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WHITE PAPER

Technology-Enabled Alternative Lending

Industry Overview

Contents

Sector Background

The technology-enabled sector has drawn significant interest from investors, financial institutions and borrowers. While there has been rapid recent growth, the market opportunity remains even larger. Following the successful IPOs in December 2014 of both Lending Club, the largest peer-to-peer (P2P) platform in the US, and OnDeck Capital, one of the largest direct lenders focused on small and medium-sized businesses, a wave of similar companies are expected to IPO in 2015 and 2016.

Introduction

A large number of funding companies have emerged over the past 10 years that are providing consumer and commercial credit in innovative ways as an alternative to the traditional banking market. Some companies leverage cutting-edge technologies, have developed proprietary platforms, incorporated new underwriting theories, and implemented new strategies to manage credit risk. While some of these companies have been in continuous operations for 15 years, the industry is still in its early stages and the opportunity set remains significant. Algorithms are being built, billions of dollars are being borrowed and lent, investments are being made, partnerships are being formed, and business models are being refined rapidly. In this white paper series, we will explore many aspects of the industry. This introductory paper attempts to provide an overview of the landscape and differing business models while future papers will explore specific aspects such as valuation, technology, and compliance.

Particularly since the 2008 financial crisis there are opportunities in the lending marketplace that, with the help of technology, new entrants are finding promising and potentially significantly profitable. This should benefit consumer and commercial borrowers who seek greater transparency in product and pricing options, lower search costs, faster speed, and better customer service. Though still small, relative to the traditional bank market, these new entrants are providing a credible alternative for consumer and commercial borrowers. Technology-based alternative lenders are providing easy to use online applications with electronic signature, rapid loan decisioning (leveraging public and private data sources) with an emphasis on customer service in the form of speed and convenience. The traditional market has taken notice of this disruption and is responding by providing capital, advice, and the formation of strategic alliances.

Differing Business Models

Three primary business models are emerging in the technology-enabled lending industry:

Who They Are	(1) Funders	(2) Marketplaces	(3) Aggregators
What They Do	Use own balance sheet capital as source of funds. Use proprietary risk models and algorithms that include nontraditional data.	P2P platforms that connect capital from either institutional or retail investors with borrowers. Marketplaces are tasked with putting checks-and-balances to facilitate the transaction.	Connect borrowers with a range of traditional and alternative lenders to broker a transaction.
Examples	CAN CAPITAL Kabbage LendUp OnDeck Progreso Financiero	Funding Circle LendingClub PROSPER SoFi	Biz2Credit BoeFly fundera lendio
Loans to Date	~$8 billion	~$10 billion	NA
Revenues Source	Interest income	Servicing and Origination Fees	Transaction Fees/ Commissions
Credit Risk	Yes	No	No
Illustrative APR	20%–50%	9%–15%	Wide variation given mix of products and lenders
Illustrative Terms	6–9 months	3–5 years	Wide variation given mix of products and lenders
Established Competitors	Community Banks	Community Banks Credit Card Companies	NA
Source of Funds to Borrower	Debt and equity capital provided to Funder, which provides capital to borrowers	Retail investors or institutional investors who invest through the Marketplace	Third parties with whom the credit is placed

Funders

Funders leverage their own balance sheets as funding and capital source. These include companies like CAN Capital, Kabbage, LendUp, OnDeck, and Progreso. OnDeck has underwritten nearly than $2 billion in loans since inception. Kabbage, which targets online merchants, announced in September 2014 it was funding $2 million a day in small business loans. Meanwhile, CAN Capital, one of the longest operating alternative capital providers, funded nearly $1 billion of transactions for 2014. Unlike a traditional bank that finances lending through low-cost, federally-insured deposits, Funders rely on a variety of financing sources including warehouse lines and securitization facilities.

Consumer lenders target borrowers underserved by the traditional finance system, including young people, immigrants, or generally those who have little or no credit history (thin files). Some tie loans to an education curriculum, use gamification, or otherwise try to influence consumer behavior allowing consumers to build credit history while repaying the loan. For example, LendUp, a “payday loan disruptor” incubated at Y Combinator and backed by Google Ventures, Kleiner Perkins, and Andreessen Horowitz, among others, uses 100% algorithmic decisioning for consumer loans and creates a “LendUp ladder” to have the borrower achieve points to promote positive behavior, educate, and provide information to credit bureaus to assist the borrower in establishing a credit history. Others, such as Progreso Financiero, target particular communities or demographic segments, such as the Hispanic population.

Commercial loans typically have less than 9 months terms and are used to fund working capital and inventory purchases. Many require a daily deduction from the borrower’s bank account during the period of the loan through automated ACH collection. Given the short terms, a borrower could borrow at a 25% rate, but pay an annualized rate of 50%. Generally, the size of the loans is smaller than traditional bank loans, for example, at OnDeck the average loan size is $40,000 with a $250,000 maximum size, but some Funders lend as much as $500,000.

