



A Trillion Dollar Market by the People, for the People

How Marketplace Lending Will Remake Banking as We Know It

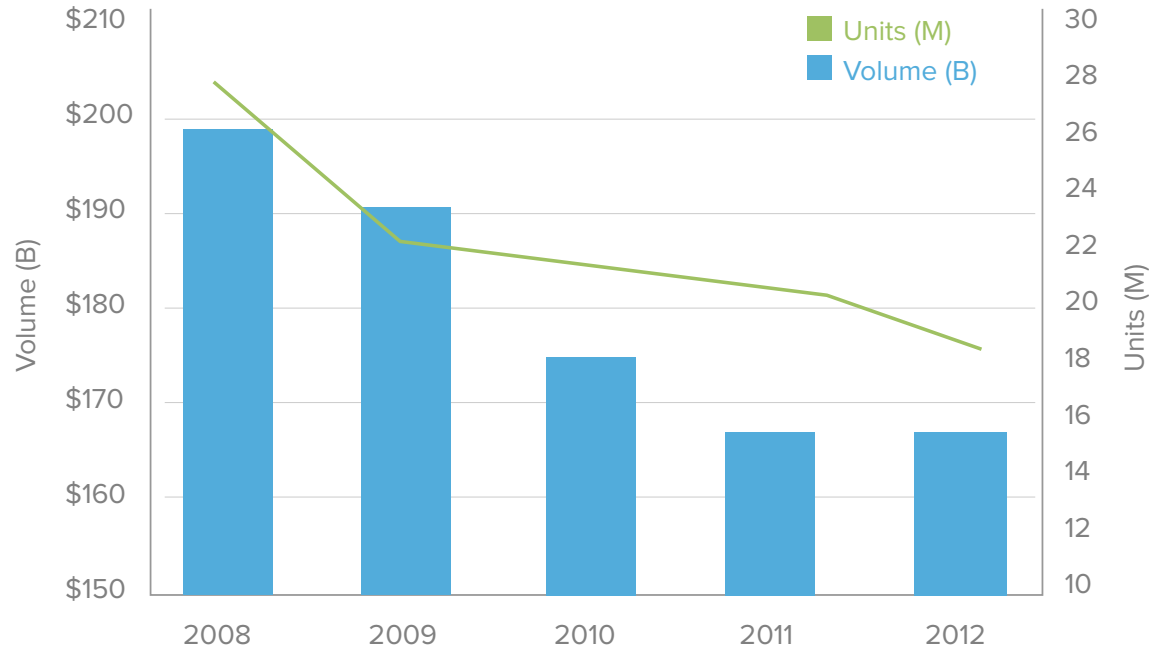
By Charles Moldow

General Partner, Foundation Capital



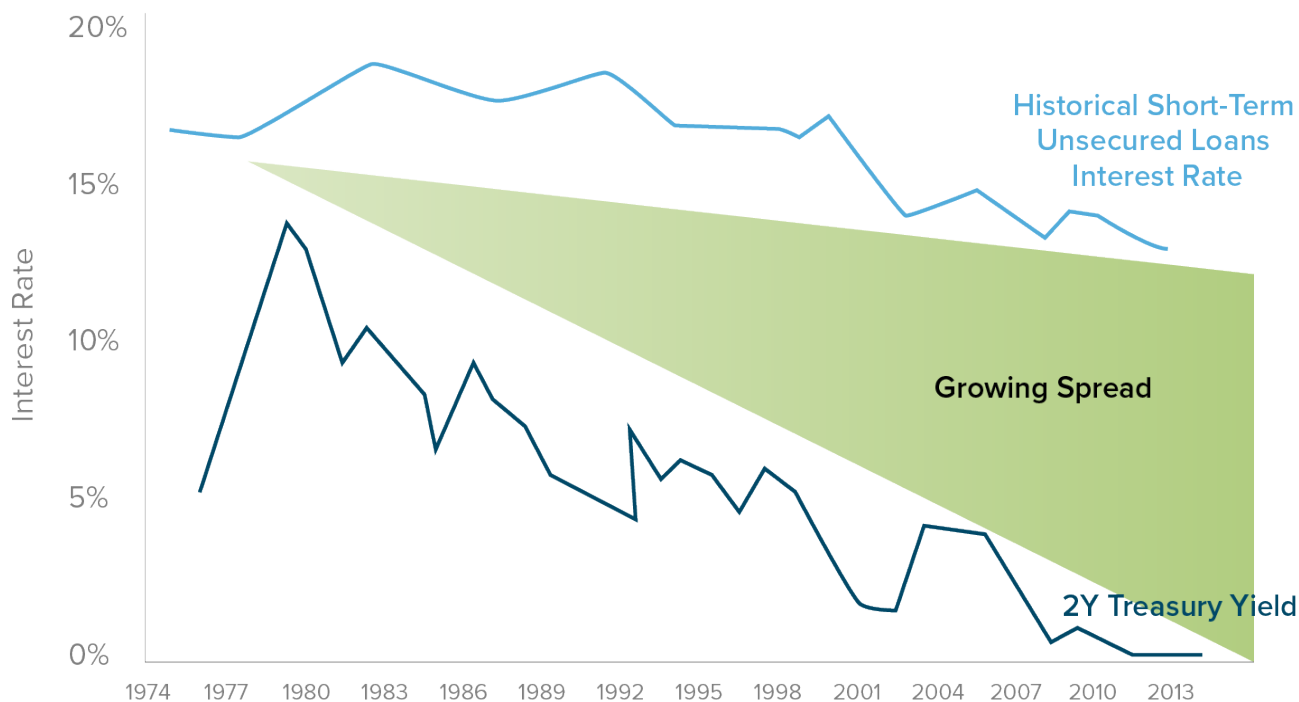
\$1 TRILLION

Since 2008, The Number of Sub-\$250K Commercial Loans has Declined



Source: FDIC, data for C&I loans <\$250K

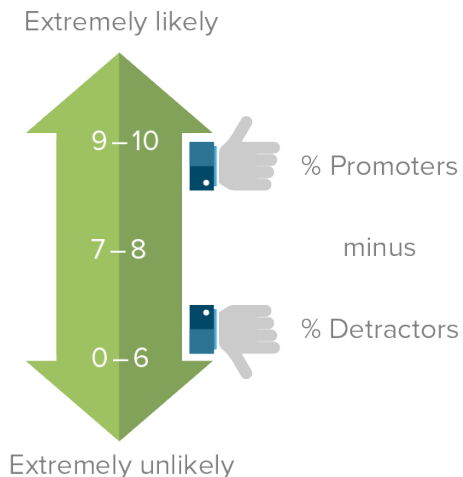
A Growing Spread That Represents \$100B/year In Interest Payments to Banks



