



**Marketplace Lending, Direct Lending  
and Securitisation**

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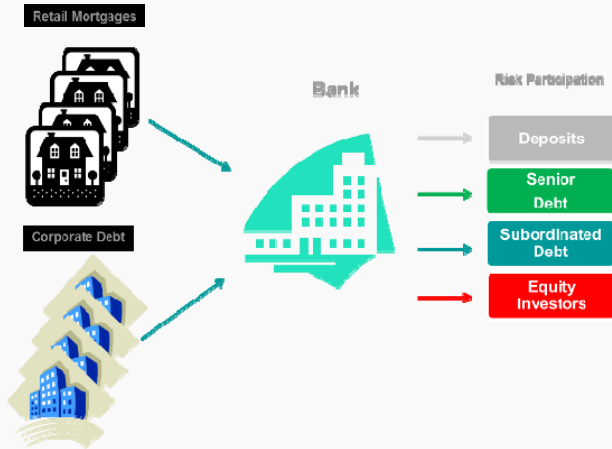
# Marketplace Lending, Direct Lending and Securitisation

- The changing face of banking, shadow banking, direct lending and Marketplace Lending (MPL)
- The growth of Direct and Marketplace Lending
- Marketplace Lending in context
- Implications for traditional financial institutions
- The benefits of bank / MPL collaboration
- Single loan securitisation
- A new source of systemic risk?
- Outlook for MPL

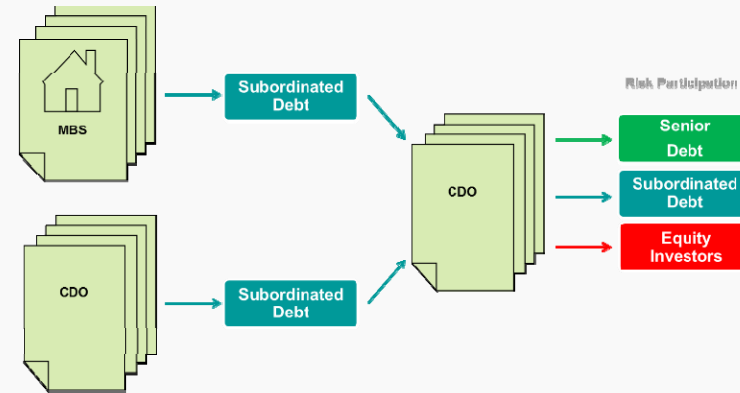


# Changing face of banks, shadow banking, marketplace lending

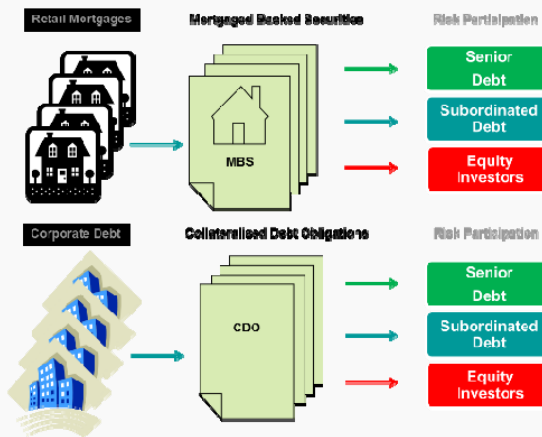
**Banks:**  
Less leverage, more capital, risk averse