Funders do not rely on a retail or branch presence, opting instead to source loans through three channels: (1) direct, (2) partnerships and (3) brokers or other advisors. The direct channel allows companies to acquire borrowers through a variety of marketing techniques including direct mail, online media, and search engine optimization through Google. As an example, according to the company’s registration statement, approximately 54% of OnDeck’s loans came through this channel for the nine months ended September 30, 2014 and 44% during 2013. In the partnership channel, Funder companies connect with prospective borrowers through strategic relationships with another partner, in some cases a traditional bank. OnDeck has originated approximately 13% of their loans through this channel for the nine months ended September 30, 2014 and 10% during 2013. OnDeck originated approximately 29% of their loans through the “funding advisor” channel for the nine months ended September 30, 2014 and 32% during 2013. In the broker channel, independent, aggregator companies connect with prospective borrowers by entering into relationships that typically offer a variety of financial services, including commission-based business loan brokerage services.

Marketplaces

P2P lending, a type of lending which matches individual borrowers with investors, first emerged in the UK in 2005 and arrived in the US a year later. The P2P market has been growing rapidly since its inception, while traditional consumer bank loans and credit card lending have been declining. P2P platform operators do not make loans, but rather serve as intermediaries between borrowers and individual and institutional investors.

Today, the P2P model is well established in consumer lending. Two companies, LendingClub and Prosper, have made more than $9 billion in consumer loans to date. As suggested by their name, P2P means that individual investors provide capital to transactional marketplaces, like LendingClub, which then decision loans based on a proprietary credit model and underwriting team. Revenue for P2P lending platforms is derived from a transaction or origination fee which ranges from 1%-6% of the initial principal balance (with 5% being typical) and 1% servicing fee. Transaction fees are deducted from loan proceeds disbursed to the borrower while servicing fees that are deducted from principal and interest payments are paid to the lender.

P2P platform operators view their value proposition as creating lower interest rates for borrowers and simultaneously providing attractive rates of return for individual investors. The goal of any P2P platform operator is to create a user-friendly internet-based platform that permits an efficient matching of (i) investors having capital to deploy with (ii) those seeking credit. To that end, the platform will contain a website that permits investors to register as prospective lenders and individuals to register as prospective borrowers. Each registered borrower that satisfies certain criteria fixed by the platform may from time to time request the platform to post loan requests on the website for viewing by prospective lenders. P2P platforms compete on (i) quality of underwriting, (ii) technology, and (iii) access to borrowers and investors.

Investors are either retail or institutional. Unlike P2P donation platforms such as Kickstarter, Crowdrise, Indiegogo, and Kiva, P2P platform marketplaces attract investors who are seeking an economic return. In the US, P2P lending platforms operate under a regulated business model. However, unlike a traditional bank which is heavily regulated by one or more of the federal banking agencies, P2P platforms are primarily regulated by the Securities and Exchange Commission.[1] LendingClub and Prosper issue securities to investors that have been registered under the Securities Act. While investments are linked to individual borrowers, the investor is not actually lending to them, but instead investing in a publicly traded security that is linked to the underlying borrower and is an unsecured obligation of the platform.[2] Other P2P platforms such as Funding Circle offer securities only to accredited investors under the Section 4(2) exemption of the Securities Act. P2P lenders are subject to ongoing compliance programs such as a variety of state and federal consumer protection laws and comparing user identity against applicable governmental lists such as the OFAC and FinCEN.[3]

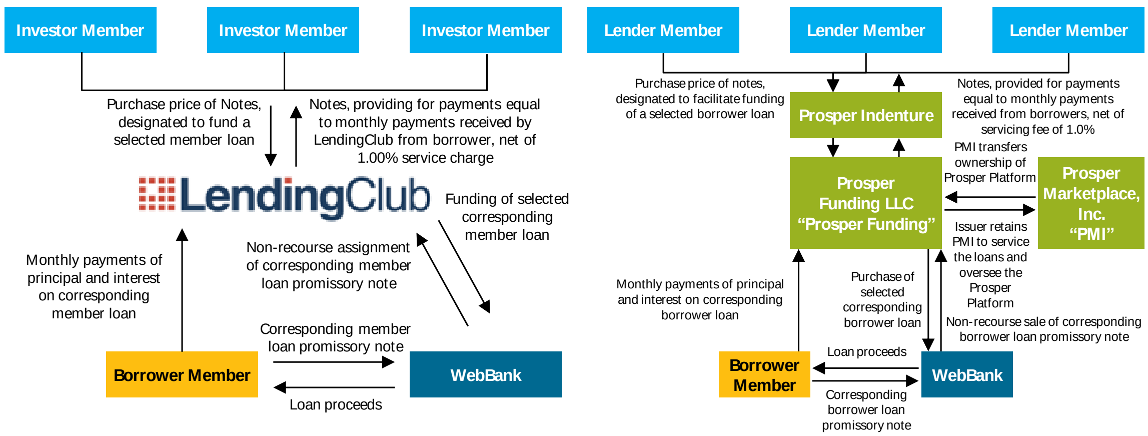
A partner bank, usually WebBank, handles loan transactions with borrowers, essentially passing investor capital through to borrowers under legally-sanctioned loan origination transactions. Technically, all P2P loans are directly funded by a partner bank, with a bank license making it easily able to cross state lines simplifying compliance and reducing costs. The partner bank then