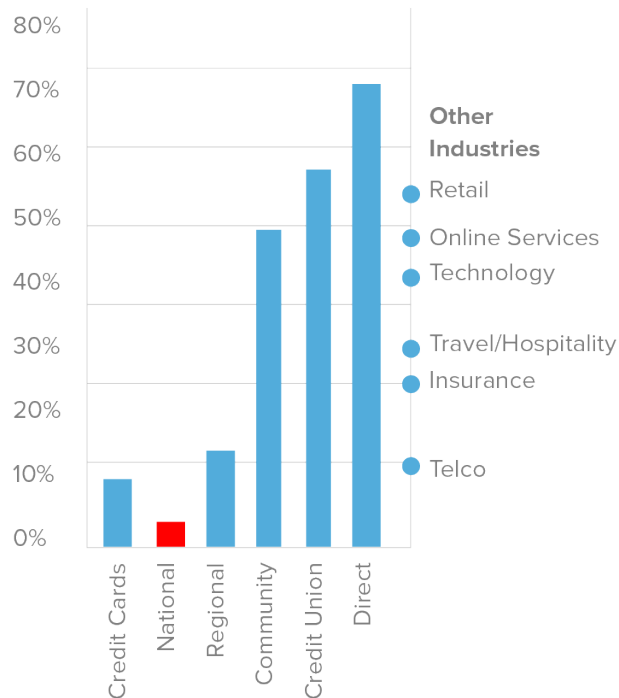
Source: Federal Reserve

Friends Don't Let Friends Use Banks

Would you recommend us to a friend?



Average NPS Scores (2012)



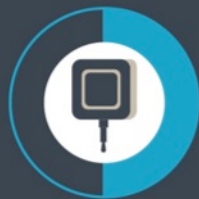
Source: Bain & Company, 2012 NPS Survey

Millennials REALLY Dislike Banks



33%

believe they won't need a bank at all.



Nearly half

are counting on tech start-ups to overhaul the way banks work.



71%

would rather go to the dentist than listen to what banks are saying.