**CDOs etc:**  
Complex levered products have gone



**Securitisation:**  
Returning slowly

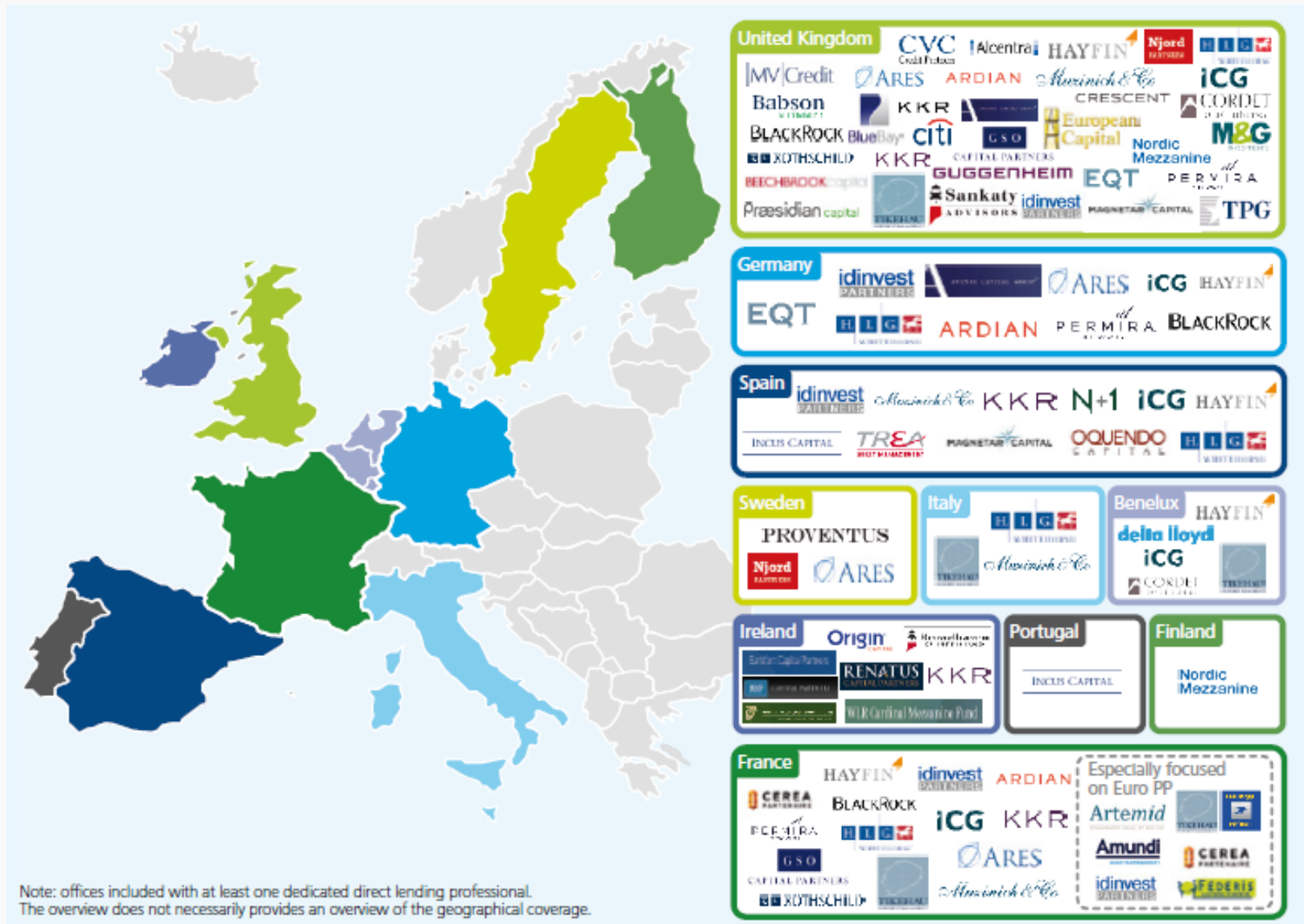


**Direct and Marketplace Lending:**  
Can it fill the funding gap?