1 The industry experienced a setback when, in 2007, the SEC determined that the consumer loans offered to investors were in violation of the Securities Act of 1933. To comply, P2P companies now issue SEC-registered note securities to investors.

2 The systems are "double-blind"—the borrower does not know who the investors are and vice versa.

3 The fourth paper in this series will address the compliance environment for technology-enabled alternative lenders.

assigns the loans to the P2P companies such that borrowers make principal and interest payments directly to the P2P company. In turn, the P2P companies pass those payments through to the investors, net of their servicing fees, pursuant to the terms of the registered notes. The following diagrams show the P2P lending process for LendingClub and Prosper, respectively:

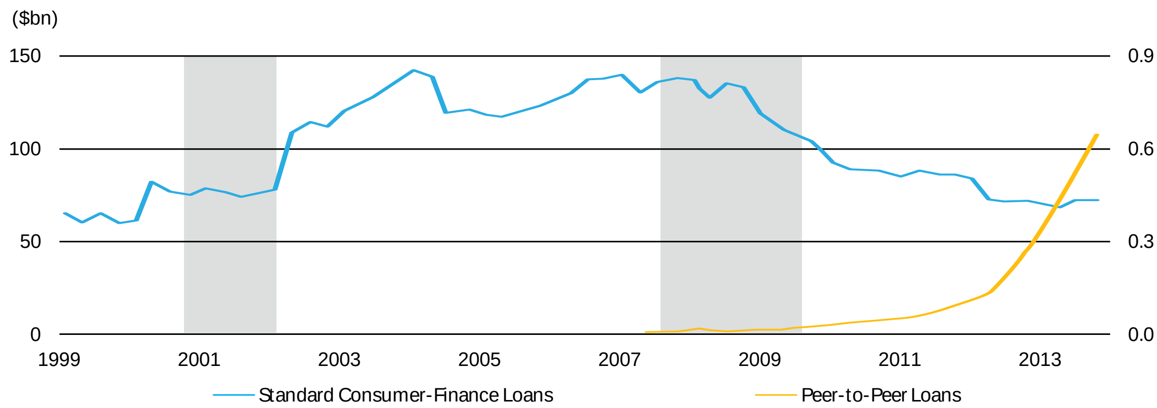


Source: LendingClub chart available from LendingClub prospectus, page 6 (April 30, 2013). Available at: https://www.lendingclub.com/fileDownload.action?file=Clean_As_Filed_20130430.pdf&type=docs.
Prosper chart available from Prosper Funding LLC prospectus, page 14 (May 21, 2013). Available at: https://www.prosper.com/Downloads/Legal/Prosper_Prospectus_2013-05-21.pdf.

Generally, P2P platforms offer amortizing loans with fixed interest rates and 3–5 year maturities. The loans appeal to individuals seeking to consolidate credit card debt, repay high interest rate loans, or borrow funds for other general purposes. For businesses, interest rates range from 8%–24% for loans of up to $250,000 that can stretch for three years. Funding Circle, a UK-based business lender that has expanded into the US in 2013 through the acquisition of Endurance, charges 10%–17% for loans of up to $500,000.

Since Q2 2007, the total amount of money lent through bank-originated consumer-finance loans has been declining on average 2% per quarter and the total amount lent through bank-originated credit cards has been declining on average 0.7% per quarter. Meanwhile P2P lending has been growing rapidly at an average pace of 84% per quarter.

Standard Loans vs. Peer-to-Peer Loans



Source: Demyanyk, Yuliya and Daniel Kolliner. Federal Reserve Bank of Cleveland, "Peer-to-Peer Lending Is Poised to Grow" http://www.clevelandfed.org/research/trends/2014/0814/01houcon.cfm. Note: Standard Consumer Finance Loans is the total amount of loans outstanding, however P2P loans are the total amount originated. Information from Equifax, Federal Reserve Bank of New York's Consumer Credit Panel, and LendingClub.

