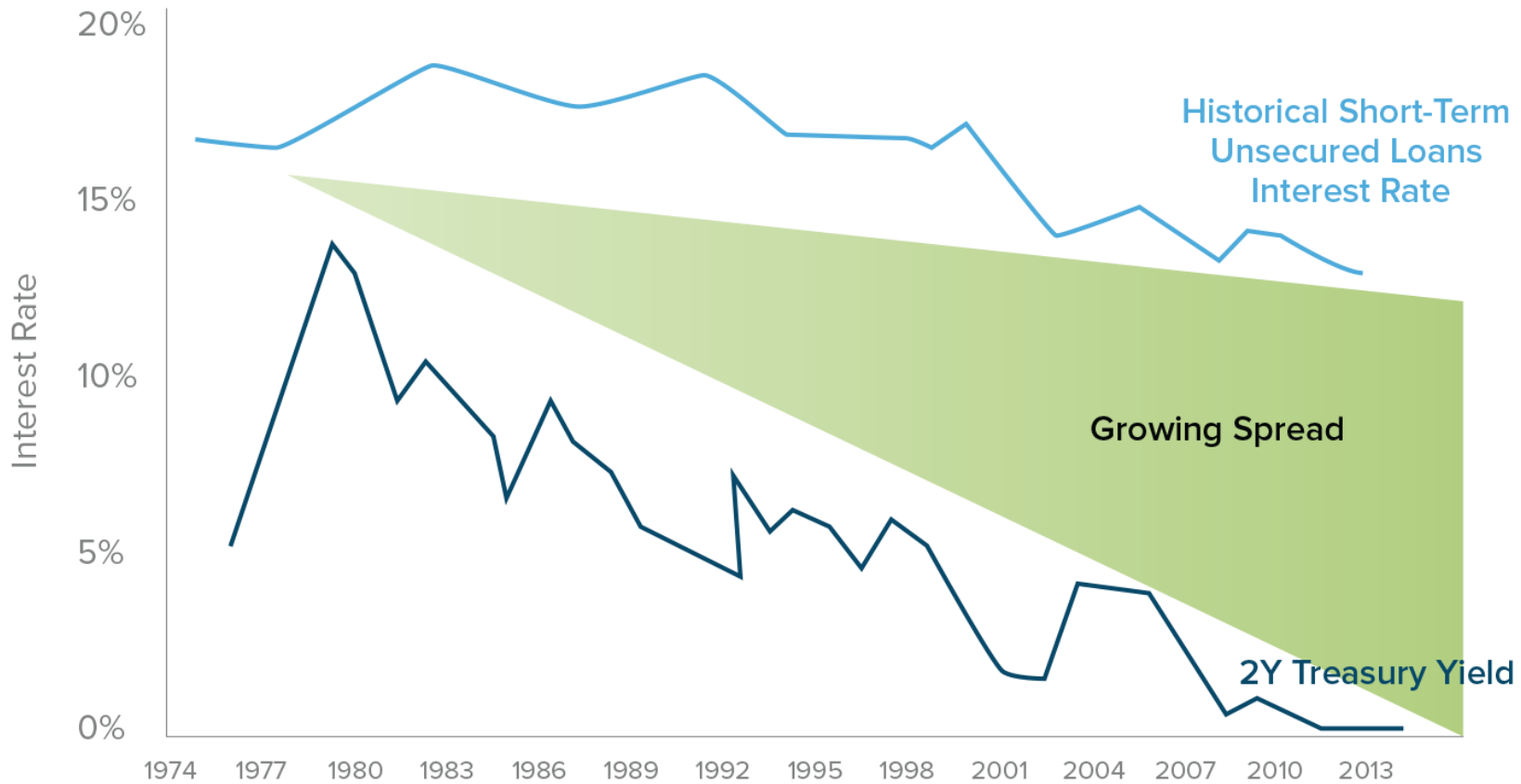




P2P Lending: A Regulatory Perspective

April 2017

BANK BORROWING COSTS AT AN ALL-TIME LOW, NET YIELD AT ALL-TIME HIGH



The Problem With Banks

Oligopoly

- Harms Customers

"Too Big To Fail"