73%

would be more excited about a new offering in financial services from **GOOGLE, AMAZON, APPLE, PAYPAL, OR SQUARE** than from their own nationwide bank.


They believe innovation will come from **outside the industry.**

Source: Viacom Media Networks



P2P



A dramatic, low-key photograph of a stormy sea. Dark, heavy clouds fill the upper half of the frame, with a hint of light breaking through. The lower half shows turbulent waves with white foam crashing against a dark, rocky shore. The overall mood is intense and powerful.

~~P2P~~

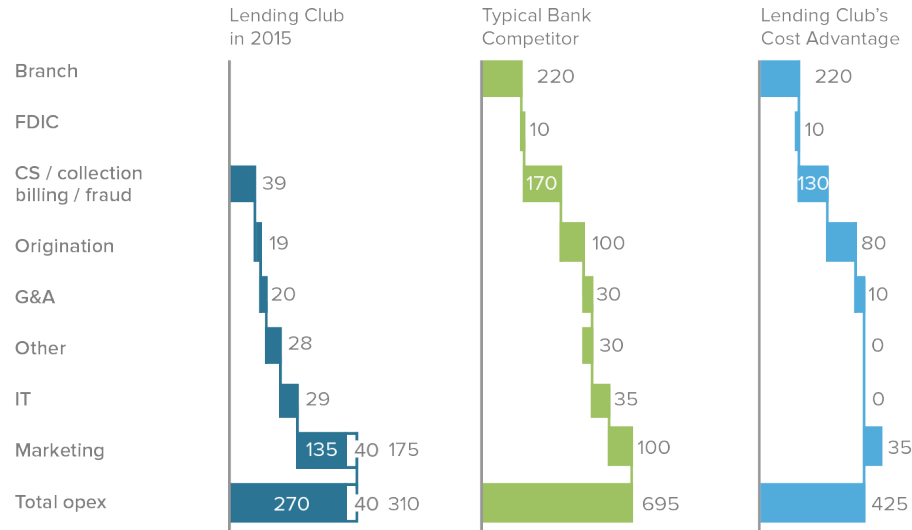
~~Disintermediated lending~~

Marketplace Lending

A scenic background image of a sunset over the ocean. The sun is a bright, glowing orb on the left side of the horizon, casting a long, shimmering reflection across the water. The sky is a mix of deep blue and warm orange, with several soft, white and orange-tinted clouds scattered across it. The ocean surface is covered in small, dark blue waves. In the distance, a few small, dark silhouettes of ships are visible on the horizon line.

Marketplace Lending Could Generate >400 BP Cost Advantage vs Banks

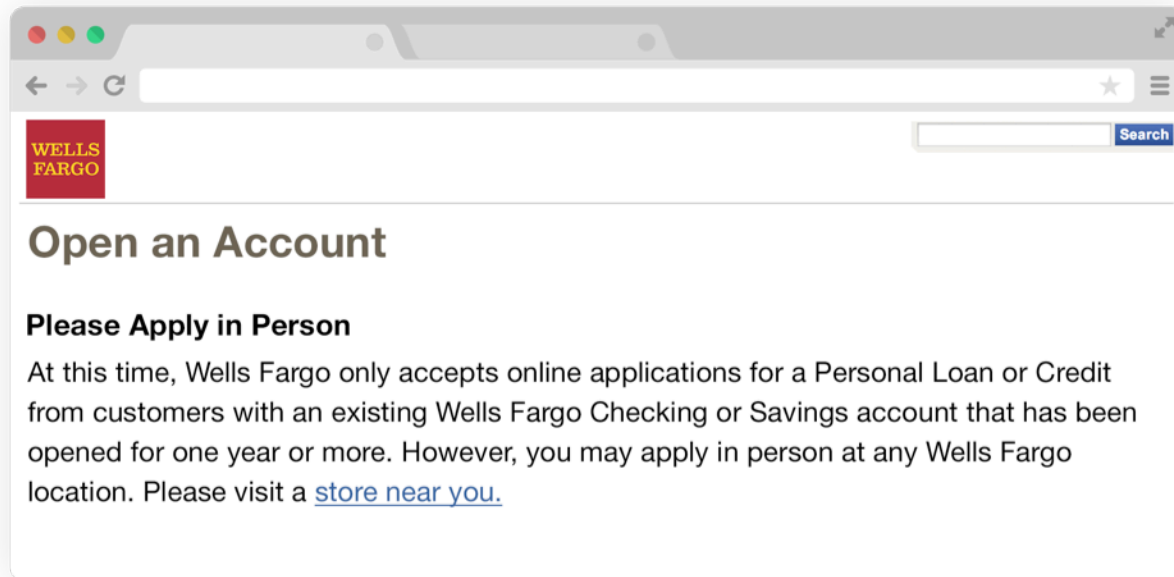
Opex / total balance outstanding, basis points