P2P platform operators differentiate in terms of the borrower focus, industry and stage. For example, SoFi focuses on the student loan industry using an affinity-based model to connect alumni borrowers and investors directly and has facilitated almost $1 billion of student loan refinancing. To date SoFi has done three securitizations of senior notes, each receiving an "A" rating: a $152 million transaction in December 2013, a $251 million transaction in July 2014, and a $303 million transaction in November 2014. SoFi's inaugural transaction had a top-tier, leading investment bank (Barclays) and a blue-chip rating agency (S&P) speaking to increasing adoption and participation by established players.

Additionally, P2P lending has expanded outside the US and UK. For example, in March 2014, Barclays acquired a 49% stake in South African P2P Platform RainFin, which offers unsecured consumer loans through an online application of less than 2 years with annualized interest rates of up to 32% and recently expanded into small business lending.[4] Other international P2P platforms have emerged around the world with a similar business model, but different characteristics based on local regulations.

Select Global P2P Market Leaders

Country	Leading Company	Description	Website
Germany	auxmoney	**History**: Founded in 2007 **Management**: Raffael Johnen, Philipp Kriependorf, and Philipp Hartmann **Current Status**: Facilitated almost over 22,000 loans to date, worth €110mm in total with 60% market share of the German crowd funding market **Products**: Allows private consumers take out	https://www.auxmoney.com/

Select Global P2P Market Leaders			
Country	**Leading Company**	**Description**	**Website**
		personal loans of between €1,000–20,000 from private investors	
France	prêt d'union	**History**: Founded in October 2009 **Management**: Charles Egly (ex BNP Paribas), Geoffroy Guigou (ex McKinsey & Poweo), Lionel Beaudet (ex Virgin Mobile) and Thomas Beylot (ex PriceMinister.com) **Current Status**: Facilitated more than €5mm of loans in September 2013, reports volume growing by 10% monthly. Only P2P lending company licensed by French banking and financial authorities to operate in Europe. **Products**: Allows private individuals and institutional investors to lend money to borrowers directly through a secured bond marketplace	http://www.pret-dunion.fr/
Spain	comunitae	**History**: Launched in 2009 and headquartered in Madrid **Management**: Arturo Cervera, CEO **Current Status**: Community of lenders has funded more than €2 million in loans	https://www.comunitae.com/
China	人人贷 renrendai.co	**History**: Launched in 2010 **Product**: Targets white-collar employees and small business owners as its customers, charging borrowers a management fee of 0.3% of the borrowed money, and a service fee of up to 5% **Management**: He Li Xin (CEO), Yifu Yang (owner)	http://www.renrendai.com/
	宜信 CreditEase	**History**: Founded in 2006 and headquartered in Beijing **Current Status**: Nationwide service network covering over 100 cities and 20 rural locations **Management**: Ning Tang (Founder and CEO)	http://english.creditease.cn/
	点融网	**History**: Founded in 2012 and headquartered in Shanghai **Current Status**: launched with “co-operation” with state-based China Orient Asset Management Corp. **Management**: Soul Htite (Co-Founder and VP of Engineering at LendingClub)	http://www.dianrong.com/
Mexico	Prestadero	**History**: Founded in 2011 and headquartered in Mexico City **Current Status**: Provides unsecured personal loans from 10,000 to 250,000 Mexican pesos offering approved borrowers rates from 9%–29% annually. **Management**: Gerardo Obregon	https://www.prestadero.com/

Source: Company websites.

Aggregators

Aggregators seek to function as brokers and create a lender agnostic marketplace where borrowers can compare a range of loan products from a common application. These aggregators seek to lower search costs and allow comparison shopping for financial products. Early innovators, such as Bankrate and LendingTree, have benefited from the shift toward consumer use of the internet to research financial products and the internet's ability to aggregate vast amounts of information. New marketplaces are emerging for commercial borrowers whereby an aggregator will offer a range of financial solutions, from term loans and lines of credit to cash advances and factoring products. These are offered from a wide variety of sources, from alternative lenders to traditional banks. For example, in 2013 Lendio matched $1.15 billion of business loans representing 158% year-over-year growth for that aggregator.[5]

Increasingly, these platforms are experimenting with ways to work collaboratively with traditional community banks, encouraging them to send borrowers whom they cannot fund, to the marketplace to enable the bank to retain the deposits and strengthen the customer relationship.[6] Biz2Credit, another aggregator, has provided loans for Union Bank and TD Bank, among others. Aggregators are commission-based, in some cases charging 10% of a funded loan with 7% of loan principal being a customary commission as of 2014.

