Business plan

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The Problem & Our High-Yield Solution

<u>The Opportunity:</u> High yields exist in P2P lending, but are balanced by significant, often avoidable default risk.

<u>The Inefficiency:</u> The industry baseline for predicting loan defaults yields an AUROC of approximately 0.72.

<u>Our Solution:</u> Our firm seeks $500,000 in seed funding to deploy proprietary Machine Learning algorithms.

<u>The Mission:</u> Outperform standard market returns by launching a high-yield fund on the Lending Club platform.

Beyond the Grade: Identifying Good vs. Bad Loans

- **Target Market:** We avoid low-yield Grade A loans and operate primarily in the mid-to-high risk grades (C, D, and E) where interest yields are high.
- **The Flaw We Exploit:** Traditional grading fails to capture the complex, non-linear correlations in borrower behavior that lead to charge-offs.
- **The Proprietary Edge:** We plan to use advanced classifiers, like Support Vector Machines (SVM) and Deep Learning (Neural Networks), to establish high-margin decision boundaries tha capture these non-linear patterns.
- **The Insight:** This allows us to invest selectively in the "Good Standing" individuals within these risky bands, filtering specific borrowers whom the standard platform grades (A-G) miss.

Our Model

<u>Technical Foundation:</u> We restricted analysis to the 31 features available to an investor, confirming that Interest Rate, Loan Term, and FICO Score are the strongest predictors of charge-off.

<u>Initial Baseline:</u> Our initial linear model achieved a test set AUROC of 0.689 when rigorously tested against the most recent 10% of loans.

<u>The Justification for Scale:</u> This 0.689 score falls below the industry baseline of approximately ≈0.72 , signaling that the critical risk factors are complex and non-linear.

<u>Our Next Step:</u> We are deploying advanced Support Vector Machines and Deep Learning (Neural Networks) to capture these non-linear correlations and target an enhanced AUROC superior to the 0.72 baseline.

How Investors Make Money

<u>The Fee Structure:</u> We operate on a standard "2-and-20" hedge fund model: **2% annual** Management Fee on AUM and **20% Performance Fee** above a 5% hurdle rate.

<u>The Value Proposition:</u> We only earn the full performance fee when we successfully identify loans that pay back.

<u>Impact of Prediction:</u> For every 1% improvement in default prediction, we estimate a 0.5% increase in Net Annualized Return (NAR).

<u>Projected Returns:</u> We project a Net Annualized Return (NAR) of 9-11%, significantly higher than the passive investor average of 4-6%.

Join Our Growth

- The Ask: We require $500,000 in seed capital.
  - $200k: Initial Proof of Concept Portfolio.
  - $150k: Technical Infrastructure (AWS servers for real-time API integration).
  - $150k: Operations, Legal, and Compliance.
- The Vision: We are not just an investment firm; you are buying the algorithm that solves the default problem.
- Traction (Year 3): Projected AUM of $10 Million and Annual Revenue (Fees) of $400,000.
- We ask for a "GO" decision to revolutionize P2P portfolio management