

MARKET PLACE LENDING (LENDING CLUB VS. YIRENDAI)

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WHAT IS MARKET PLACE LENDING?

Definition: Marketplace lending, (P2P Lending;) lending money to individuals or businesses through online services that match lenders directly with borrowers.

The platforms do not lend their own fund.



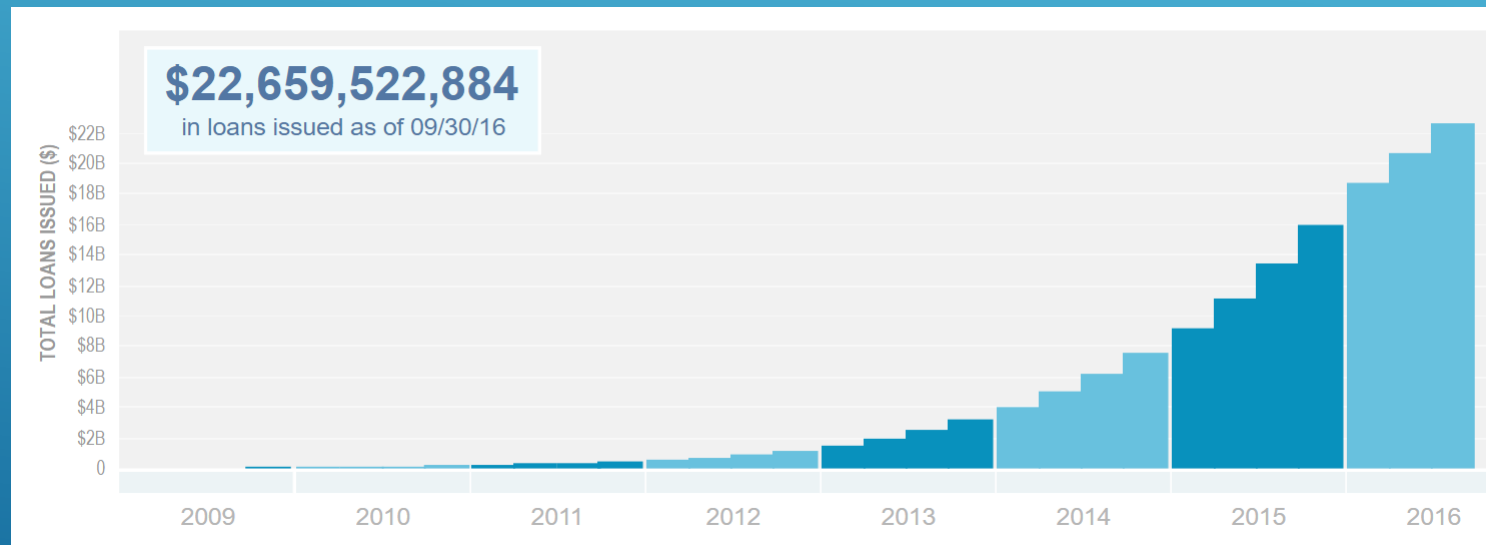
Players: Lending Club, Yirendai (China), Prosper, Upstart, Funding Circle (UK), etc.

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

MARKET SIZE AND GROWTH (US)

- Fast growing, \$20B in 2015 vs. less than \$1B in 2011
e.g. Lending Club: \$8B in 2015, \$7B in 2016 9m, accumulatively \$23B
- However, only a very small percentage of US consumer loans
US Consumer Loan market: \$3.2T, of which \$380B qualifies P2P loans



Source: Lending Club website

CASE STUDY: LENDING CLUB (1)

Background / Introduction

- Founded in San Francisco, CA in 2006
- IPO in 2014/12 (first P2P IPO). stock down 79% since IPO (12/14/2016)
- Market Cap: \$2.0B (12/14/2016) (high at \$15B).
- Revenue : \$0.4B, net income (-\$5M) (FY2015); BV: \$1B, ~900 employees