Some aggregators also seek to provide added services to their borrowers, such as a free loan consultation. For example, Biz2Credit, provides a "virtual CFO" where every customer receives a dashboard and cloud-based document storage which makes it easier for a borrower to assess and evaluate different credit alternatives.

Impact on Existing Ecosystem

Traditional credit providers, such as large banks and credit card companies, are closely monitoring developments in the industry. In addition to providing commercial lending and investment banking services to help finance the industry's growth, some established financial institutions have already begun to partner with these new entrants.

In many cases banks are using these new entrants as another distribution channel to source new customers. For example, Greensky has 12 banks as its primary partners buying loans on its platform, the largest of which, SunTrust, has over $1 billion in outstanding loans generated from this channel. In another example, UnionBank became the largest bank to purchase loans through LendingClub and the two companies have agreed to collaborate on new credit products. In other cases banks are outsourcing underwriting and risk management functions, for example BBVA now licenses the OnDeck Score, developed by OnDeck to provide certain clients with loans of up to $250,000 for less than two year terms with next business day funding.

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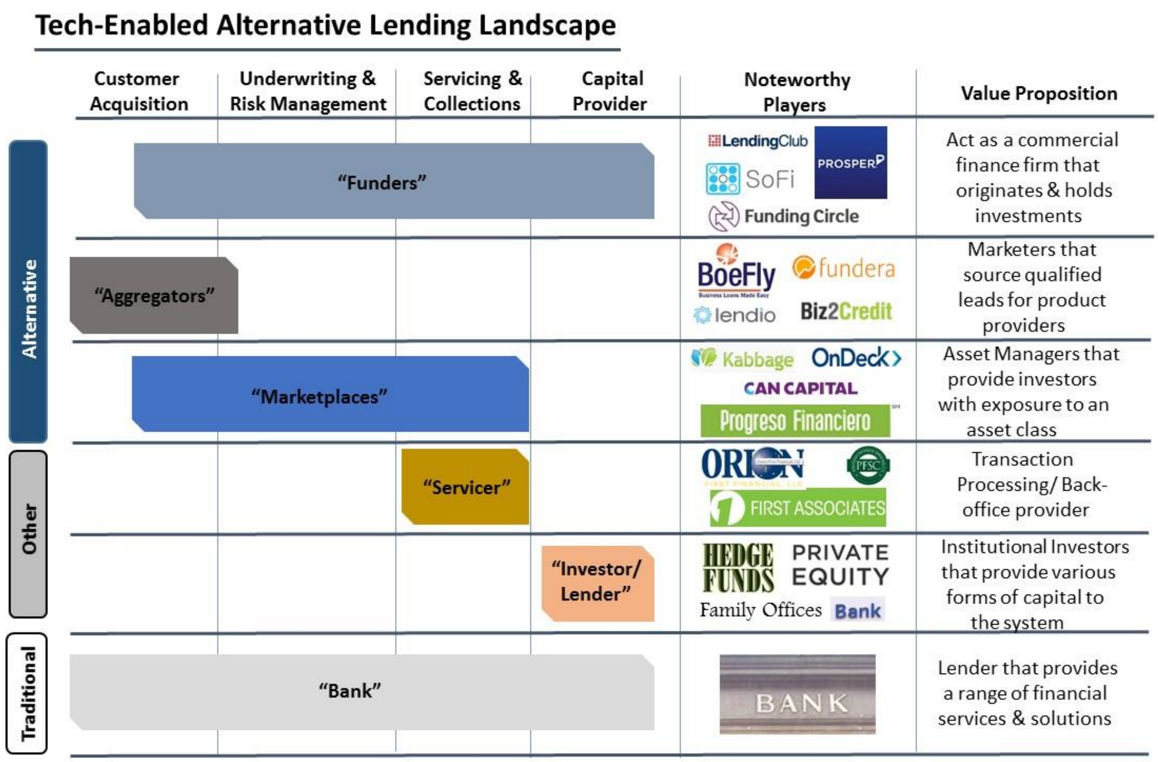
[5] http://www.lendio.com/blog/lendio-finishes-2013-record-revenues-volume-small-business-loan-approvals/.

[6] Lendio Company Presentation (July 2014).



The rapid growth of technology-enabled lenders has caused the established ecosystem to take note and remain actively apprised of these developments. However, institutionally these organizations may not be agile enough to pursue new areas.

Despite the question of agility, if more conventional players target similar markets, the appeal of emerging technology-enabled lenders could be tested. For example, credit card companies often provide easy access to working capital funding and small dollar cash advances with yields that are based on the size, duration and risk profile of the borrower. Companies like American Express (American Express Merchant Finance), Square (Square Capital), and PayPal (PayPal Working Capital) have developed their own in-house commercial financing operations within the last two years to try to limit the loss of borrowers seeking alternative financing solutions in the commercial market.

