



— Lending Mini Case —

Baldwin, Chris
Brewer, Bo
Zhou, Quan

SoFi History

- Founded as “Social Finance Inc” by four Stanford Graduate School of Business students in 2011
- Initially relied on network of alumni investors to fund loan amounts (\$2M initial funding from Stanford alumni)
- Founded on the idea that “not all student loan debt is created equal”
- Sought to target graduates of a select subset of undergraduate and graduate schools with high earnings potential



*Mike Cagney,
Founder & CEO*



SoFi Background

- First company to offer *consolidated* federal and private student loan refinancing
- **\$5B in refinanced loans** - largest lender in student loan refinance industry
- Recent expansion into other loan markets (home loans, personal loans, investments)
- **SoFi Wealth Management** provides incentives for investors to refinance student loans and borrowers to start investing



Personal loans
(up to \$100k)



Mortgages &
Mortgage Refi



Parent Loans



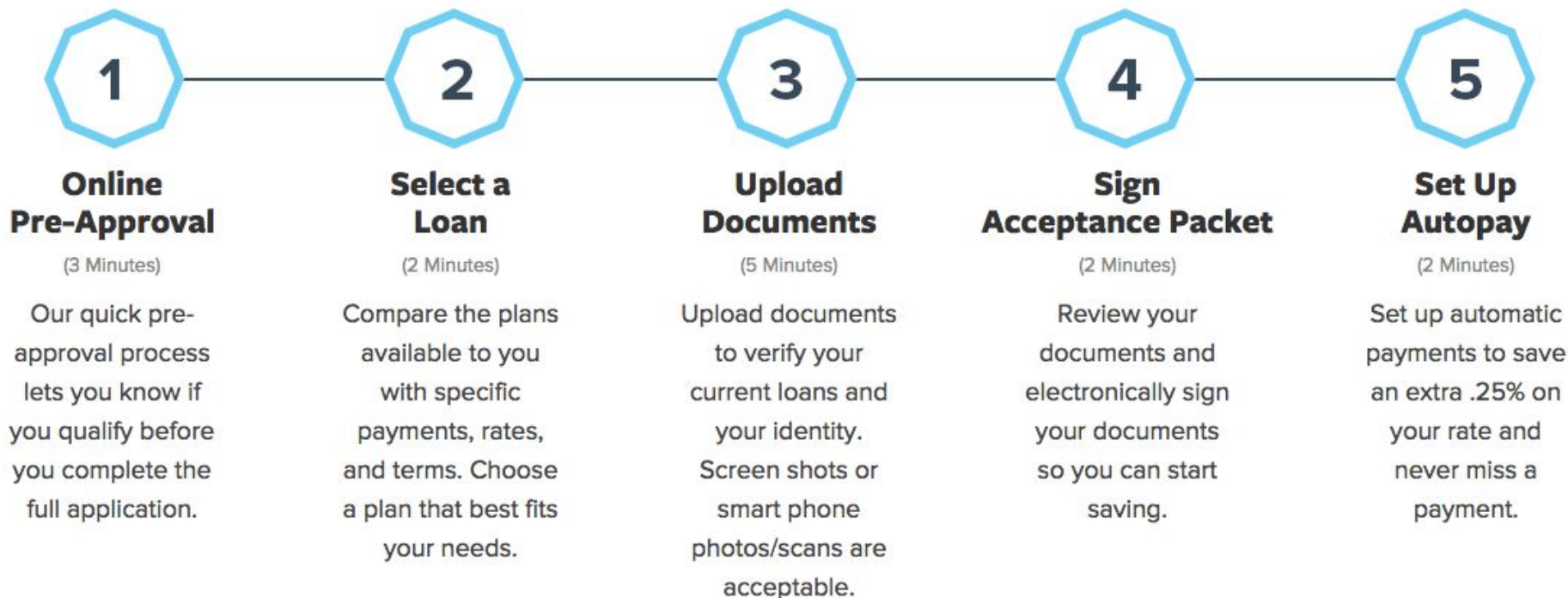
Parent PLUS
Refinancing



Wealth
Management

How SoFi Works

Simple Process: Get refinanced in as little as 15 minutes



CALCULATE A BETTER RATE

Compare your student loan debt information to see how you could lower monthly payments and save on total interest by reducing your student loan interest rate.

