their profit to the government? They settled on Puerto Rico, where certain kinds of business income are shielded from the federal government and taxed at only 4 percent.

After relocating to the island last year, the partners hired the investment bank FBR to find a buyer for Pearl. Sixteen investment funds met with them. Zeines says he learned to identify the bidders by their shirts: white for bankers, blue for private equity. He wanted respect from the Ivy League-educated financiers, but he felt as if they were patronizing him by talking about financial models. "I barely know how to read a balance sheet," Zeines says. "But they didn't do what I did."

The offer from Goldman Sachs arrived on Aug. 1, 2014. Its $100 million proposition came from Broad Street Principal Investments, a unit that invests the firm's own money. One of the bank's partners, Sumit Rajpal, put his name on the proposal. All the other bidders paid Pearl the courtesy of meeting Zeines and Hurwitz on their turf, but Goldman insisted the pair come to its headquarters in New York. (Only Hurwitz ended up attending.) Zeines and Hurwitz say Goldman backed out after examining Pearl's books and saying its technology wasn't scalable. In May 2015 the bank announced it was starting its own online consumer and small-business lending platform. The partner who looked at Pearl was one of the architects of the plan. “F--- Goldman,” Hurwitz says. Andrea Raphael, a spokeswoman for Goldman, says the bank never seriously pursued a deal.

Pearl’s sales process dragged on for months. The winning bidder was Capital Z Partners, a private equity fund run by two former Salomon Brothers bankers that manages $600 million. Zeines and Hurwitz refuse to discuss the deal, saying they signed nondisclosure agreements; according to others with knowledge of the transaction, the pair split about $40 million, and they’ll get an additional $20 million as long as the new owners can collect on all of Pearl’s cash advances. Capital Z declined to comment.

When the deal closed in February, Zeines found it anticlimactic. The money didn’t make him feel any different. The buyers presented him with a pearl mounted on a plaque to mark the occasion. The pearl was plastic.

Zeines has been semiretired in Puerto Rico for eight months now, and while he’s been golfing, gambling, and picking up women on Tinder, cash advance has gone mainstream. OnDeck went public and now has a market cap of $650 million. In April, CAN Capital raised $650 million from Wells Fargo, JPMorgan Chase, and other banks.

Zeines hasn’t learned Spanish or bought a boat. The mansion has what would be an infinity pool, but he doesn’t keep the water flowing over the edge. “Waste of money,” he says. For the Fourth of July, he had a pig slaughtered and roasted. The party was only OK. “It’s a matter of time before we get involved with something else,” Hurwitz says. “We can’t sit around and golf and f--- beautiful ladies all day.” Making some money hadn’t made Zeines happy; it just made him want more. “When I was younger, when I was poor,” he says, “I would have asked, ‘What’s the difference between $10 million and $100 million?’ There’s a difference.”

During an interview at a bar a few months earlier, I'd asked Zeines about his conscience. He said he didn't see a problem with what he was doing. Pearl's cash advances were expensive, he said, but it wasn't like its customers had a lot of alternatives. And laws about interest rates seemed as illogical as the religious rules that he'd long since abandoned. "Going back to Biblical times, there was something dirty about charging for money," he said. He held up his glass. "But a business owner can buy this beer for a dollar, mark it up eight times, and sell it to idiots like us, and no one cares."

His family has a bit more perspective. I asked Sholom Zeines if he'd ever seen his brother reflect on what he'd done to his borrowers, or on the industry he'd played a small part in creating. "If you don't know much about the outside world, you look at it like you're kind of helping the guy out," Sholom says. "If you've been through the wringer like I have—I have a whole different outlook on it. I was that merchant. I know what it means to be the guy on the other side of the phone." He considers his brother's position. "I'm kind of happy that he's out of the business. That's my own personal thing."

Sholom says his grandfather, a Polish immigrant who sold pocketbooks in Manhattan, once struggled to repay money he'd borrowed from a loan shark. "Today," he says, "you'd probably call them a cash-advance company."

This 'Cash Advance' Business Is Completely Legal