Online Lending Landscape

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Agenda
- Peer-to-Peer (P2P) Lending Defined
- Performance of Key P2P Platforms
- P2P Growth Strategies
- Signs of Disruption
- Strategies for Credit Unions
- Q&A

Peer-to-Peer (P2P) Lending Defined
A Short Quiz

- Peer-to-peer (P2P) platforms crowdsource funds primarily from individuals who have cash and lend to individuals who need cash
  - True  
  - False
- Which of the following is NOT a characteristic of P2P platforms?
  A. Online Loan Origination
  B. Capacity to Portfolio Loans
  C. Automated Underwriting
  D. Loan Servicing
  - B

The Term Peer-to-Peer is a Misnomer

- Institutional investors are banks, hedge funds, or other business entities...
  - Approximately 40 different funds have committed to purchase assets from P2P platforms, with at least 12 different funds committing $200 million or more
  - PwC, Feb 2015
- Board members at the largest P2P platforms include executives at some of the largest banks in the world including Morgan Stanley and Citigroup...
  - Wells Fargo, through its venture capital arm, is the largest investor in LendingClub
  - Forbes, Oct 2014
Summary: What is P2P Lending?

- Increasingly referred to as Marketplace Lending
- Transactions are consummated online, leading to lowered transactional costs—400 basis points improved op ex (according to Foundation Capital, Sep 2016)
- Institutional investors influence underwriting requirements
- The P2P platform generally services the loan
- There is usually no common bond between borrowers and investors—P2P platforms intermediate cash flows

Performance of Key P2P Platforms

Another Short Quiz

- P2P lending is growing, but it’s still a niche business  
  True  
  FALSE
- P2P platforms encroach on credit union core businesses  
  True  
  TRUE
- P2P platforms are only interested in low credit-quality tiers  
  True  
  FALSE
P2P Volume Outpaces Other Lenders

- Four online lenders now originate more personal loans than all 5,900 credit unions combined
- They have a collective history of less than 30 years
- 2025 Origination Forecast
  - Personal—$350 Billion
  - Small Business—$206 Billion

Top P2P Lenders

- P2P Lenders tend to specialize in a niche business
- However, they cross-sell borrowers into other loan types

P2P Fills the Entire Credit Spectrum

- P2P Lenders originate a high percentage of subprime loans
- Still TransUnion data indicates fintechs outpaced traditional lenders for credit score transactions between 601-720
P2P Growth Strategies

Debt Consolidation is a gateway

- First P2P offer is debt consolidation
- Take advantage of low cardholder loyalty
- Cross-sell relationships

Sources: LendingClub, April 2017
Temkin Group, April 2017

Online Strategy is More than Automation

Target Consumers | Drive Traffic | Offer Convenience | Welcome Back

- Sophisticated pre-screen analytics are used to make offers to the right people at the right time
- Site traffic is generated through email, direct mail, social media and other campaign types
- Online tools and processes focus on convenience and simplicity—not price
- Compelling content, including online reports and statements, encourage repeat visits
The Need to Focus on Millennials

- Millennials are now the nation’s largest demographic
- They will soon control nearly half of all financial assets

The Importance of Convenience

- According to Viacom Media (2014):
  - 71% of Millennials would rather have root canal than listen to their bank
  - 33% believe they won’t need a bank in five years

Ability to Cross-Sell

- Retention of customers who have used a P2P platform before is high, with 75% saying they would approach one again when seeking a loan
  - Verdict Financial, Jan 2016
Signs of Disruption

Disruption is Across All Financial Products

Are Credit Unions Concerned?

- 60% of credit union executives believe online disruption is negligible or non-existent

Believed Effect of Disruption

- No impact
- Negligible impact
- Significant impact
- Don't know

Source: SimplyCredit Survey, Apr 2017
Strategy: Analytics, Content, Ease-of-Use

I received a great loan offer. Can you match it? I get all the financial information I need from a website. Can’t I apply and get what I need online?