Enter Your Current Loan

Loan Amount

50,000

\$

Interest Rate

6.5

%

Monthly Payment

772

\$

OR

Remaining Term (months)

80

📅

Compare a SoFi Loan

Fixed

Variable

TERM : 7 YEARS

INTEREST RATE : 4.00% - 6.49%

5

7

10

15

20

CURRENT MONTHLY PAYMENT
(estimated)

\$772

SOFI MONTHLY PAYMENT
(estimated)

\$683 - \$742

MONTHLY SAVINGS
(estimated)

\$30 - \$88

LIFETIME SAVINGS
(estimated)

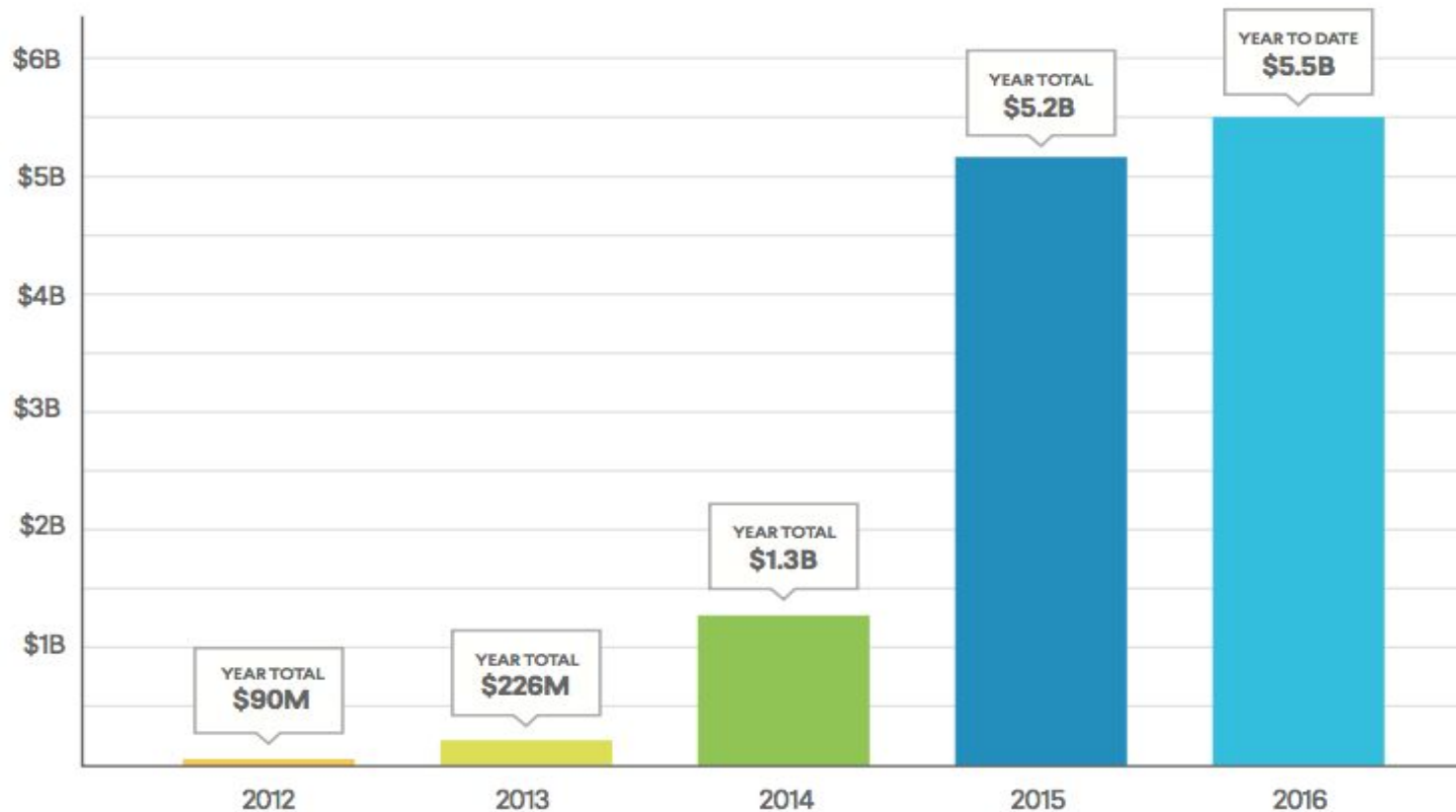
up to \$4,338

SoFi Business Model

- Target **elite borrowers** ages 25-45 from top schools (high likelihood of repayment: default rate ~1%)
- **“Relationship-driven”**: Continue marketing to consumers with services beyond student loans (mortgages, credit card consolidation, insurance)
- **Financial habits** are basis for lending rather than FICO credit score when deciding whether to lend and at what interest rate
- **Modern data analysis** identifies borrowers with good credit that mainstream banks missed

Funding

More than \$12 billion in funded loans to date.



Financing History

Date	Amount / Round	Valuation	Lead Investor	Investors
Sep, 2015	\$1B / <u>Series E</u>	—	SoftBank	9
Jan, 2015	\$213.03M / <u>Series D</u>	—	Third Point Ventures	6
Apr, 2014	\$80M / <u>Series C</u>	—	Discovery Capital	9
Sep, 2013	\$50M / <u>Debt Financing</u>	—	—	0
Aug, 2013	\$50M / <u>Debt Financing</u>	—	East West Bank	1
Jun, 2013	\$41M / <u>Debt Financing</u>	—	The Bancorp	1
Mar, 2013	\$60M / <u>Debt Financing</u>	—	Morgan Stanley	1
Sep, 2012	\$77.2M / <u>Series B</u>	—	Baseline Ventures	3
Mar, 2012	\$4M / <u>Series A</u>	—	—	1
Sep, 2011	\$4M / <u>Series A</u>	—	—	4

SoFi's Growth to Other Markets