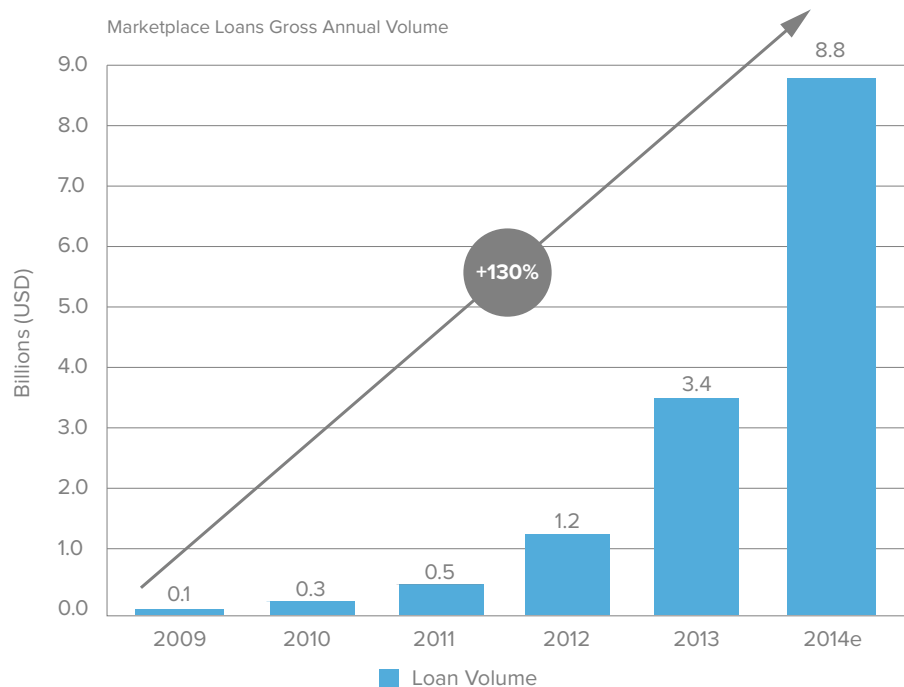
Cost advantage drivers (in bp):

- 220: Lack of branch network
- 40: Online back-office and support, outsourced collection fees
- 40: Automated origination and leaner operation

Source: Lending Club based on St. Louis Fed, Federal Reserve



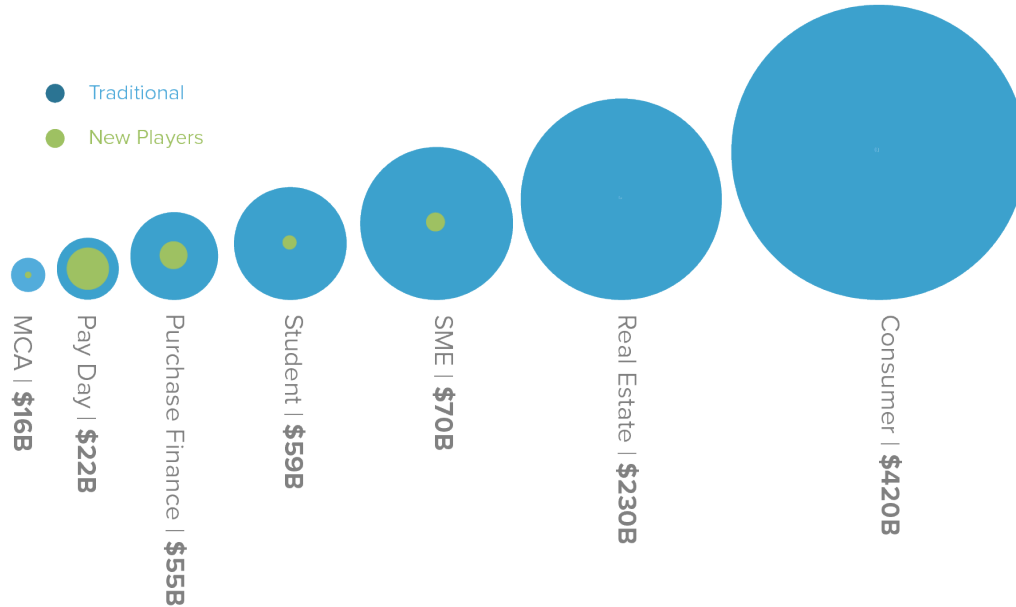
\$9B in Marketplace Loans to be Originated in 2014