Examples of Build, Buy, Partner Decisions

Build/(Organic Entry)	Buy/(M&A)	Partner/(Strategic Alliance)
A wide range of companies particularly • Companies with access to significant data sets, such as Intuit or Amazon • Credit card companies, such as Capital One or American Express, particularly given the volume of debt consolidation loans being obtained on P2P websites • Payments and point-of-sale companies such as Square or PayPal who can use daily sales information to monitor decisioning and servicing	• Barclays acquired 49% of South African P2P Platform RainFin (2014) • LendingClub acquired Springstone, provider of financing options for private education and elective medical procedures (2014) • CIT acquired Direct Capital a technology based provider of middle-market lending and leasing (2014) • Rockbridge Growth Equity acquired RapidAdvance a provider of cash advances to businesses for working capital (2013)	• Santander/Funding Circle: Santander to pass on leads to Funding Circle (2013). RBS refers clients to Funding Circle and Assetz Capital (2015) • UnionBank/LendingClub: UnionBank became the largest bank to purchase loans through LendingClub and the two companies will collaborate on new credit products (2014) • BBVA/OnDeck: BBVA will use OnDeck's technology (OnDeck Score) to provide qualifying clients with loans up to $250,000 for 6–24 month terms with funding in as fast as one business day (2014)

Regulators are also monitoring these developments; however, a consensus on how to view the industry has not been reached. For example, in 2012 the Consumer Financial Protection Bureau ("CFPB") launched "Project Catalyst" to engage with innovators to ensure consumer-friendly innovation and even trial disclosures. Supporters of the industry argue against regulating online lending too early for fear of curtailing innovation that could provide valuable financial solutions. However, there is concern that if left unregulated, online lending could lead to abuses and hurt investors and borrowers.[7]

Industry Synopsis

There have always been alternatives to banks, however, there has been significant growth in innovative and alternative capital sources since the 2008 financial crisis due to the rise in technology and data aggregation triggered by a post-crisis, risk averse banking sector. Through the recovery, these non-traditional lending sources have grown rapidly, suggesting either (1) that borrowers are forced to seek non-traditional credit because banks remain unable or unwilling to

[7] *See,* e.g., Prepared Remarks of CFPB Director Richard Cordray at the Mobile Request for Information Field Hearing (June 11, 2014), available at: http://www.consumerfinance.gov/newsroom/prepared-remarks-of-cfpb-director-richard-cordray-at-the-mobile-request-for-information-field-hearing/

"We have to understand and encourage the tremendous benefits of innovation without undermining the equally important goal of protecting consumers in the marketplace".

lend to them or (2) that alternative lenders are providing capital with greater efficiency and convenience on attractive terms and prices or some combination thereof. While many focus on consumers and businesses currently underserved by the traditional bank market as the industry grows, many emerging technology-enabled lenders seek to disrupt the traditional banking system with new models, new products, and better service.

Consumer Finance

In the US, despite a highly competitive traditional banking industry, more than a quarter of households are underserved by it according to the Federal Deposit Insurance Corporation ("FDIC").[8] The underserved are geographically, economically, and demographically diverse, who by choice or circumstance find themselves either partially or completely outside the traditional system. Many individuals have no bank account. Others have a checking account, but do not qualify for traditional forms of credit. These consumers are generally referred to as unbanked or underbanked and represent an estimated 34 million households or approximately 68 million consumers in the US.[9]

Commercial Finance

There are a wide variety of alternative models, such as receivables purchases and specialized lending to particular industry verticals available for businesses. The outstanding portfolio balance of online alternative lenders is doubling every year, albeit from a low starting point compared to a decline of about 3% in the traditional banking sector. Despite this growth, the bank credit market is nearly 70x the size of the alternative commercial finance market, which represents less than $10 billion in outstanding capital.

Structural Sources of Growth

Structural factors contributing to the growth in lending alternatives include bank consolidation, quality customer service, and effective integration of technology into the offering.

The number of bank branches, the primary channel to access credit, has declined since 2012 as a result of M&A consolidation and more cost-effective means of distribution, in particular through online and mobile channels. In 1984, there were 17,900 banks. Today there are currently 6,900. In additional to a ~60% decline, virtually no de novo banks are being formed.[10] Despite this decline, large banks are expected to remain the primary credit supplier for consumers and businesses for the foreseeable future, however a shift in credit supply has certainly been occurring.

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[8] According to the FDIC, certain segments of the population are disproportionately underserved, including lower-income, black, and Hispanic households, as well as people under the age of 25. However, white households still account for half of the underserved. Geographically, the underserved live throughout the country. However, they are over-represented in the South, where poverty is more prevalent, and in inner cities. Federal Deposit Insurance Corp. (FDIC), 2011 FDIC National Survey of Unbanked and Underbanked Households, September 2012, http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf, pp. 15.