- Moral Hazard for Economy

Unwillingness to serve smaller loan volumes

- Ever Increasing Overhead
- Legacy Processes

The Problem For Customers

Borrowers

Lenders

Low Cost (Prime)

Banks

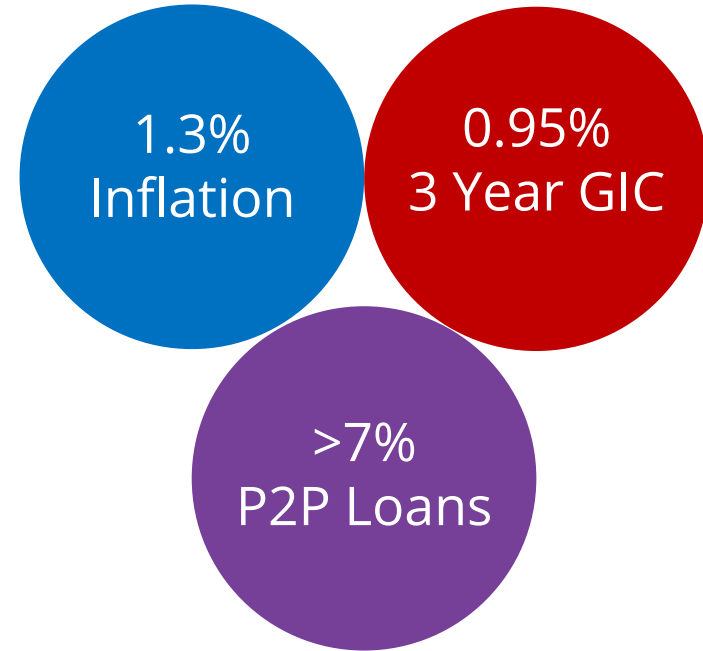
 Lending Loop

Slow

Fast

Alternative Lenders

High Cost (Sub-Prime)



What is Peer-to-Peer Lending?

- Facilitation of an online credit marketplace operating at a lower cost than traditional bank loan programs, passing the savings on to borrowers in the form of lower rates and to investors in the form of solid returns.
- Borrowers receive more affordable financing because the costly intermediary is removed (bank)
- Lenders receive a higher return because they are capturing more of the spread that was traditionally captured by a bank

Platform Revenue Model

We charge Borrowers an origination fee

Loan \$50,000

Business ABC	\$47,500
Lending Loop	\$2,500

We charge lenders a servicing fee

Loan \$50,000

Borrower Repayment	\$61,958
Lending Loop	\$1,165

Why P2P Lending

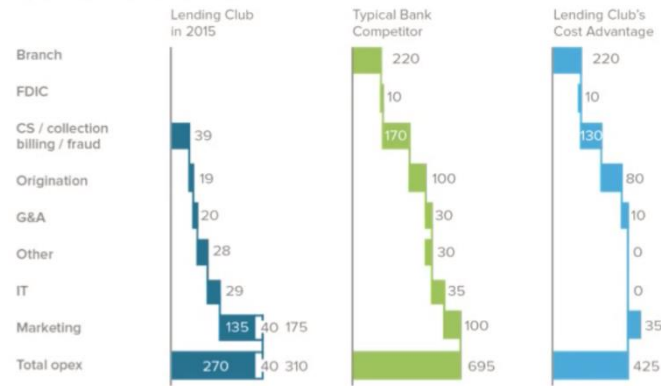
Traditional Lending vs P2P

“ Financial intermediation is a tax on capital; it’s the toll paid by both the people who have it and the people who put it to productive use. ”

