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# US ONLINE LENDING TREND

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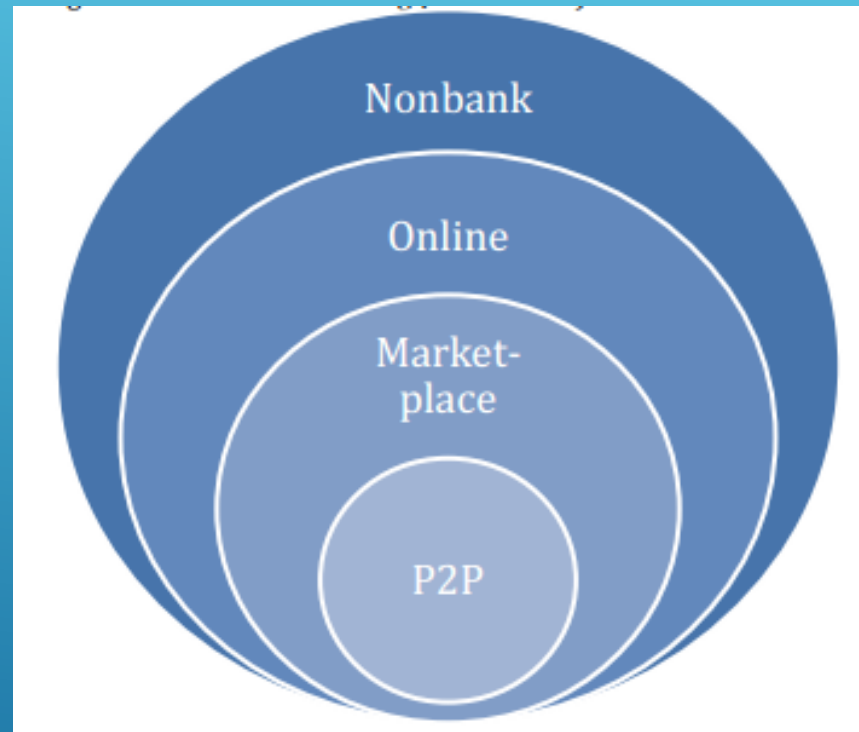


# AGENDA

- Categories of “Online Lending”
- US online lending landscape
- Stage 1: P2P
- Stage 2: from P2P to marketplace lending and why
- Stage 3: from marketplace lending to online lending and bank partnership
- Stage 4: Move to the center of matrix
- Appendix: marketplace lending in China and UK



# CATEGORIES OF NON-BANK LENDING



*Picture from: Marshall Lux and Martin, Chorzempa "When Markets Quake: Online Banks and Their Present and Future", April 2017*

# LANDSCAPE1: TOP US ONLINE LENDING PLAYERS

Consumer

Small  
Business

Real Estate

## US 2016 loan volume

<b>Lending Club</b>	\$8.7 billion
<b>Discover</b>	\$4.0 billion
<b>SoFi</b>	\$3.2 billion*
<b>Lightstream</b>	\$2.3 billion
<b>Prosper</b>	\$2.2 billion

\* Estimated, excludes student loans

## US 2016 loan volume

<b>OnDeck</b>	\$2.4 billion
<b>PayPal Working Capital</b>	\$1.5 billion*
<b>Kabbage</b>	\$1.25 billion
<b>CAN Capital</b>	\$1.1 billion*
<b>Square Capital</b>	\$798 million

\* Estimates

## US 2016 loan volume

<b>SoFi</b>	\$1.6 billion*
<b>LendingHome</b>	\$700 million*
<b>RealtyShares</b>	\$240 million
<b>Sharestates</b>	\$189 million
<b>PeerStreet</b>	\$175 million

\* Estimates

## Total top five players

**2016** \$20.4 billion

## Total top five players

**2016** \$7.95 billion

## Total top five players

**2016:** \$2.9 billion

Picture: Peter Renton (Lend Academy) "Global Overview of Marketplace Lending" at Lendit USA 2017

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# LANDSCAPE2: HIGHLIGHTS IN US ONLINE LENDING IN 2016

## The Year in Review - USA

### The Biggest Stories of the Past Year

- Lending Club challenges
- OCC Fintech Charter
- Goldman Sachs launches Marcus
- The first lending platform failures
- Securitization market grows
- Industry associations get some traction