[9] Federal Deposit Insurance Corp. (FDIC), 2011 FDIC National Survey of Unbanked and Underbanked Households, September 2012, http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf, pp. 4–10.

[10] Amish bankers established Bank of Bird-in-Hand, the first de novo in three years after submitting substantial paperwork in 2014. To our knowledge, there is only one application pending located in American Somoa.

However, alternative lenders are seeking to not only fill gaps in market supply, but also aspire to compete on service with the traditional banking channel. Many technology-enabled lenders are offering a simple and convenient application process with fast decisioning and delivery of capital powered by embracing technology. Rapid funding with online and mobile applications are crucial competitive advantages of the alternative lending business model. This helps explain why even borrowers with access to traditional bank credit are seeking alternative sources. For example, within the last 12 months, publications such as the *Wall Street Journal*[11], *New York Times*[12], *BusinessWeek*[13], and *Forbes*[14] have profiled businesses selecting alternative lenders over traditional lenders based on the convenient borrowing experience.

All of the biggest players in the alternative lending space offer online and mobile applications, many of which can be completed in under 30 minutes and consisting of approximately 10 inputs. The potential lender then leverages publicly available information to augment the otherwise thin loan application into a more robust credit file for evaluation. For small businesses, this process compares favorably to the average of about 25 hours spent on filling out paperwork at an average of three conventional banks before securing some form of credit.[15] Applicants can be approved in hours and the money can reach the borrower's account in days, whereas in the conventional banking model, small business owners may not be approved for several weeks. Kabbage has recently tested a funding process that can take as little as seven minutes for loans of $100,000 or less.

Cyclical Sources of Growth

Cyclical factors which reflect current market conditions are also helping facilitate growth, including the current interest rate environment, which has lead to demand on behalf of investors in yield. For consumers, loans from alternative lenders are often used to consolidate high-interest-rate credit card debt. Data provided by LendingClub shows that 83% of P2P loans on that platform are personal one-time loans, most of which are put to use for this purpose. This is also supported by the fact that interest rates on P2P loans have been lower than those on credit cards since Q1 2010.[16]

[11] Wall Street Journal "Alternative Lenders Peddle Pricey Commercial Loans". January 7, 2014.
http://online.wsj.com/news/articles/SB10001424052702304477704579256123272658660

[12] The New York Times. "Can't Get a Bank Loan? The Alternatives Are Expanding." March 5, 2014.
http://www.nytimes.com/2014/03/06/business/smallbusiness/cant-get-a-bank-loan-the-alternatives-are-expanding.html?action=click&contentCollection=Small%20Business&module=RelatedCoverage&region=Marginalia&pgtype=article.

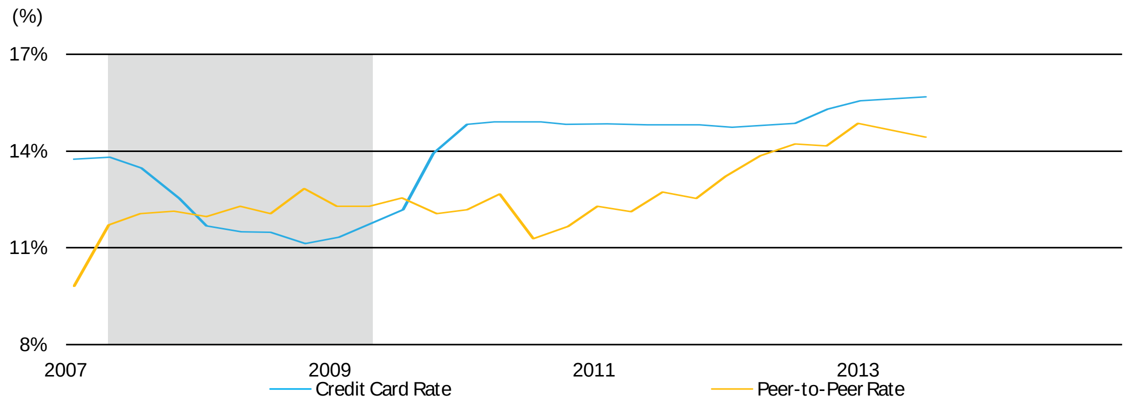
[13] BusinessWeek. "How Much is Too Much to Pay for a Small Business Loan?", May 16, 2014.
http://www.businessweek.com/articles/2014-05-16/how-much-is-too-much-to-pay-for-a-small-business-loan.

[14] Forbes. "Traditional Small Business Lenders: Watch Out, Alternative Lending is Gaining Steam". April 25, 2014.
http://www.forbes.com/sites/brockblake/2014/04/25/traditional-small-business-lenders-better-watch-out-alternative-lending-industry-gaining-steam/

[15] Federal Reserve Bank of New York. "Fall 2013 Small Business Credit Survey" September 2013.