Source: Lending Club, Prosper, Funding Circle, Zopa, RaterSetter, Liberum

Big Opportunity in Front of Us

Annual Lending Revenues IN 2013 (US\$B)



Source: Federal Reserve, SBA, Goldman Sachs, Bloomberg, FRBNY, Mortgage Bankers Association, PEW Center, Forbes, SEC



MAXIM I
Data, Data, Data

Successful players will out-FICO FICO and be fairer than Fair Isaac.



MAXIM II
Connections & Liquidity

It's not just about matchmaking but also market-making.



MAXIM III
Formidable Barriers

Marketplace platforms are neither easy to start nor easy to scale.



MAXIM IV
Built to Last

Marketplace lenders should be built not just to disrupt but to displace.



MAXIM I
Data, Data, Data

Successful players will out-FICO FICO and be fairer than Fair Isaac.



MAXIM II
Connections & Liquidity

It's not just about matchmaking but also market-making.



MAXIM III
Formidable Barriers

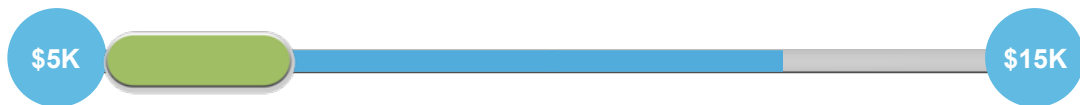
Marketplace platforms are neither easy to start nor easy to scale.



MAXIM IV
Built to Last

Marketplace lenders should be built not just to disrupt but to displace.

Extracting Value from Behavioral Data





MAXIM I
Data, Data, Data

Successful players will out-FICO FICO and be fairer than Fair Isaac.



MAXIM II
Connections & Liquidity

It's not just about matchmaking but also market-making.



MAXIM III
Formidable Barriers

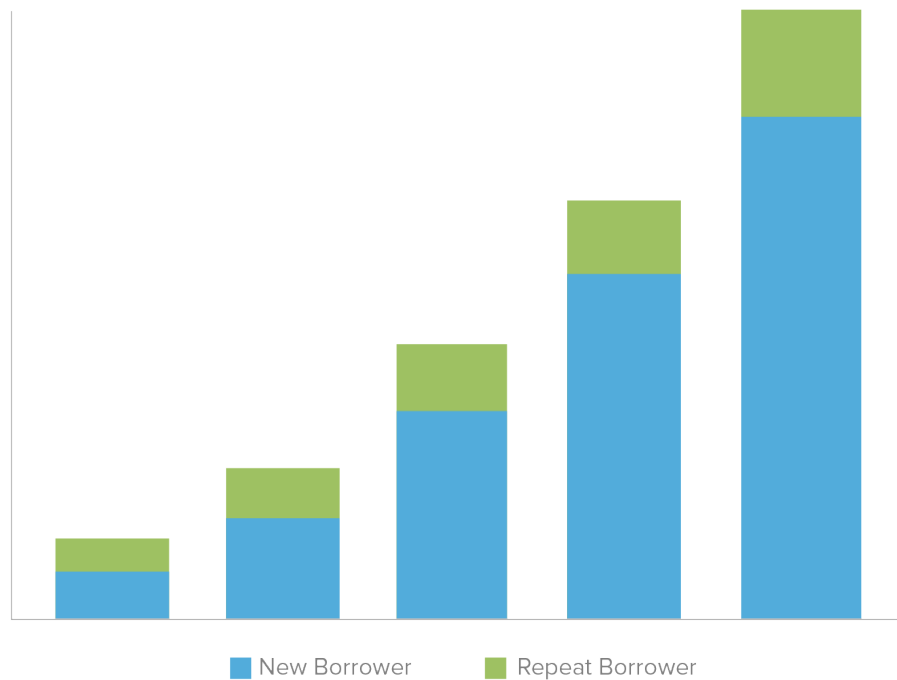
Marketplace platforms are neither easy to start nor easy to scale.



