From Competition to Collaboration: Partnerships in Online Lending
Agenda

Evolution of Online Lending
How has the online lending industry evolved in the last few years?

Partnerships in Online Lending
Are innovators and incumbents better off working together?

Looking Ahead
What industry changes are likely in the future?
Evolution of Online Lending
Marketplace Lending: Three Phases of Growth

*Early platforms had to contend with the Great Recession and low awareness*

- **Low Awareness**
  - 2007
  - 2008
  - 2009
  - 2010

- **Skepticism**
  - 2011
  - 2012
  - 2013

- **Stampede**
  - 2014
  - 2015
  - 2016
Stampede – Innovator Perspective

Explosion of FinTech funding has made all marketplace lending categories more crowded

Figure 1. Private Investment in Global FinTech Companies ($bn)

Source: Citi and CB Insights; includes first round and subsequent private investments

Image Credits: Citi Digital Disruption Study, Orchard Lendscape 2016
Stampede – Incumbent Perspective

Wave of digital disruption will substantially impact traditional banking revenues over the next 10 years

THE US AND EUROPE ARE AT THE TIPPING POINT IN TERMS OF FINANCIAL INNOVATION

Impact of digital disruption on US Consumer Banking Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Banking Consumer Revenue</th>
<th>Revenue Impact from Digital Disruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$850 billion</td>
<td>1.1%</td>
</tr>
<tr>
<td>2017</td>
<td>$870 billion</td>
<td>5%</td>
</tr>
<tr>
<td>2020</td>
<td>$1,050 billion</td>
<td>10%</td>
</tr>
<tr>
<td>2023</td>
<td>$1,200 billion</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Citi Digital Strategy
The Stampede Puts Pressure on Both Innovators and Incumbents

**Innovators**
- Grow market share
- Leverage proprietary data
- Control acquisition costs
- Validate company/category

**Incumbents**
- Grow/preserve market share
- Improve customer experience
- Expand product offering
- Validate growth/tech orientation
Partnerships in Online Lending
Incumbent Models for Entering Online Lending

### Build
- **Pros**: Proprietary
- **Cons**: Expensive, time-consuming

### Buy
- **Pros**: Control over already-built platform
- **Cons**: Expensive, integration risk

### Partner
- **Pros**: Leverage existing platform, time / cost to market
- **Cons**: Shared control and substantial coordination required
## Why Innovator / Incumbent Partnerships are Happening

<table>
<thead>
<tr>
<th>Finding applicants</th>
<th>Applicant mix</th>
<th>Underwriting cost</th>
<th>User experience</th>
<th>Cost of funds</th>
<th>Pricing</th>
<th>Account maintenance costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>Captive customer base</td>
<td>&quot;Mature&quot;, stable businesses</td>
<td>Limited use of DDA data</td>
<td>Legacy code and software</td>
<td>&quot;Cheap&quot; funding from deposits</td>
<td>Not often risk-based</td>
<td>Saddled by compliance and regulatory burden</td>
</tr>
<tr>
<td>Owns relationship</td>
<td>Positive selection</td>
<td>Manual processes</td>
<td>Potentially onerous document processes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Innovators</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Severe &quot;marketing tax&quot;</td>
<td>Potential for adverse selection</td>
<td>Alternative data like cash flow</td>
<td>UX built for all devices, speed and removal of friction</td>
<td>Dependent on lender maturity</td>
<td>Risk-based pricing designed to deliver economic returns</td>
<td>Currently subscale</td>
</tr>
<tr>
<td>Exception: Channel lenders</td>
<td>Exception: Aggregators and channel lenders</td>
<td>Automation yields productivity</td>
<td></td>
<td></td>
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</tbody>
</table>

✓ Competitive advantage  ❌ Competitive disadvantage

Notable Partnerships to Date

**Non-Bank Partnerships**

- OnDeck
  - Intuit
- Kabbage
- sage
- PROSPER
- HomeAdvisor
- Funding Circle
- H&R BLOCK

- Provide complete solution for partner’s customers
- Accelerate sales of another product

**Bank Partnerships**

- OnDeck
  - CHASE
  - BBVA Compass
- PROSPER
- RADIUS BANK
- FUNDATION
- REGIONS
- BancAlliance
- Kabbage
- Santander

- Serve historically unmet need of bank’s customers
## Partnership Models for Online Lending