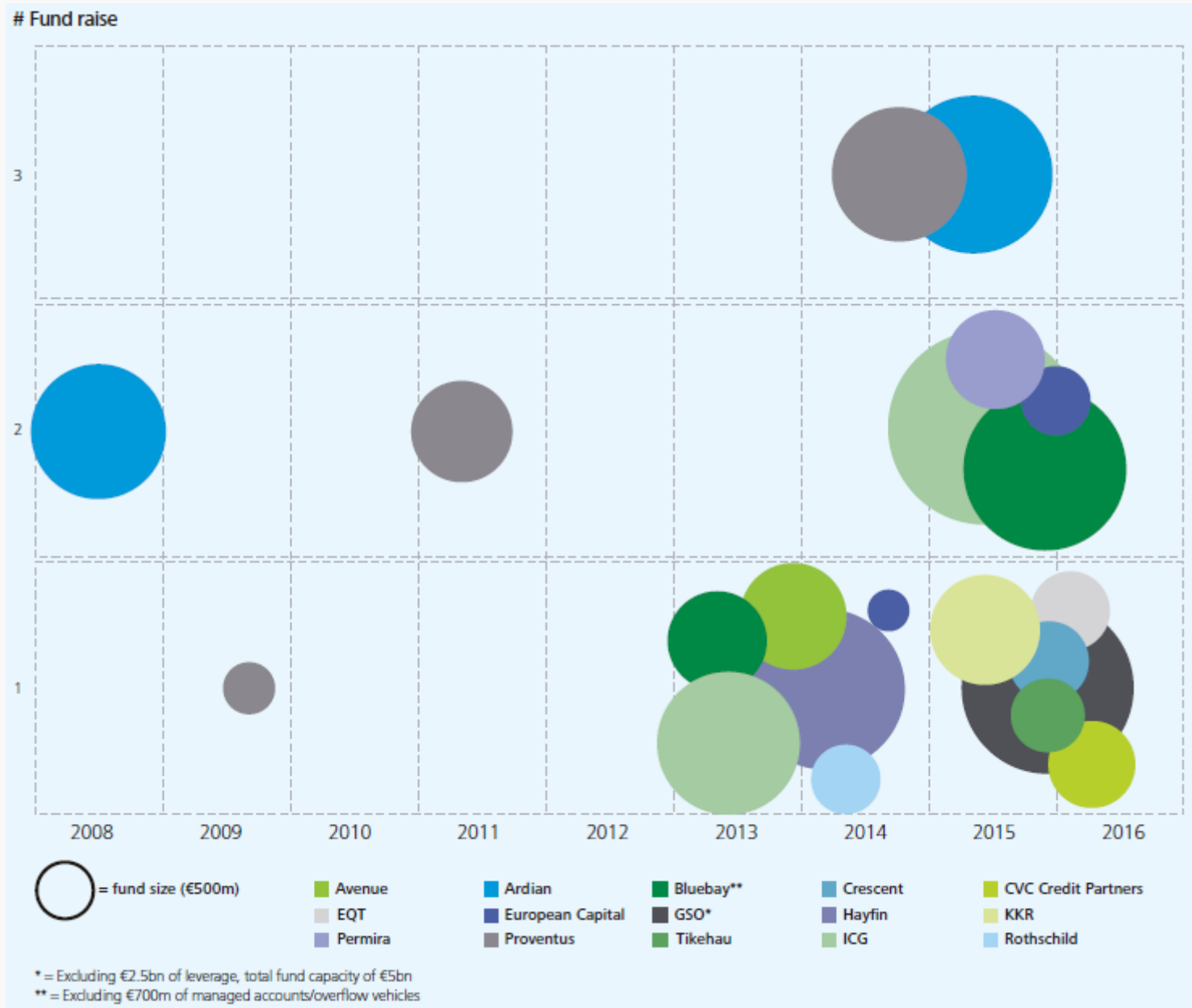


# Direct Lending landscape: across local markets





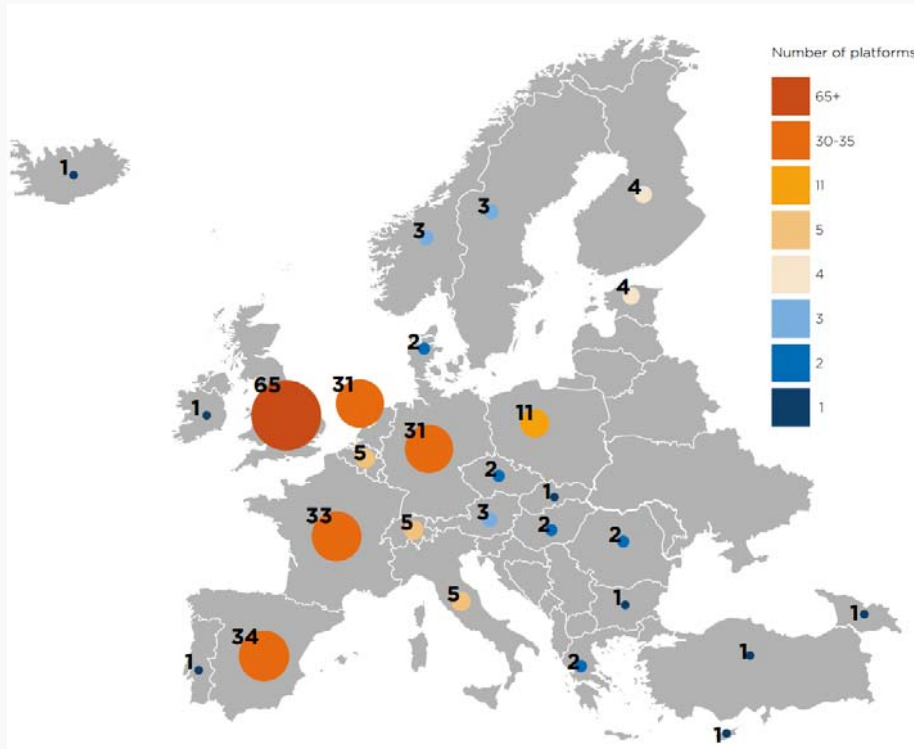
# Direct Lending landscape: on the increase in Europe