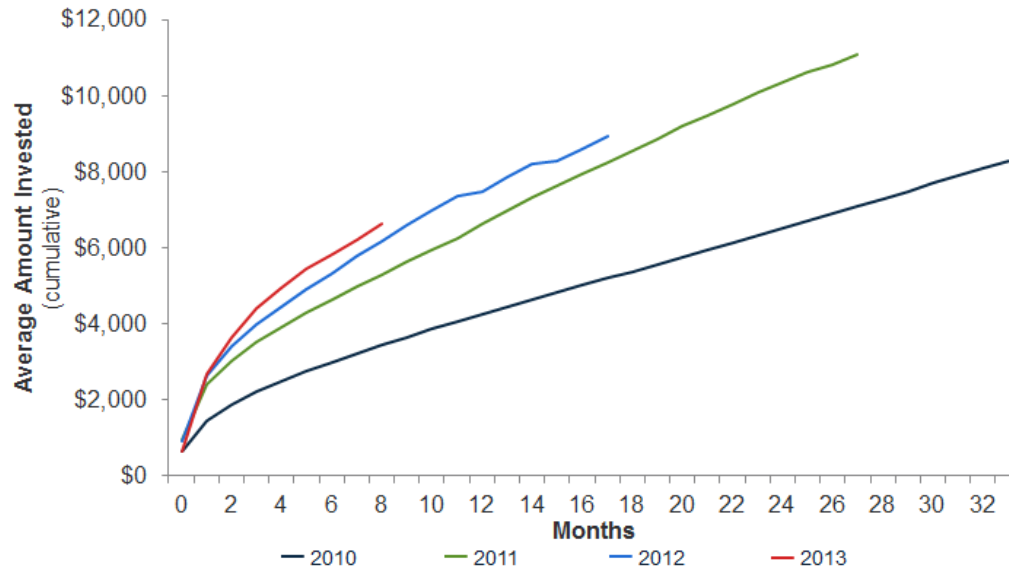
MAXIM IV
Built to Last

Marketplace lenders should be built not just to disrupt but to displace.

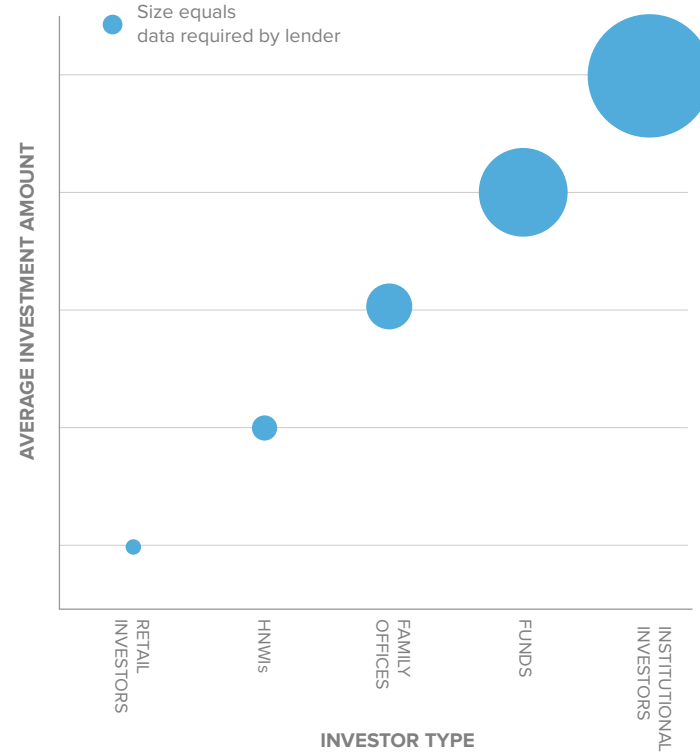
Mining Your Customer Base for Revenue



Lender Inflows Tell the Story



With Sophistication Comes Scrutiny





MAXIM I
Data, Data, Data

Successful players will out-FICO FICO and be fairer than Fair Isaac.



MAXIM II
Connections & Liquidity

It's not just about matchmaking but also market-making.



MAXIM III
Formidable Barriers

Marketplace platforms are neither easy to start nor easy to scale.



MAXIM IV
Built to Last

Marketplace lenders should be built not just to disrupt but to displace.