# STAGE 1: P2P LENDING -STORY PROMISED WHEN IT APPEARED

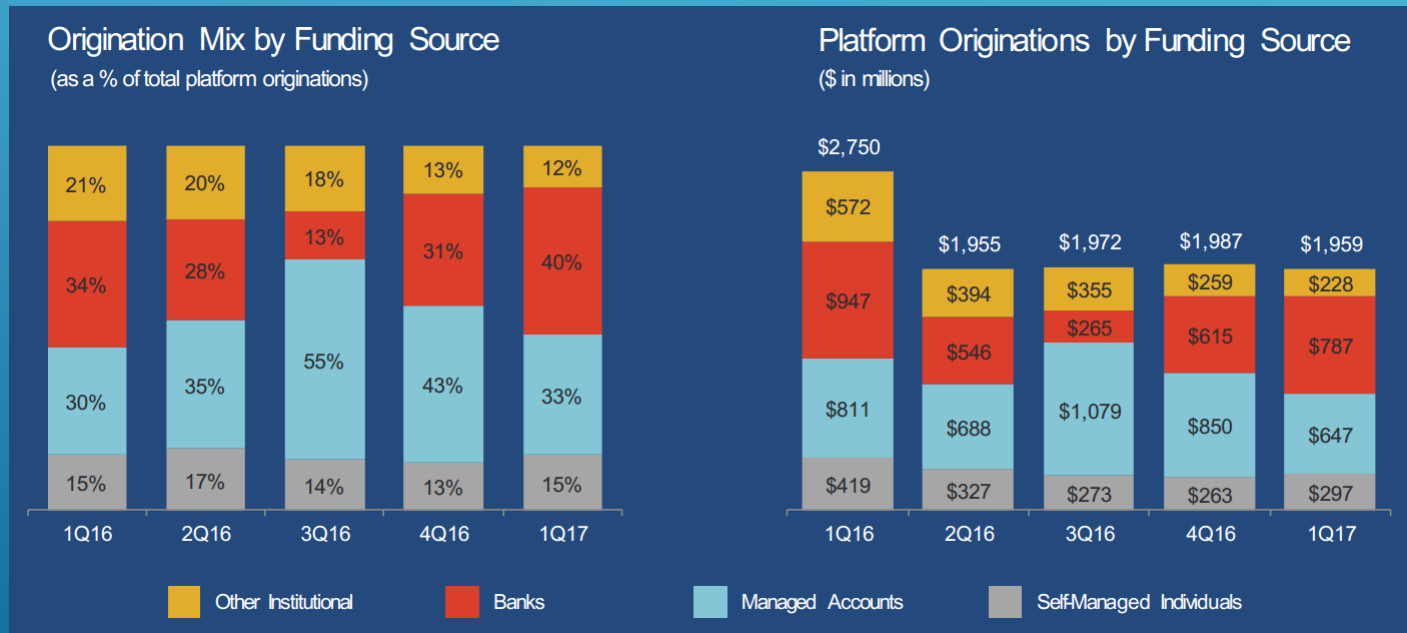
- "Transforming the banking system" by "cut off the middle man"  
(Lending Club's prospectus)
- Lower cost of borrowing and better return
- Serve underbanked
- Better customer experience

*References: : Marshall Lux and Martin, Chorzempa "When Markets Quake: Online Banks and Their Past, Present and Future", April 2017*



## STAGE 2: FROM P2P LENDING TO MARKETPLACE LENDING

- from P2P to peer to investors: 52% of Lending club originations in Q1 were funded by institutional investors



Picture from: Lending Club Q1 2017 presentation



## STAGE 2: WHAT HAS CHANGED- FROM P2P TO MARKETPLACE LENDING

- P2P disappeared, changed to Peer to institutional investor
- Lower investor return
- not proven business model (unprofitable, lending club, Proper, OnDeck)
- not proven credit model
- Securization

### Types of current online lending platforms

- Pure connectors
- Pure balance sheet lending
- Hybrid/mix





## STAGE 2: WHY - ADVANTAGES OF P2P LENDING

- Lower cost of operations
- Regulatory arbitrage
- Credit scoring arbitrage (Fair Credit Reporting Act and Equal Credit Opportunity Act, not through the circle. Miniscule portfolio)
- Tap into underbanked
- Better customer experience (sometimes)
- No “maturity transformation” (maturity mismatch) (this leads to less regulations)
- Synergy in the e-commerce/social network ecosystem and platform (some)