Source: Deloitte

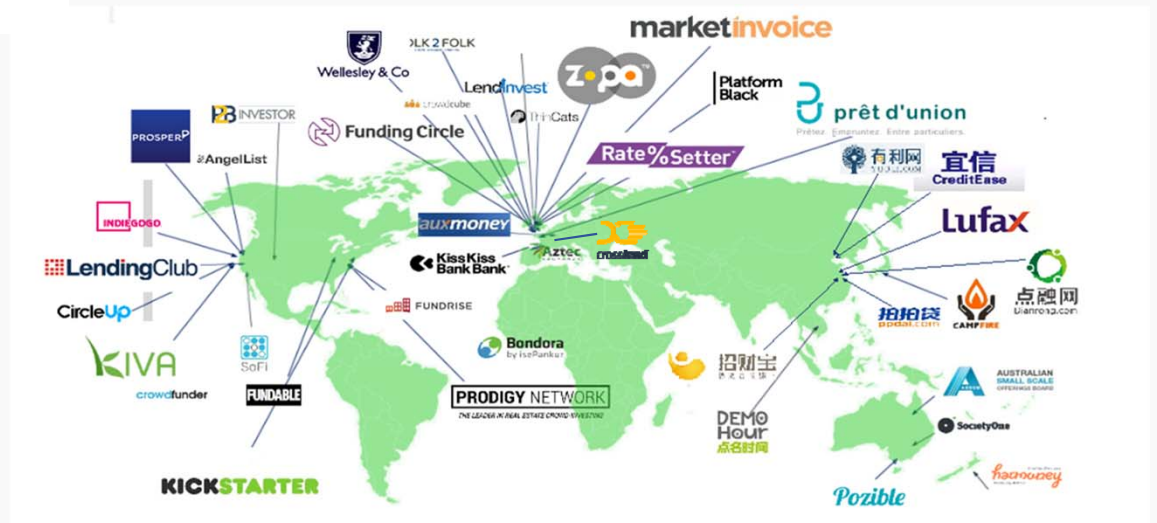


# Marketplace Lending landscape: continues to globalise



- 2005 – P2P Lending starts in the UK
  - Followed in the US in 2006 (Prosper) and 2007 (Lending Club)
  - China P2P market starts in 2010
  
- 2015 – significant global volumes and China activity

Source: EY, Cambridge Centre for Alternative Finance, Cambridge Judge Business School

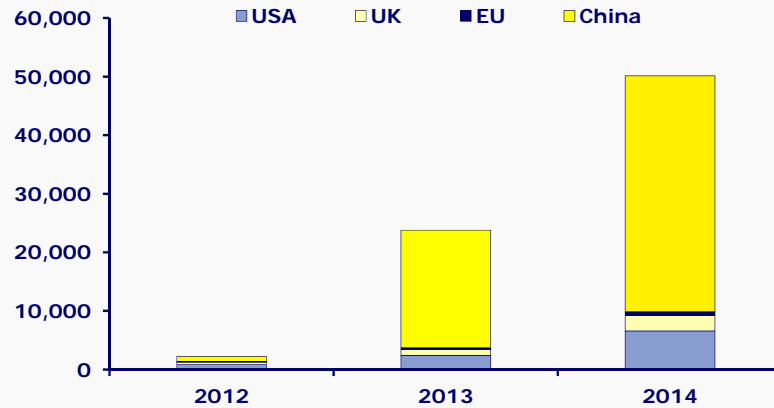


Source: Crosslend



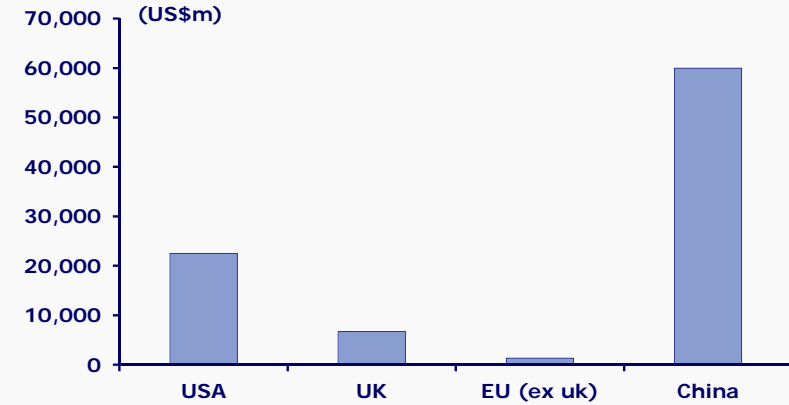
# Marketplace Lending in context

## Rapid global MPL growth



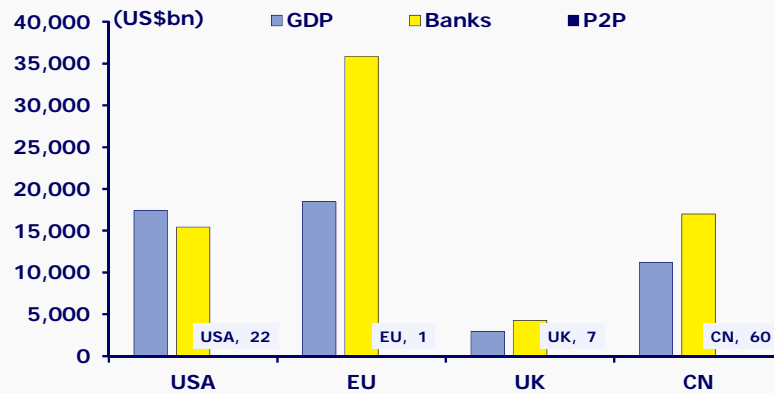
Source: Crosslend

## China makes up 66% of global MPL market



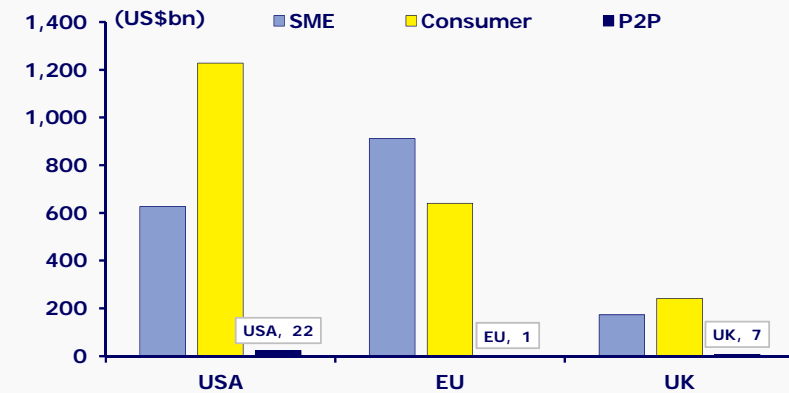
Source: Crosslend

## Minimal MPL penetration of banking sector



Source: World Bank, Federal Reserve, ECB, Bank of England, National Bureau of Statistics of China