A Thicket of Regulation

A (non-exhaustive) list of federal marketplace lender laws

- Equal Credit Opportunity Act (ECOA)
- Fair Housing Act (FHA)
- Bank Secrecy Act/OFAC
- Truth in Lending Act (TILA)
- E-Sign Act (FDIC)
- Dodd-Frank - Wall Street Reform and Consumer Protection Act
- Know Your Customer (KYC)
- Fair Debt Collection Practices Act (FDCPA)
- Fair Credit Reporting Act (FCRA)
- Fair and Accurate Credit Transactions Act (FACTA)
- CARD Act (CARD)

A (non-exhaustive) list of federal regulatory bodies

- Securities and Exchanges Commission (SEC)
- Federal Reserve (FED)
- Financial Industry Regulation Authority (FINRA)
- Office of the Comptroller of the Currency (OCC)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Consumer Financial Protection Bureau (CFPB)
- Federal Trade Commission (FTC)
- Financial Stability Oversight Council (FSOC)
- Commodity Futures Trading Commission (CFTC)
- Federal Housing Finance Agency (FHFA)

And there are state-by-state licensing requirements specific to each asset class and business model.

Source: <https://www.fas.org/sgp/crs/misc/R43087.pdf>



MAXIM I
Data, Data, Data

Successful players will out-FICO FICO and be fairer than Fair Isaac.



MAXIM II
Connections & Liquidity

It's not just about matchmaking but also market-making.



MAXIM III
Formidable Barriers

Marketplace platforms are neither easy to start nor easy to scale.



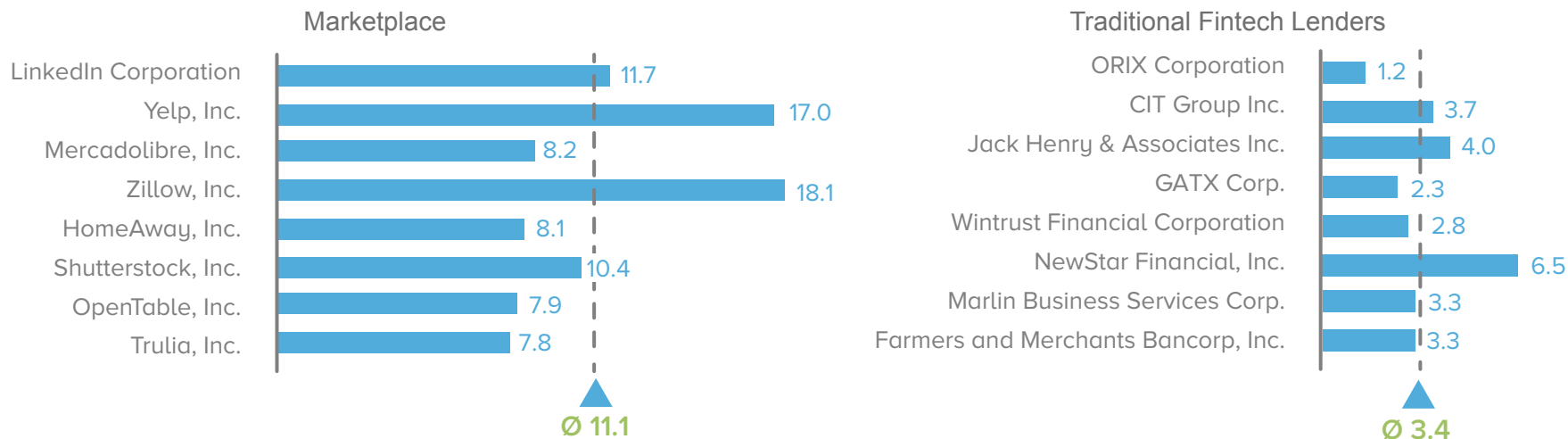
MAXIM IV
Built to Last

Marketplace lenders should be built not just to disrupt but to displace.