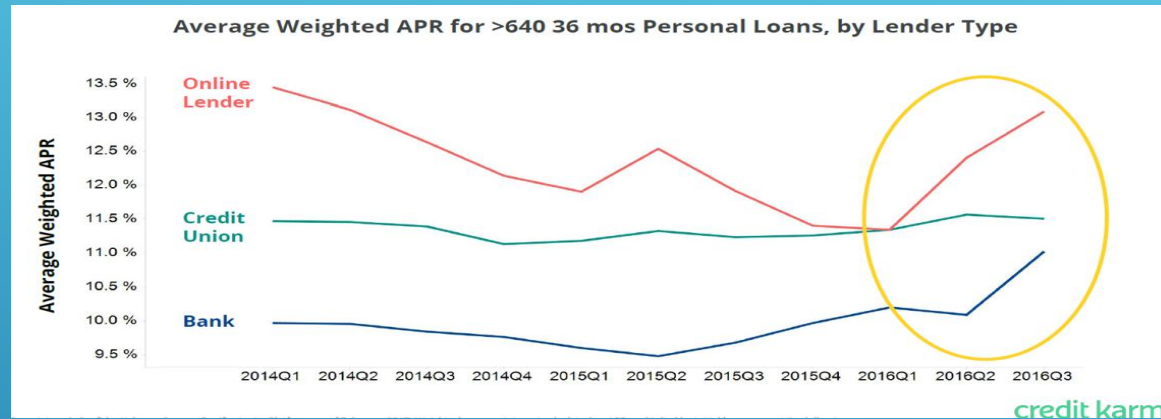
## STAGE 2: WHY - DISADVANTAGES OF P2P LENDING

- Higher cost of funding compared to banks
- Higher risk
- Unproved credit model
- Higher acquisition cost
- Lack of diversification of business
- Rising interest rate
- Competition from traditional banks (In the future, obtaining funds from traditional lenders may end up looking a lot like borrowing from lending club and prosper)

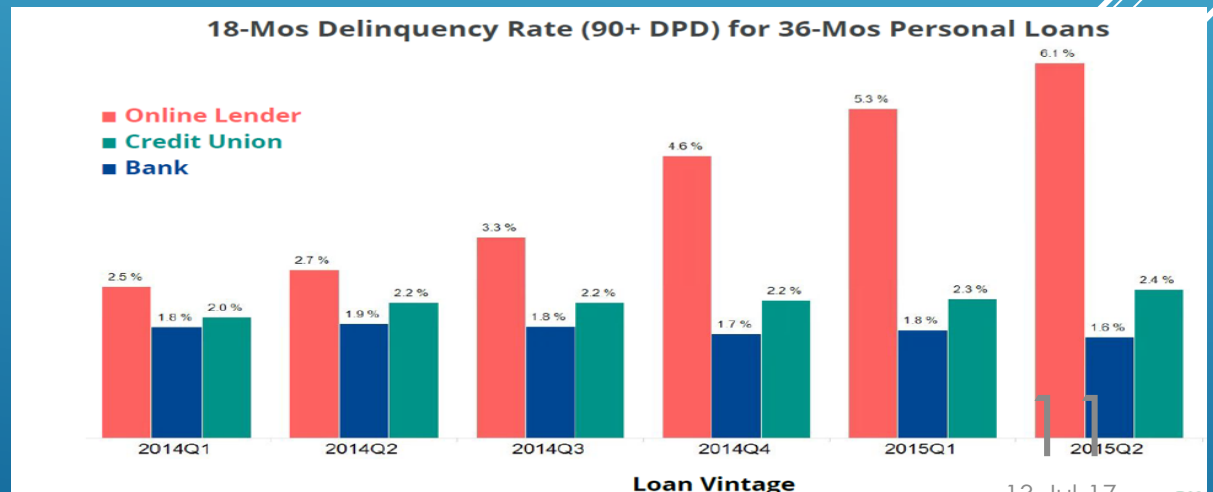
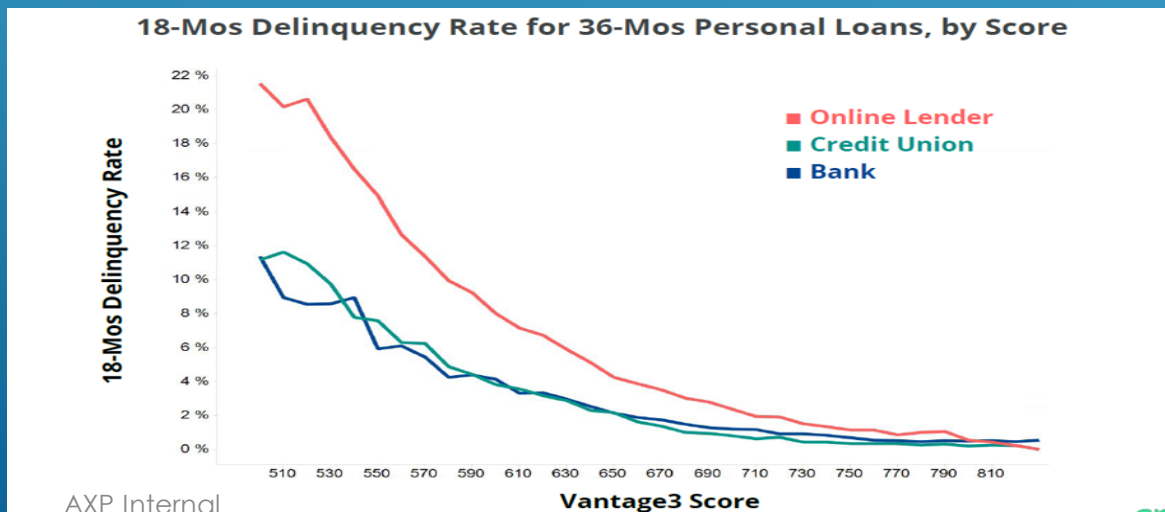


