

P2P LENDING

2016/11 (study done in 2016/04)

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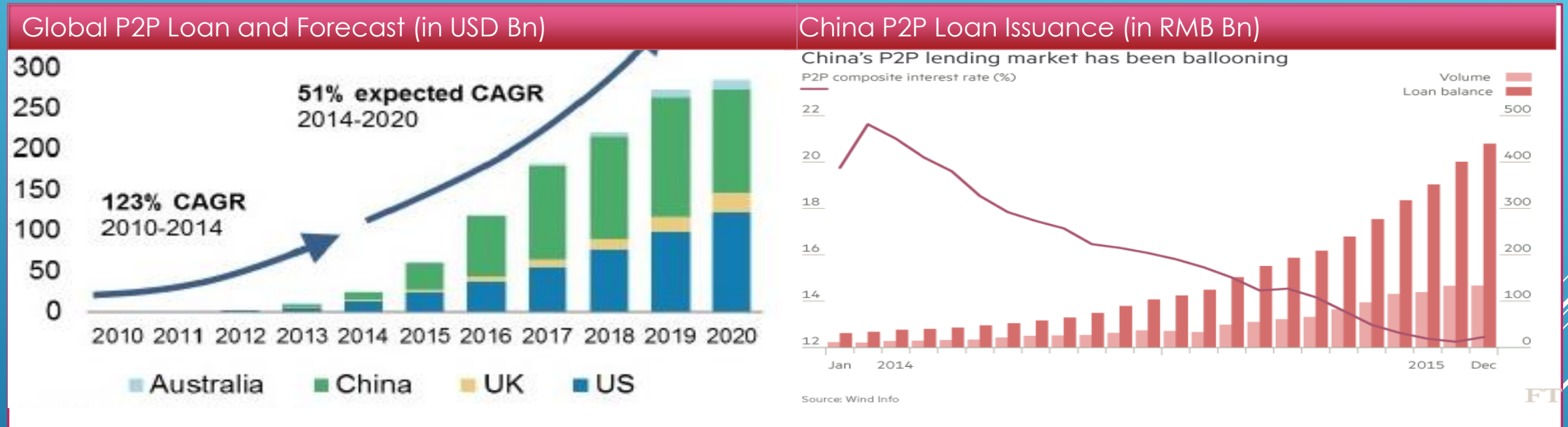


WHAT IS P2P LENDING?

Description: Marketplace lending, lending money to individuals or businesses through online services that match lenders directly with borrowers. The platforms do not lend their own fund.

Market: Fast growing, projected \$290B (Morgan Stanley)

US \$5.5B (PwC), **China** \$150B 2015, \$39B 2014 (Wangdaizhijia);



Players: Lending Club, Yirendai (China), Prosper, Upstart, Funding Circle (UK)

Case Studies: Lending Club, Yirenda

Impact: Goldman Sachs report estimated that ~ \$11B out of a total \$150B in profits is at risk of leaving the banking system in the next 5+ years from marketplace lenders



CASE STUDY: LENDING CLUB

Background / Introduction

- ▶ Founded in San Francisco, CA in 2006
- ▶ IPO in 2014/12 (first P2P IPO). stock down 66% since IPO (4/19/2016)
- ▶ Market Cap: \$3.2B (4/19/2016) . Revenue : \$0.4B, net income (-\$5M) (FY2015); BV: \$1B, ~900 employees
- ▶ \$16B loans issued to date



Loan Type

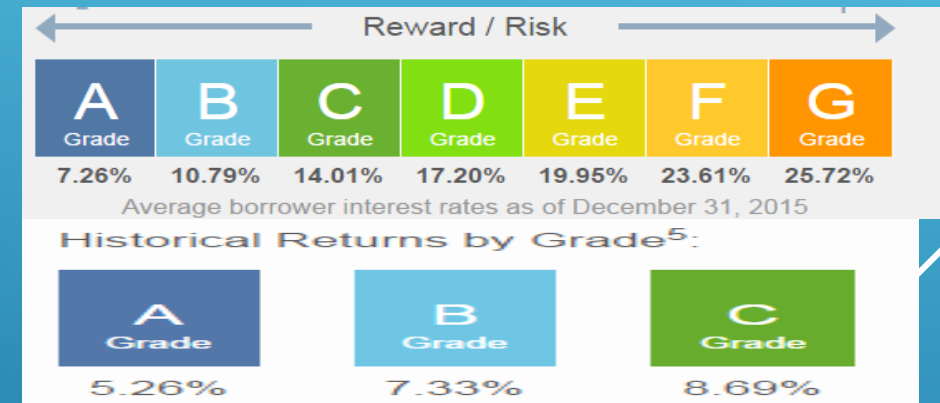
- Maturity: 1-5 years
- Personal loan limit: \$1K-40K, total loan limit up to \$50K; APR: 5.32% - 28.99%
- Business loan limit; up to \$30K, APR 8%-32%
- Risk based interest. Loan grade from A to G
- Default rate: 5.13%

Business Model:

- Origination fee: 1% - 5%
- Service fee (for investors): 1%
- Diversified: \$25 increments
- Qualified investor (>\$70K income AND >70K net worth (excl. home, auto) or >250K net worth; not available in all states.
- Regulation: FDIC, SEC

Underwriting

- Minimal FICO 660, 36 months credit history
- Satisfactory debt to income ratio (<50% excl mortgage)
- Satisfactory proprietary score



Average Borrower:

- 699 FICO score
- 18.12% debt-to-income ratio
- 16.3 years of credit history
- \$75,055 personal income (top 10% of US population)⁴
- Average Loan Size: \$14,741

CASE STUDY: YIRENDAI

Background / Introduction

- ▶ Founded in Beijing in 2012, carved out from CreditEase (a national leader in China founded in 2006, issued \$25B loans)
- ▶ IPO in 2015/12. stock up 18% since IPO (4/19/2016)
- ▶ Market Cap: \$0.6B (3/22/2016) . Revenue : \$0.2B, net income (\$43M) (FY2015), BV \$36M (2014/12), ~500 employees
- ▶ \$1.5B loans issued in 2015

Loan Type

- Maturity: 1-4 years
- Loan limit: \$77K
- APR: 16.9%-39.5%
- Default rate: ~6-7%
- Risk based interest. Loan grade from A to D

Online P2P Loan Listing:



精	其他(女,43岁,河北省唐山市)	借款金额 209500元	年化利率 12.5% ⓘ	借款期限 48月	查看
精	其他(男,45岁,福建省福州市)	借款金额 140400元	年化利率 12% ⓘ	借款期限 36月	查看

Business Model:

- Origination 6-7% (reserve fund)
- Transaction fee: 5.6%-28.2% for the entire life of the loan (included in APR)
- Service fee (for investors): 1%
- Offline acquisition channel and reserve fund
- Regulation: currently unregulated and guidance issued in 2015.

Underwriting

- National credit bureau (<20% population coverage)
- Parent company data (2 million borrowers)
- Proprietary score