- Entered **asset-backed lending** market in 2014 with residential home loans
- **\$100M** in home loans originated as of 2014
- Early 2015, SoFi began issuing personal, unsecured loans to its prime borrowers (interest rates from **5.5-9.4%**)
- Offering a range of **investment** opportunities (SoFi Wealth Management)
- Encourage **former borrowers** to invest and help fund more loans

SoFi Competition



Target **prime** and **super-prime** borrowers, "early stage professionals"

Comparatively **low** interest rates (5.5-9.99% for fixed-rate personal loans)

Funded primarily by **individuals** and **securitization markets** (pension funds, insurance companies)

No origination fees - only late fees



"**Mass market**" brand of high volume refinancing

Higher interest rates, around 14%

Funded by **hedge funds** and **institutional investors**

Origination Fees, late payment fees, check processing fees, unsuccessful payment fees

SoFi Competition



"Red carpet" perks such as Job Placement Program, Entrepreneur Program, and Career Coaching

Offer **\$150** sign-up bonus

Fixed or **variable** loan types



Similar to SoFi, target top-tier borrowers

Recently followed SoFi's lead and began offering \$150 sign-up bonus

"Hybrid Loan": Fixed interest rate for 5 years, then becomes variable for remaining 5 years

Strengths

- Ability to offer **competitive** interest rates to “overlooked” borrowers based on advanced data metrics
- **Career Coaching Network** provides borrowers tools to help with job hunting or salary negotiation – all which increase a borrower’s likelihood of repayment
- Competing with banks by underwriting **mortgages** with 10% down and requiring no mortgage insurance