# STAGE 2: LOWER RETURN AND HIGHER DEFAULT RATE

- Increasingly less competitive APRs



- Higher default rate



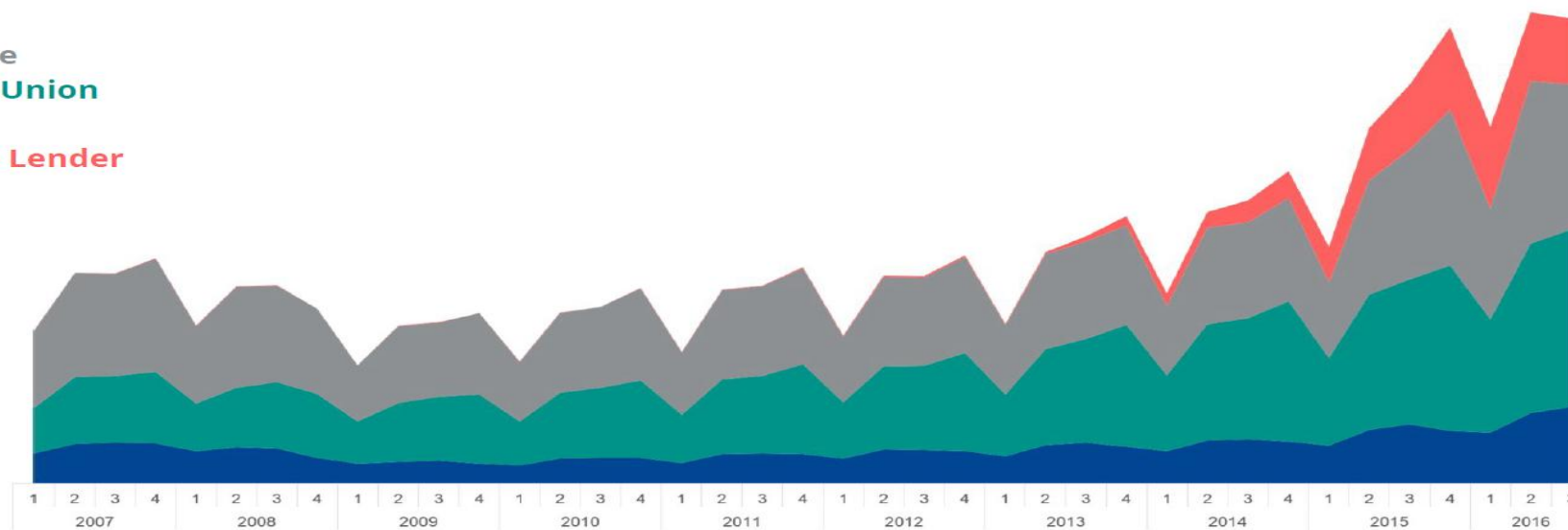
Picture: Kenneth Lin (Credit Karma) "Personal Loans: The Keys to Success in a Competitive Market" at Lendit USA 2017