The Free Markets Have Spoken

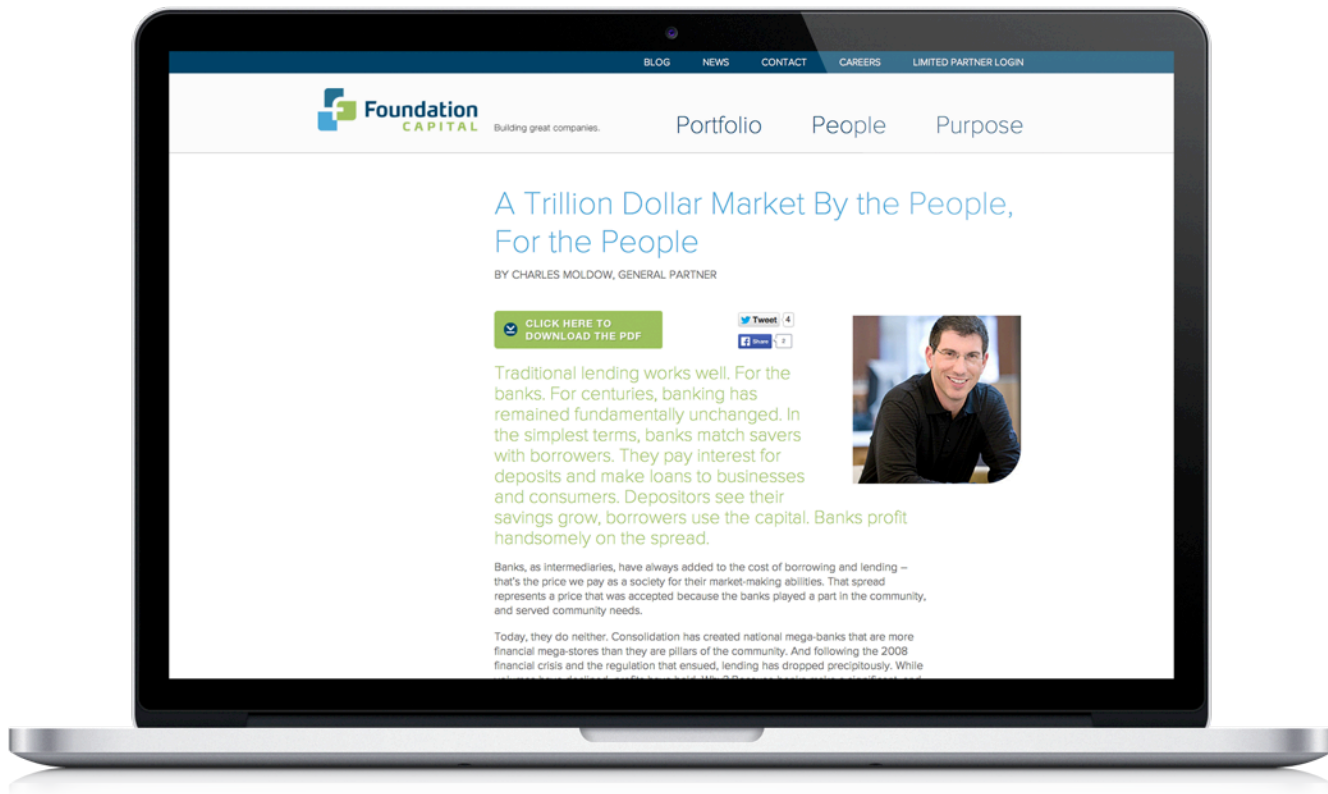
MARKETPLACE VS. FINTECH IN THE MARKET

Trading Multiples



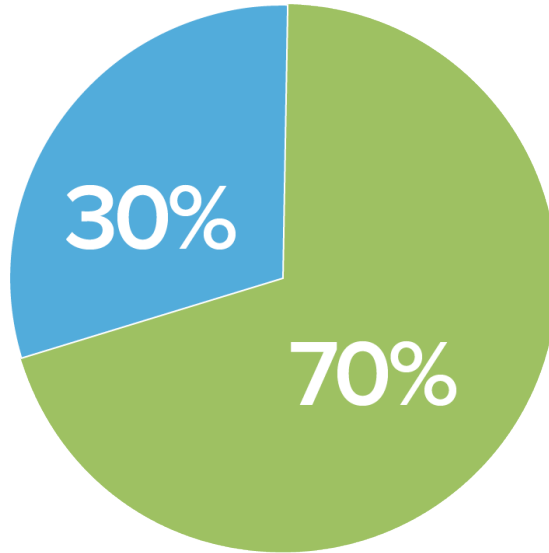
Source: FDIC, data for C&I loans <\$250K

www.foundationcapital.com/marketplace-lending.php



Few Major Banks are Becoming More Efficient

Just 30% of the top
500 global banks
improved cost
efficiency between
2009-2012



70% stayed the
same or became
less efficient

Source: McKinsey, Thomson Reuters

“People have long thought that the Internet is overhyped. But when you realize that it now has the power to reinvent the multi-trillion banking industry – I argue that it *still* hasn’t been hyped enough.”





foundationcapital.com/marketplace-lending.php