Response to Disruption

Member Comments

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t want to visit branch</td>
<td>65%</td>
</tr>
<tr>
<td>Gets financial info from website</td>
<td>26%</td>
</tr>
<tr>
<td>Receives loan offers via email</td>
<td>18%</td>
</tr>
</tbody>
</table>

Credit Union Capabilities

<table>
<thead>
<tr>
<th>Capability</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sign up for online application</td>
<td>66%</td>
</tr>
<tr>
<td>Generate online traffic</td>
<td>58%</td>
</tr>
<tr>
<td>Predictive Analytics</td>
<td>39%</td>
</tr>
<tr>
<td>None of these</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: SimplyCredit Survey, Jun 2017

The Threat is Expanding

<table>
<thead>
<tr>
<th>Type of Lending</th>
<th>Business</th>
<th>Student</th>
<th>Secured Consumer</th>
<th>Unsecured Consumer</th>
<th>Investor</th>
<th>Warehouse</th>
<th>Deposits</th>
<th>Lending Partners</th>
</tr>
</thead>
</table>

Liquidity Source
Strategies for Credit Unions

Bank / Fintech Partnering Strategies

<table>
<thead>
<tr>
<th>Strategy Rationale</th>
<th>Examples</th>
<th>Style</th>
<th>Which Partner is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow Assets / Revenue Source</td>
<td>• Lending Club—Union Bank</td>
<td>Fintech</td>
<td>Fintech / Bank as Lender</td>
</tr>
<tr>
<td></td>
<td>• Lending Club—BancAlliance</td>
<td>Fintech</td>
<td>Fintech / Bank as Lender</td>
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<tr>
<td></td>
<td>• Lending Club—Credigy</td>
<td>Fintech</td>
<td>Fintech / Bank as Lender</td>
</tr>
<tr>
<td></td>
<td>• Lending Club—Tennessee State Bank</td>
<td>Fintech</td>
<td>Fintech / Bank as Lender</td>
</tr>
<tr>
<td>Grow Customers</td>
<td>• Prosper—FastTrack</td>
<td>Co-Branded</td>
<td>Fintech / Bank as Lender</td>
</tr>
<tr>
<td>Provide Borrowers Options</td>
<td>• Fundation—Regions Bank (SME)</td>
<td>Co-Branded</td>
<td>Fintech / Bank as Lender</td>
</tr>
<tr>
<td></td>
<td>• Fundation—Wells Fargo Bank (SME)</td>
<td>Co-Branded</td>
<td>Fintech / Bank as Lender</td>
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<tr>
<td></td>
<td>• Prosper—Radius Bank</td>
<td>Co-Branded</td>
<td>Fintech / Bank as Lender</td>
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<tr>
<td>Upgrade Automation / Tools</td>
<td>• District’s MP Monges (SME)</td>
<td>White Label</td>
<td>Fintech / Bank as Lender</td>
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Credit Union Strategies

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Collaborate with Typical P2P Platforms</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>- Low cost of entry</td>
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<td></td>
<td>- New tools</td>
<td></td>
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<tr>
<td></td>
<td>- Offers new asset (not loans)</td>
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<tr>
<td></td>
<td>- No need for back office support</td>
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<td></td>
<td>- No member relationship?</td>
<td></td>
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<td></td>
<td>- Cost of investment growth?</td>
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<td></td>
<td>- Lack of control</td>
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<td></td>
<td>- Underwriting</td>
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<td></td>
<td>- Member Experience</td>
<td></td>
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<tr>
<td>Compete</td>
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<td></td>
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<tr>
<td></td>
<td>- Established member relationship</td>
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<td></td>
<td>- Member control</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>- Underwriting</td>
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<tr>
<td></td>
<td></td>
<td>- Member Experience</td>
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<td></td>
<td>- High cost of entry</td>
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<td></td>
<td></td>
<td>- Platform development</td>
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<td>- Marketing support</td>
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<td></td>
<td>- Future scalability</td>
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<td></td>
<td></td>
<td>- Management distraction</td>
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Sources: PwC, Feb 2016
Closing Suggestions

• Be accessible in real-time all the time
• Communicate through email and text reminders, alerts and promotions
• Have an app for everything, easy-to-use tools that work on all devices
• Be a partner—help navigate current and future members toward solutions
• Demonstrate innovation: Create experiences that are interactive and empower

Source: First Data, Mar 2017

Q&A

• See us online at: http://community.mysimplycredit.com
• Email me at: alan@simplycreditinc.com
• Call me at:

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Thank You

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