## STAGE 2: SLOWER GROWTH

### Online lenders have grown the personal loans market

Total Quarterly Personal Loan Originations, by Type of Lender

■ Finance  
■ Credit Union  
■ Bank  
■ Online Lender



Picture: Kenneth Lin (Credit Karma) "Personal Loans: The Keys to Success in a Competitive Market" at Lendit USA 2017

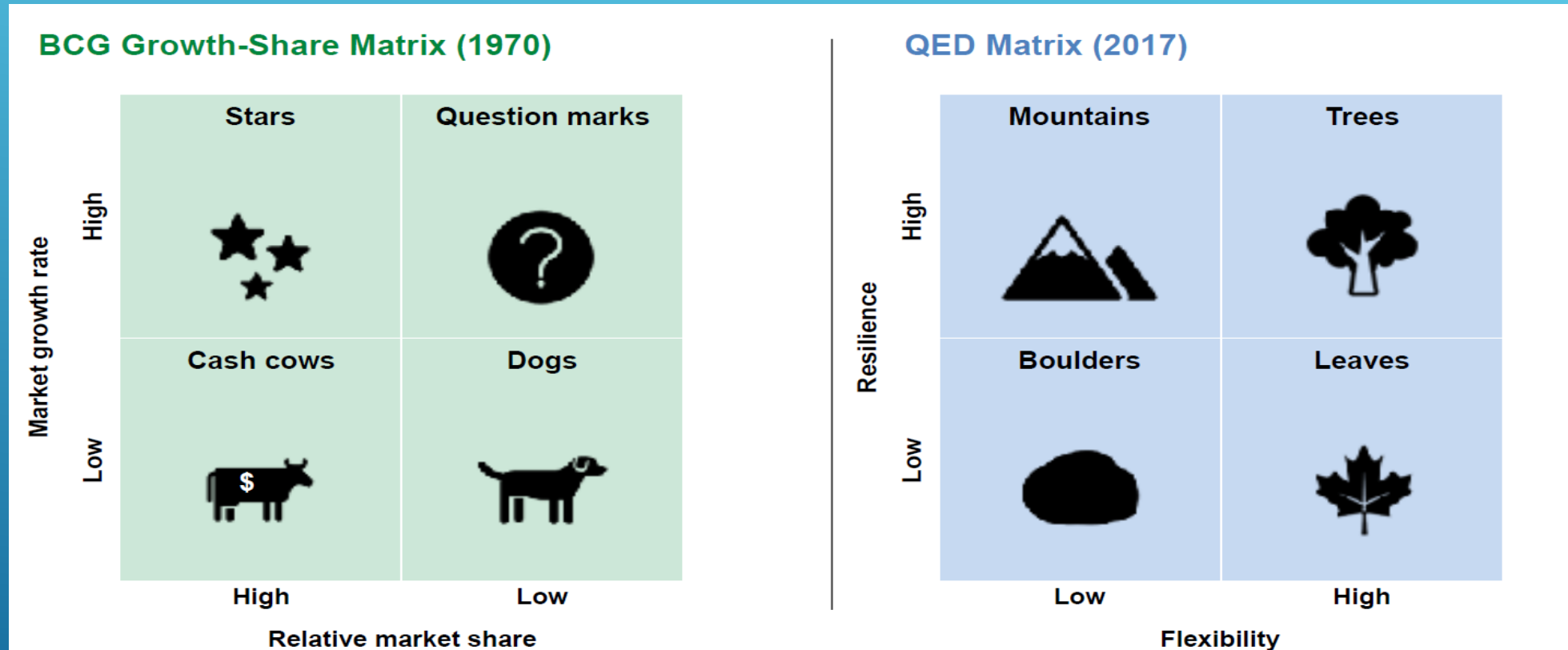
## STAGE 3: ONLINE LENDING AND PARTNERSHIP WITH BANKS

- Traditional banks offer online loans:
  - Goldman Sachs: Marcus, American Express: NextStep, working capital loans, capital one, discover, etc.
- Fintech companies work with banks (Borrower-Underwriter-Lender):
  - Bank-Fintech-Bank (BFB): JP Morgan & OnDeck, Santander & Kabbage and Regions Bank & Avant.
  - Fintech-Fintech-Bank (FFB): Lending Club partnerships with Union Bank and the BancAlliance
  - Bank-Fintech-Fintech (BFF): Regions Bank & Fundation, Radius Bank & Prosper.