## . . . or of SME and consumer lending

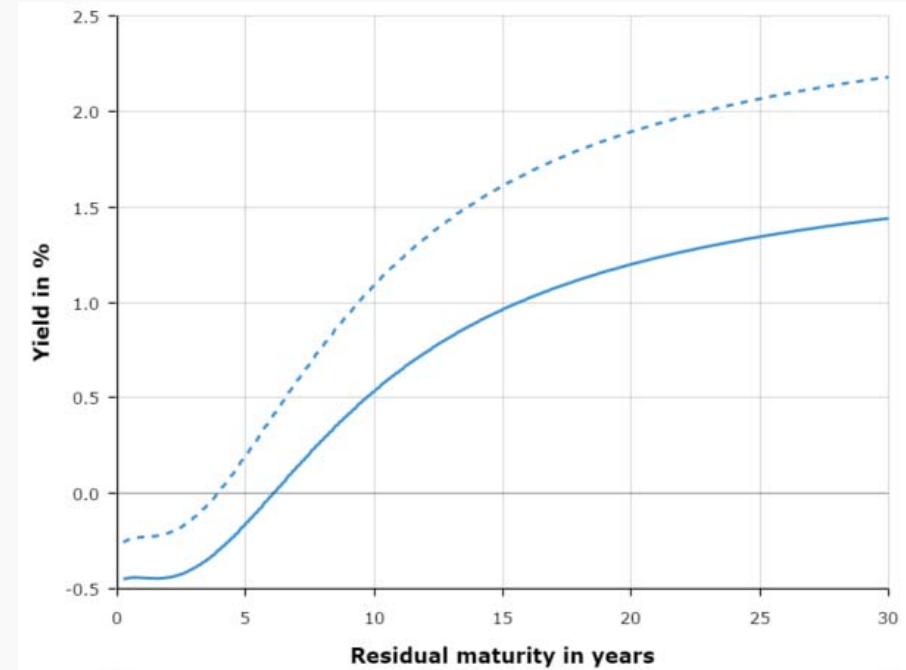


Source: World Bank, Federal Reserve, ECB, Bank of England



# If it's so small, why all the fuss?

- Banks aren't lending
  - Impact of 2008 crisis still being felt
  - De-levering and increased capital requirements
  
- Government bonds yielding close to zero
  - Negative yields for maturities < 5 years
  
- Traditional fixed income assets such as corporate bonds have been heavily bought followed QE and hence yields are very low



Reuters Corporate Spreads for Industrials  
10/22/2015

Rating	1 yr	2 yr	3 yr	4 yr	5 yr	6 yr	7 yr	8 yr	9 yr	10 yr	12 yr	15 yr	20 yr	25 yr	30 yr
Aaa/AAA	21	26	38	45	53	55	61	65	70	76	84	99	122	127	121
Aa2/AA	30	32	42	53	65	72	83	95	108	121	137	149	153	146	114
A2/A	43	58	71	79	88	92	102	115	131	147	165	175	175	162	141
Baa2/BBB	96	111	132	144	153	160	178	204	230	253	277	280	269	240	200
Ba2/BB	172	272	331	346	343	335	336	341	349	361	-	386	364	304	-
US Treasury Yield	0.23	0.61	0.89	-	1.36	-	1.74	-	-	2.04	-	-	2.48	-	2.87

- **MPL assets yield 5% - 15%**
  - Very appealing to institutional investors trying to match previous performance