<table>
<thead>
<tr>
<th>Revenue Model</th>
<th>Incumbent</th>
<th>Innovator</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Referral</strong></td>
<td>Marketing</td>
<td>Sales Underwriting Funding</td>
</tr>
<tr>
<td><strong>“Platform Only”</strong></td>
<td>Marketing Sales Underwriting</td>
<td>Funding Servicing</td>
</tr>
<tr>
<td><strong>“As A Service”</strong></td>
<td>Marketing Funding</td>
<td>Sales Underwriting Servicing Technology</td>
</tr>
</tbody>
</table>

- **Incumbent:** Earns referral fee
- **Innovator:**
  - Earns platform licensing fee
  - Earns origination and servicing fees
Partner Spotlight: OnDeck & Chase → “Lending as a Service” Model

Back End: Integration

OnDeck tech platform and OnDeck Score®

Chase’s Business Banking deposit and lending platform

- Customized offers based on bank data
- Real-time approvals
- Same or next-day funding

Front End: Funding in a Few Clicks

1. READY - Customized loan options are waiting
   Sign in to review initial terms and your personalized loan offer.
2. SET - Choose your terms
   Select how much to borrow and a choice of term length options.
3. FUND - That’s it!
   Electronically sign the agreement and your funds will be available in your account the same day.
## Debunking Partnership Myths

<table>
<thead>
<tr>
<th>Myth</th>
<th>Reality</th>
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<tbody>
<tr>
<td><strong>Customer Profile:</strong></td>
<td>• Customers are choosing online lenders first</td>
</tr>
<tr>
<td></td>
<td>• Appropriate for both well-served and underserved markets</td>
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<tr>
<td><strong>Compliance:</strong></td>
<td>• Online lenders comply with myriad federal &amp; state laws</td>
</tr>
<tr>
<td></td>
<td>• Partnerships must pass muster with banking regulators</td>
</tr>
<tr>
<td><strong>Security:</strong></td>
<td>• Partnerships can be constructed to silo personal information</td>
</tr>
<tr>
<td></td>
<td>• Platforms are investing in data security and fraud prevention</td>
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<tr>
<td><strong>Customer Experience:</strong></td>
<td>• Seamless customer experience, either through co-branded referrals or</td>
</tr>
<tr>
<td></td>
<td>a white-labeled integration</td>
</tr>
<tr>
<td></td>
<td>• Great service can be provided via online/mobile channels</td>
</tr>
<tr>
<td><strong>Regulator Perspective:</strong></td>
<td>• OCC: “We are making certain that institutions with federal charters</td>
</tr>
<tr>
<td></td>
<td>have a regulatory framework that is receptive to responsible</td>
</tr>
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<td></td>
<td>innovation along with the supervision that supports it.”</td>
</tr>
</tbody>
</table>
Incumbents Care Deeply About Their Customers… but so Do Innovators

response  
work  
rate  
loan  
professional  
interest  
thing  
funding  
process  
easy  
ease  
company  
business  
fast  
service  
quick  
deck  
simple  
excellent  
time  
rep  
customer  
great  
good  
lower  
customer service  
experience  
speed  
helpful  
help
5 Things to Look for in a Marketplace Lending Partner

1. Financial Stability
2. Technology Prowess
3. Regulatory Compliance
4. Proven Credit Model
5. Blue-chip Customer Experience
Looking Ahead
Marketplace Lending: Three Phases of Growth…

- Low Awareness
- Skepticism
- Stampede

Years:
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
Leading to a Fourth Phase: Shakeout & Mainstream Adoption

- Total number of marketplace lenders may decrease
- Scaled/viable marketplace lenders to continue growing
- Traditional lenders to increase participation
- Consumer adoption continues to trend up

Image Credit: 2003 Dent Foundation. Smart Business "Life Cycle Metrics".
Surviving the Shakeout Phase

**Stability**
- Financial profile
- Credit performance
- Access to capital
- Growth discipline

**Scale**
- Cost benefits
- Virtuous cycle
- Consolidator option

**Partner Prowess**
- Reach scale faster
- Better data / decisions
- Regulatory support
- Proven solution
• Banks increase rate of branch closures
• Complex transactions / relationships move out of the branch
• Non-bank tech companies become bigger players in financial services
• Online lenders power much of this through partnerships