Reference: Jason Jones, "2017 Will Be A Huge Year For Bank Partnerships", Lend academy, Nov 14, 2016, accessed November 20, 2016



# STAGE 4: MOVE TO THE CENTER (FUTURE)

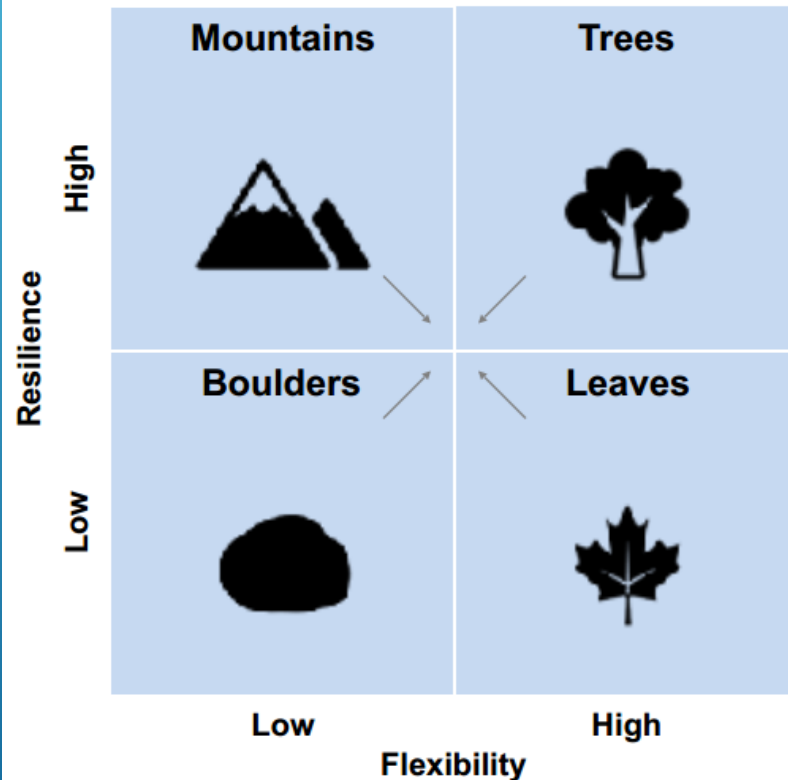


Picture: Nigel Morris (QED Investors) "Journey to the Center of the Matrix" at Lendit USA 2017



# STAGE 4: MOVE TO THE CENTER (FUTURE)

QED Matrix



- Distinguishing between banks and FinTechs on a **single dimension is insufficient**
- The QED Matrix reflects **trade-offs** in the design of financial services institutions
  - **Resilience** is a function of factors like brand, capitalization, and product suite diversification
  - **Flexibility** concerns both infrastructure and decision-making – and spans organizational design, technology, culture, talent, and more
- Each quadrant has strengths and drawbacks, so our thesis is that **entities should move towards the center of the matrix**

14



# STAGE 4: MOVE TO THE CENTER (FUTURE)

## QED Matrix: How to move to the center



### Mountains



- Partner and invest in Leaves to experiment with new models
- Shed (or scale back) low ROE businesses
- Shift towards platform model, strong distribution model
- Hire, retain, and empower talent

### Boulders



- Focus efforts on local businesses (deposits, CRE, agriculture loans)
- Partner with Mountains / Leaves on national businesses

### Leaves



- Diversify offerings to reduce risk and expand customer base
- Partner with Mountains and Boulders to improve distribution

### Trees



- Develop bank-like capabilities in deposit-taking and risk
- Avoid organizational bloat, technical debt, silo-ing by SBU, etc. common in banks

# APPENDIX: MARKETPLACE LENDING IN UK VS CHINA IN 2016

## The Year in Review - UK

### The Biggest Stories of the Past Year

- Brexit creates uncertainty
- The FCA starts a regulatory review
- The Innovative Finance ISA gets some momentum
- Zopa announced its pursuit of a banking license
- Lord Turner changes his tune on P2P lending

## The Year in Review - China

### The Biggest Stories of the Past Year

- The CBRC announces official regulation of online lending
- Fintech investment in China now leads the world
- Total loan volume topped 2 trillion RMB (approx. \$300 billion)\*
- The number of P2P lending platforms dropped for the first time to 2,448\*
- Continued problems with fraud and scandals

\*Source: Wangdaizhijai (wdzj.com)



THANK YOU