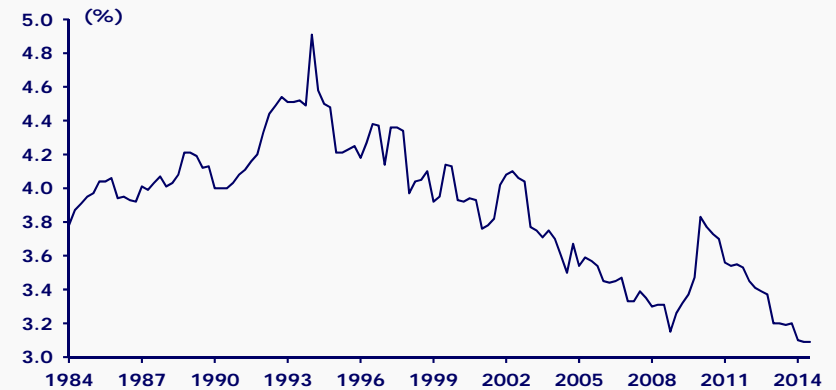




# Implications for traditional financial services

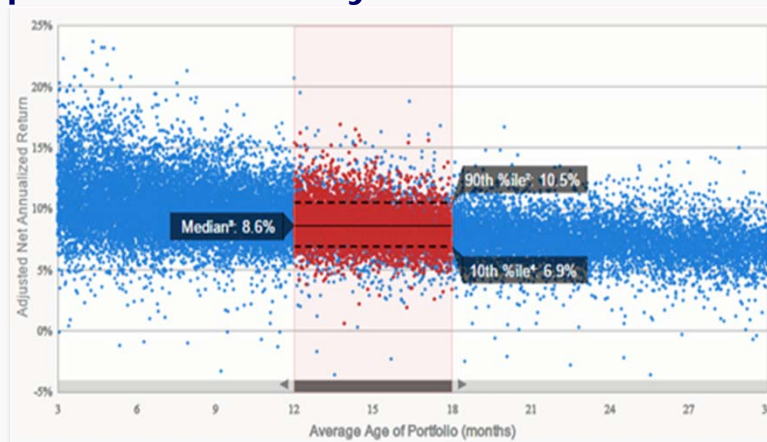
- Cost advantage of MPL vs. banks
- MPL superior NIM
- Data transparency
- MPL uses different data differently

## Net interest margin for all US banks



Source: Federal reserve economic data

## Data plentiful & increasingly useful for performance analysis



Source: Lending Club

## Loan size slider provides information on user behaviour

### Zopa loans

Zopa offers low rate loans with no early repayment fees.

I want to get a loan for £6500

£

Term	APR	Monthly cost
<input type="radio"/> 1 year	7.0%	£561.85
<input type="radio"/> 2 years	6.8%	£289.72
<input checked="" type="radio"/> 3 years	6.8%	£199.44
<input type="radio"/> 4 years	7.4%	£156.23
<input type="radio"/> 5 years	7.7%	£130.13

[Get a quote today](#)

Source: Zopa



# You wouldn't structure banks this way if you started now

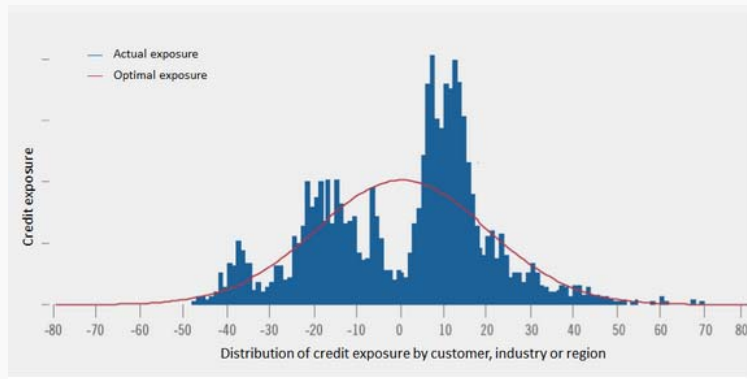
- The basic role of banks: transformation of risk, maturity and liquidity
  - But transformation is not always needed
  - US economy 25% bank financed, Europe 75%
  
- Cost benefit analysis not compelling (US banking market)<sup>1</sup>:
  - 1950s: 3% of salaries and 7% of corporate profits
  - 1980s: 7% of salaries and 34% of corporate profits
  
- Layers of non-complementary regulation make it hard for banks to expand and contract with economic cycles
  
- Banks used to be a counter-cyclical brake
  - Mark-to-market accounting has made banks more pro-cyclical

1. Prof Benjamin Freidman, Harvard University

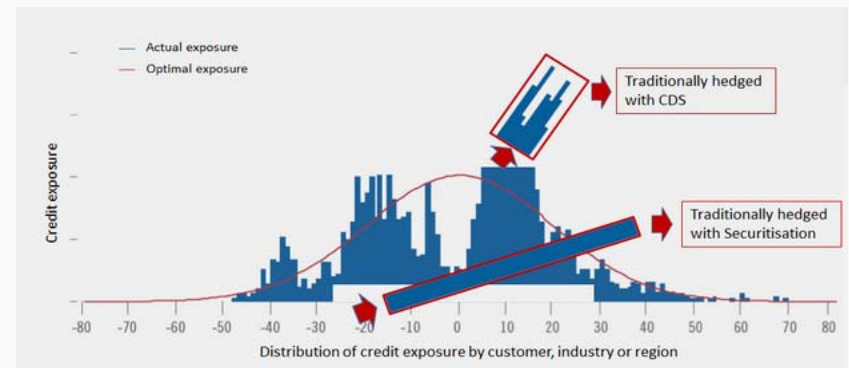
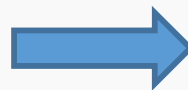


# The benefits of bank / MPL cooperation

- Bank liquidity lines for MPL site
  - Main beneficiary is MPL as matching liquidity to lending is MPL's main challenge
  - Bank can diversify by filtering investment via MPL
- White-labelling MPL sites
  - Banks could make loans shared with MPL sites
  - MPL site gets loan origination, bank gets customer for on-sell of fee based products
  - Both bank and MPL benefit
- Banks manage credit limits via MPL
  - Customer that hit internal credit limits have excess funded by MPL
  - Main beneficiary is the bank: separation of risk from relationship