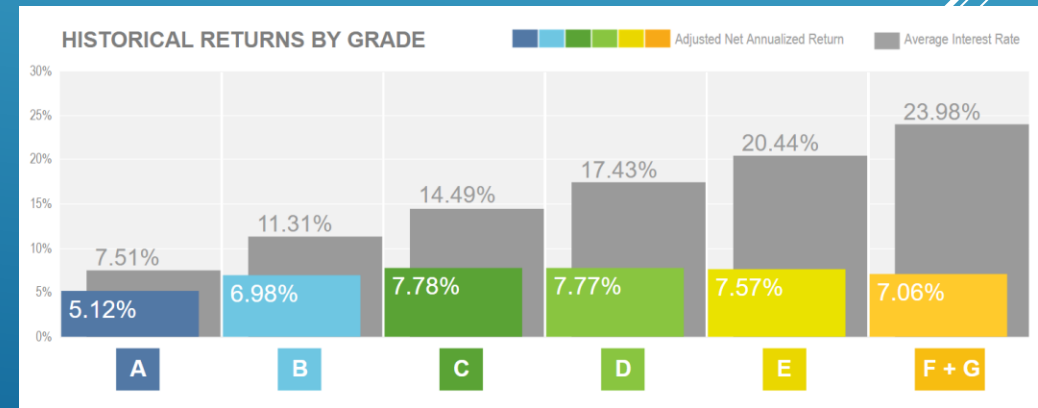


Loan Type

- 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%
- \$22B in total, 2M loans, \$10-15K in average, 780K borrowers

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)
- Average Loan Size: \$15K
- 60.98% of Lending Club borrowers report using their loans to refinance existing loans or pay off their credit cards as of 09/30/16.



Source: Lending Club website

CASE STUDY: LENDING CLUB (2)

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

Challenges in 2016

- 2016/05: The founder and CEO Renaud Laplanche was abruptly ousted for activities that the board deemed improper. (Founded a rival Credify)
- 2016/02: Models Misfire as Loan Write-Offs Top Forecasts



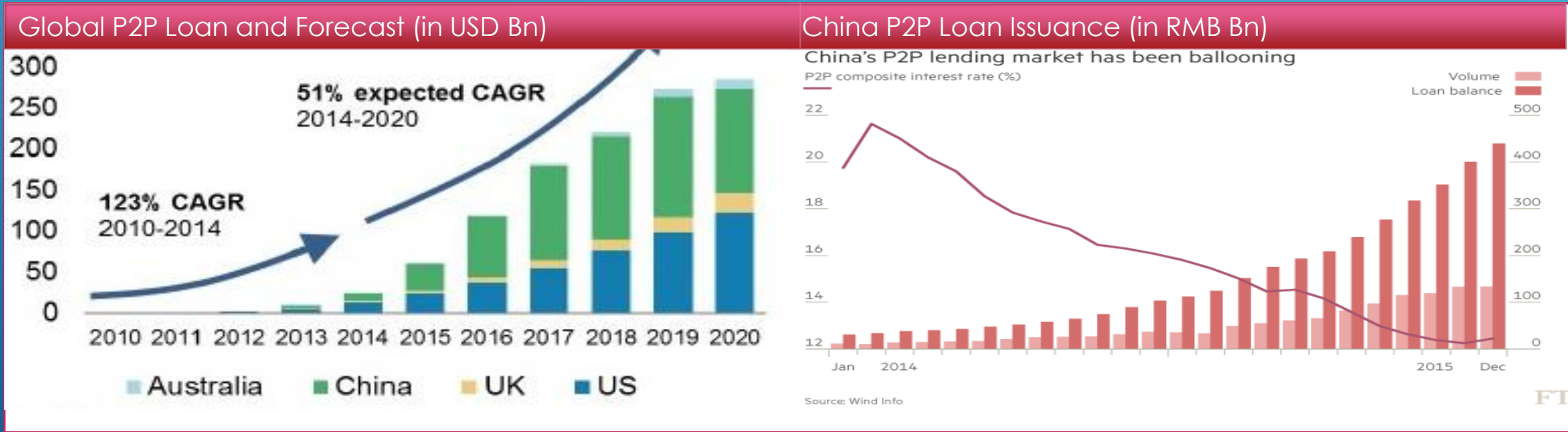
MARKET SIZE AND GROWTH (CHINA)

Fast growing, loan volume much larger than US

- \$120B in 2016 6m
- \$150B 2015
- \$39B 2014
- Accumulatively loans issued: \$320B
- Loans outstanding: \$90B

(Wangdaizhijia)

China Consumer Loan market: \$2.4T (2014)