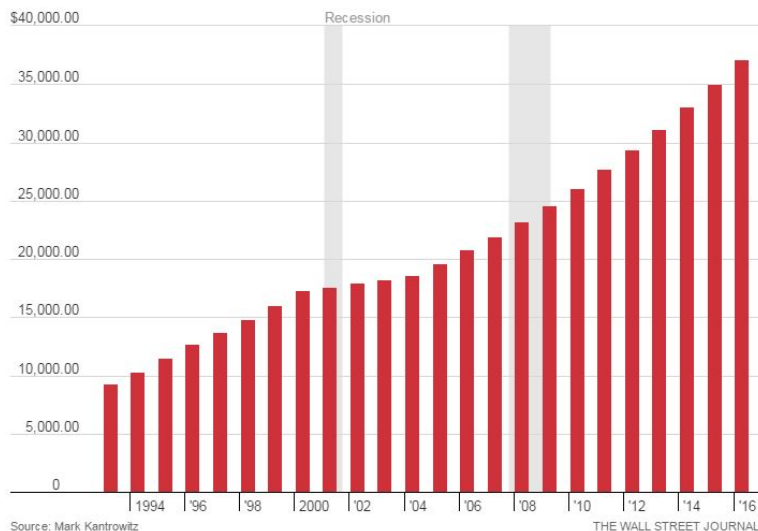
Weaknesses

- **Forbearance Limitations** - Borrowers who lose their jobs can pause repayment for only three months, lower than other competitors (Common Bond and U-Fi offer 24-month forbearance)
- **Stringent borrower requirements** limits pool of potential higher risk, higher interest rate borrowers

Opportunities

- **New investment offerings** offer incentives for investors and current borrowers alike
- Despite competition, student loan refinance industry has **low penetration** (less than 2% of \$211B in qualifying student loans have refinanced)
- **Student debt is increasing** as cost of college increases (5% annual increase)

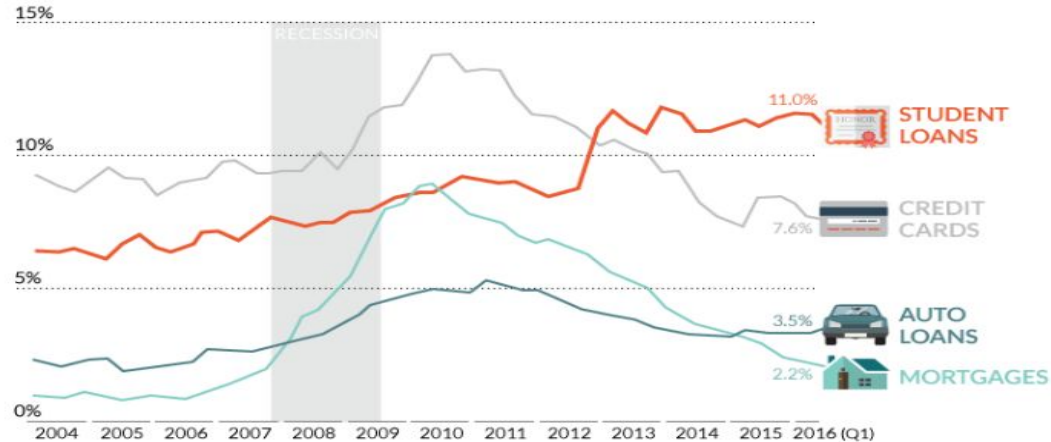
Average Debt per Borrower,
in Each Year's Graduating Class



Threats

- **Economic Climate:** SoFi's business model has only been tested under positive economic conditions
- **Regulatory Tightening:** As the industry continues to grow, tighter regulations about consumer protections could threaten the business model

% of Balance 90+ Days Delinquent



Future of SoFi

- Currently 600+ full time employees (and growing!)
- Six offices, with headquarters in San Francisco
- Would we work there? Yes!
- Would we invest? Yes!



90 Record high NPS score

230+ Members who secured new jobs with help from Career Strategy team

65+ Entrepreneurs who received 6-month loan deferrals via the SoFi Entrepreneur Program

600+ Companies and membership organizations offer SoFi as an employee benefit