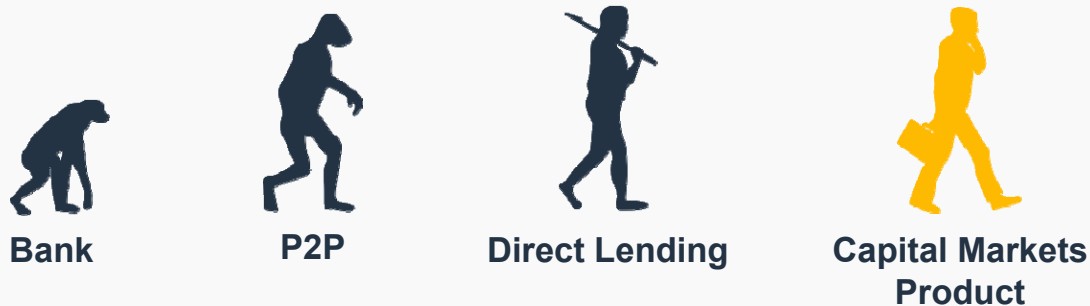
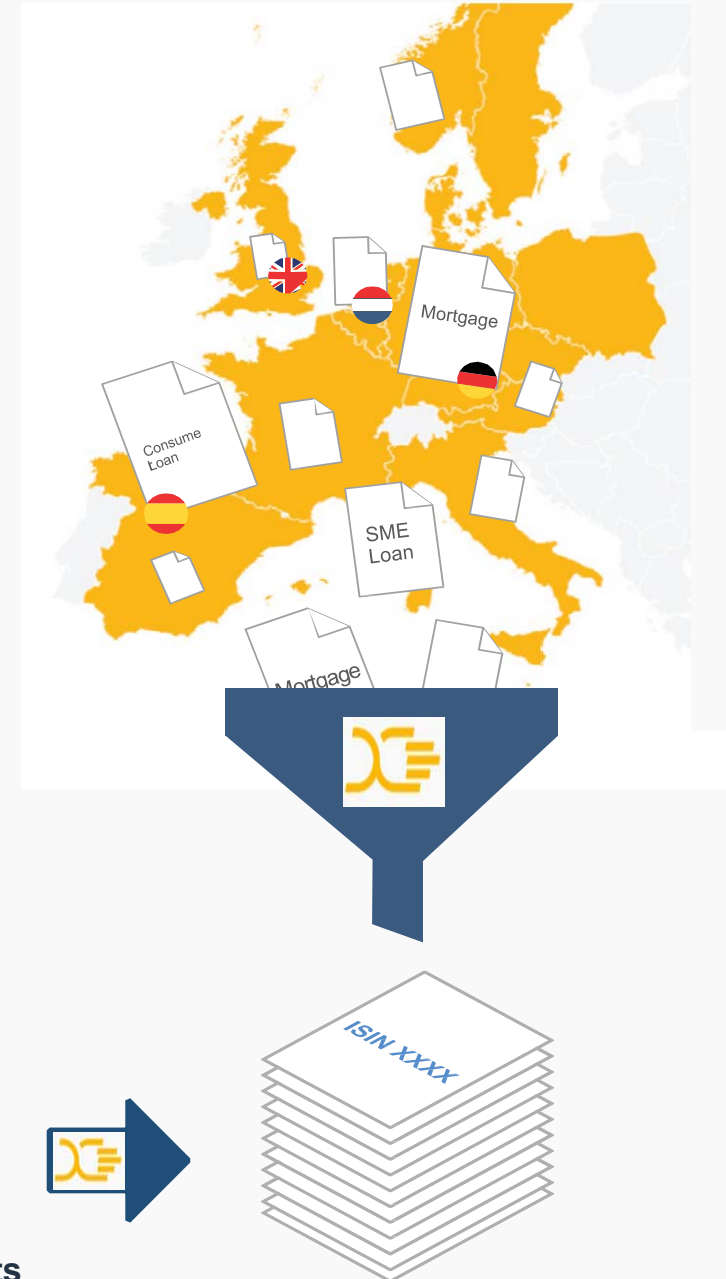
Active Credit  
Portfolio  
Management





# The next step forward: single loan securitisation

- Institutional investors face obstacles running pan-European portfolios of MPL assets
- Bank collaboration with MPL will face similar obstacles
- Single loan securitisation
  - Transform a traditional credit instrument into a Note
    - Settlement, ISIN, bond documentation
  - Remove some of the cross-border hurdles for plain vanilla lending by non-banks
  - Easier distribution of traditional credit instruments
  - Allows granular asset selection, ensures transparency
  - Secondary market benefits
- CrossLend platform transforms each loan into a bond
  - Unique securitisation infrastructure
  - Potential benefits for banks and institutional investors