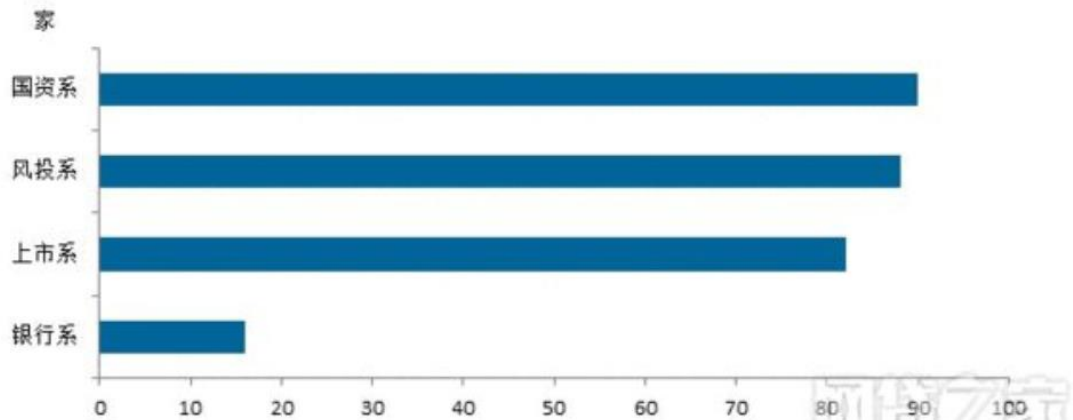


MARKET SIZE AND GROWTH (CHINA)-CONTINUED

Different business models, different players

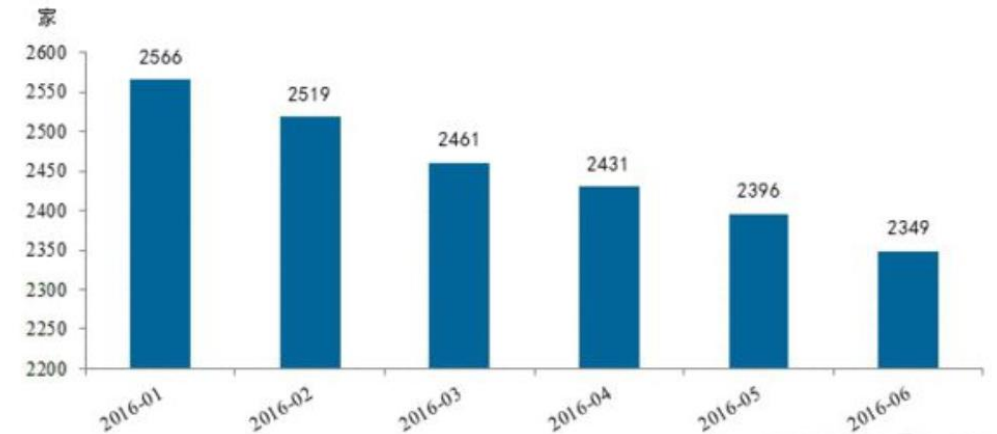
中国市场		宜人贷	宜人贷/市场
投资人(000)	3,383	170	5%
借款人(000)	1,124	90	8%
平台数量	2,400		
投资人/平台(000)	1.41		
借款人/平台(000)	0.47		

图 3 各背景网贷平台数量



资料来源: 网贷之家、盈灿咨询

图 1 2016年上半年各月运营平台数量



资料来源: 网贷之家、盈灿咨询

CASE STUDY: YIRENDAI (1)

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 195% since IPO (12/14/2016)
- Market Cap: \$1.5B (12/14/2016)
- Revenue : \$0.2B, net income (\$43M) (FY2015), BV \$36M (2014/12), ~500 employees; estimated revenue \$0.5B in 2016.
- \$1.5B loans issued in 2015 (\$3B estimated in 2016)

Online P2P Loan Listing:



Loan Type

- Maturity: 1-4 years
- Loan limit: \$77K
- APR: 16.9%-39.5%
- Default rate: ~6-7% (0.5% in 2016 9m)
- Risk based interest. Loan grade from A to D

	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
	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

CASE STUDY: YIRENDAI (2)

Business Model:

- Origination 6-7% (reserve fund)
- Transaction fee: 5.6%-28.2% for the entire life of the loan (included in APR: 12%-37%)
- Service fee (for investors): 1%
- Offline acquisition channel and reserve fund
- Regulation: currently unregulated and guidance issued in 2016.



Underwriting

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

Strong Q3 2016 Result



YIRENDAI VS. LENDING CLUB

- Fraud events: \$15M one off expense in Q3 vs. insignificant
- High transaction fee vs. minimal transaction fee
- Profitability vs. loss
- Mixed online (40%) and offline channel vs. 100% online
- 100% guarantee vs. no guarantee
- Developing regulation vs. tight regulation
- No info exchange on P2P platforms vs. credit bureau reporting

- **New regulation in China** (securizatation, third party fund management, cap on personal and institution loan size; credit enhancement)