[16] Demyanyk, Yuliya and Daniel Kolliner. Federal Reserve Bank of Cleveland, "Peer-to-Peer Lending Is Poised to Grow"
http://www.clevelandfed.org/research/trends/2014/0814/01houcon.cfm. Information from Bankrate.com and LendingClub.

Credit Card Rate vs. Peer-to-Peer Rate



Source: Demyanyk, Yuliya and Daniel Kolliner. Federal Reserve Bank of Cleveland, "Peer-to-Peer Lending Is Poised to Grow" http://www.clevelandfed.org/research/trends/2014/0814/01houcon.cfm. Information from Bankrate.com and LendingClub.

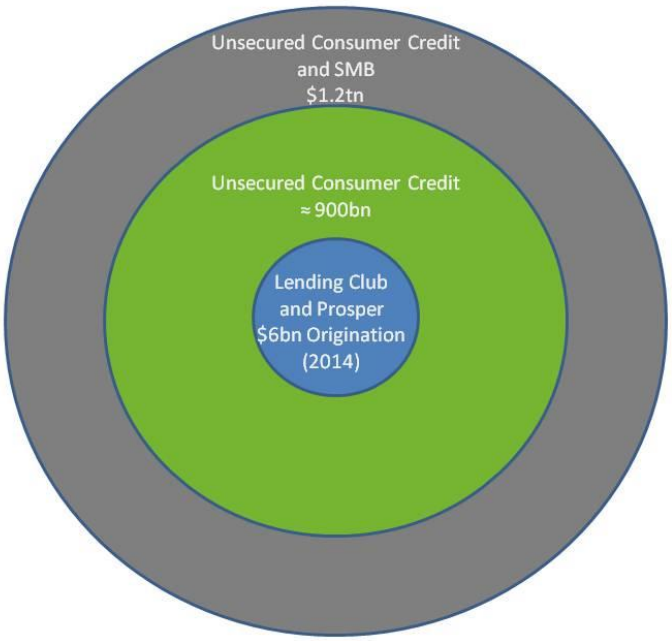
The reduced spread was at the center of LendingClub's formation. In a letter from LendingClub's registration statement, Renaud Leplanche discusses his inspiration for founding Lending Club:

"It all started in the summer of 2006 when I opened a credit card statement charging me a 16.99% interest rate, and a savings account statement from the same bank where I was earning a 0.48% interest rate on my deposits. The extreme difference between these two rates – one paid by me to the bank and the other paid by the bank to me – made me wonder whether the existing banking system was indeed the most efficient mechanism to allocate capital from savers and depositors into the hands of people and businesses looking for affordable credit." – Renaud Leplanche letter included in LendingClub Form S-1 Registration Statement

In a typical 3-year LendingClub loan, the borrower might pay 15% and the lenders would receive 9%. The 6% spread compares favourably to the 16.5% spread discussed in the Leplanche letter. Borrowers pay a lower rate on their outstanding debt and investors receive a more attractive yield.

Room to Grow

The addressable market is very large, with current outstanding loan volume over $1 trillion for consumer and small business lending in the US. Over time, if new entrants are able to demonstrate that the technology is transferable to other asset classes and geographies, the room to expand is substantial.



Next Steps

The next paper will look at how the public and private markets are valuing the investment opportunity while providing insight on how the valuation approach compares to traditional financial lenders.

Contact Us for More Information

We would be happy to talk freely about our experiences in this area and help you understand where our services would be most valuable.

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About Bridgeforce

Bridgeforce, a specialized multi-national consulting firm, has been solving complex problems for companies involved in consumer and/or small business lending and payments for nearly 15 years.

Over 75 percent of Bridgeforce consultants come directly from client-side leadership positions across multiple parts of the credit lifecycle. Combined with subject matter expertise in operations, technology, strategy and regulatory issues, Bridgeforce brings a deep and practiced understanding of the lending and payment environment to each new client.

With market, regulatory and technological changes continually altering the risk landscape faced by sophisticated lenders, corresponding business changes require hard choices and the courage to make them. Bridgeforce has a strong record of helping clients make these choices by providing best-fit solutions that are achievable and provide meaningful change for each client.

The company operates in several regions with core markets and offices in the US and UK and additional operations in the Euro zone, North America and Latin America. The close working relationships between Bridgeforce with the US and European banks gives the company valuable insight into the interconnected regulatory movement and strategic trends across countries.

The Bridgeforce success can be attributed to a culture of collaboration, support and trust fostering innovation, thought leadership and evolving best practices recognized within the industry.

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