## Examples of marketplace lending partnerships

- 2013: Lending Club, Santander (USA)
  - Bank acquires LC loans
- 2013: Lending Club, Titan Bank (USA), Congressional Bank (USA)
  - Banks to buy and offer LC loans
- 2014: RainFin (South Africa), Barclays Africa
  - Bank acquires 49% stake
- 2014: Society One (Australia), VC fund of Westpac
  - Fund takes equity stake
- 2014: Lending Club, Union Bank (USA):
  - Strategic alliance whereby bank buys loans, both cross-sell new credit products
- 2014: Funding Circle (UK), Santander (UK)
  - Bank to refer SMEs to CF platform
- 2014: Harmoney (NZ), Heartland Bank (NZ)
  - Bank takes 10% stake and provides funding line
- 2015: Funding Circle, Assetz Capital (UK), RBS
  - Bank to refer rejected loan applicants to the two CF platforms
- 2015: Lending Club, Alibaba Group
  - LC to offer financing to US businesses buying from Chinese suppliers on Alibaba.com
- 2015: China Rapid Finance, China Construction Bank



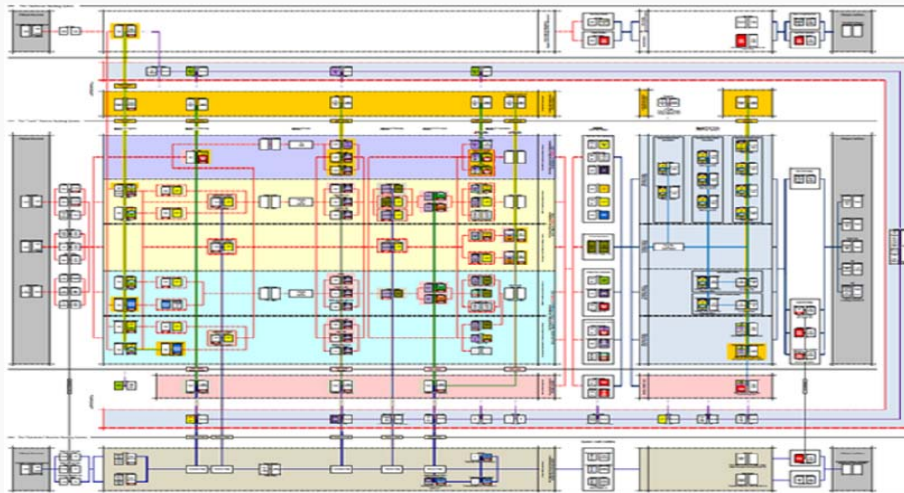
# A new source of systemic risk to be over-regulated?

## Old shadow banking

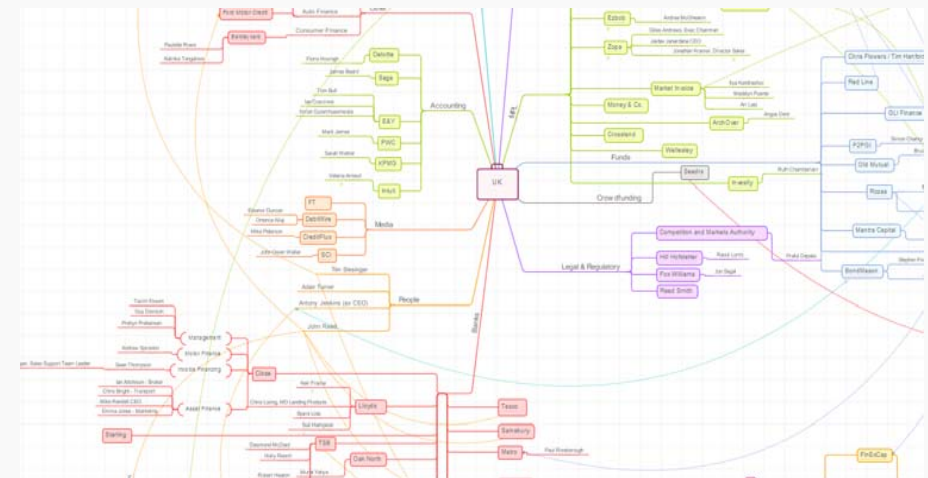
- Opaque, complex, levered
- 50% of credit in 2007 off bank balance sheets
- Some aspects were beneficial

## Marketplace lending

- Transparent, simple, fully funded
  - Growing use of leverage needs monitoring
- Effects of interest rate normalisation?
- Systemic implications small due to small market size / transaction sizes



Source: Pozsar, Adrian, Ashcraft, & Boesky, July 2010



Source: Crosslend



## Outlook for marketplace lending

- Confluence of financial and economic events
  - Combined with development of financial technology
  - Growth in China due to similar “perfect storm”
  
- Numbers too small for noticeable impact today
  - Few regulatory obstacles, therefore significant growth
  - More than just a better way of doing something
  
- Banks unlikely to stand back and watch
  - Contained by an increasingly sophisticated and demanding crowd
  - Likely to increase collaboration with MPL
  
- Expect innovation, consolidation and economic benefits
  - Consolidation will produce banks in all but name
  - Multiplier effect with benefit global economy