Michael Lewis

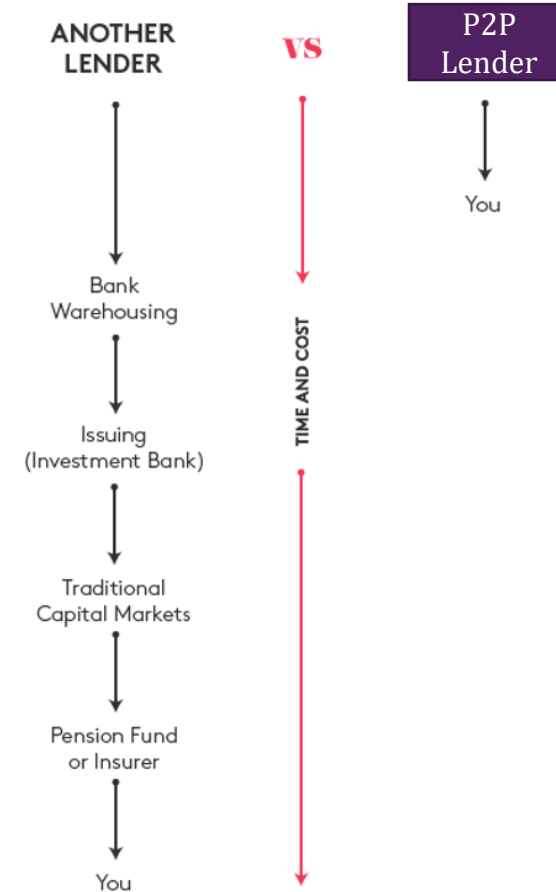
Author of *Liars Poker* & *The Big Short*

Opex / total balance outstanding, basis points

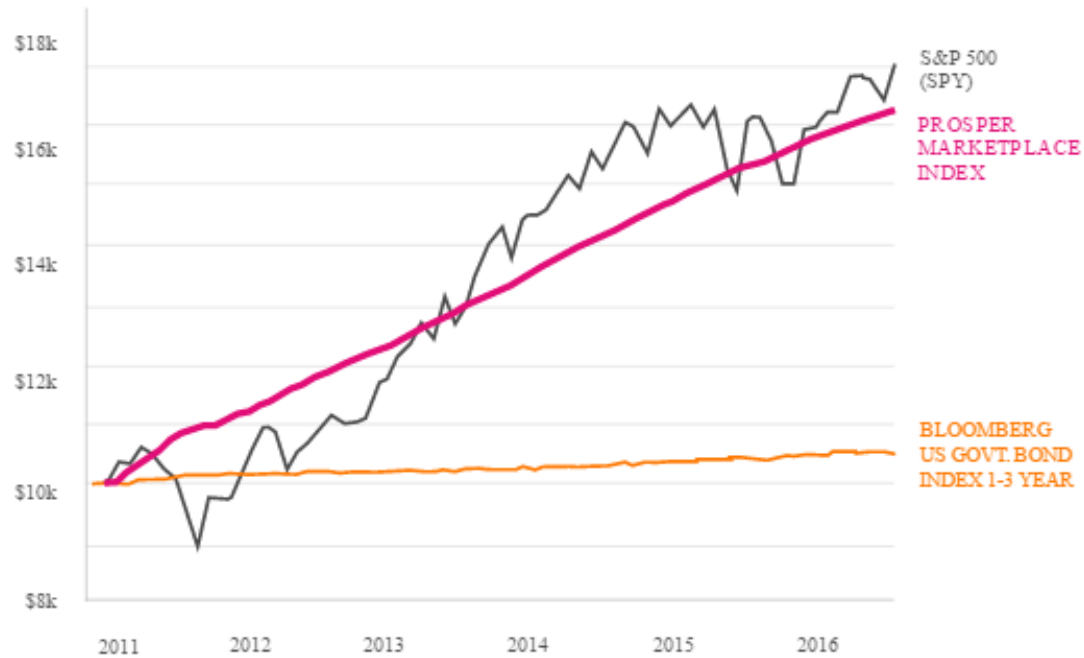


Cost advantage drivers (in bp):

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



A Proven Asset Class



FCIF FUNDING CIRCLE SME INCOME FUND LIMITED ORD NPV

[SUMMARY](#) [INTERACTIVE CHART](#) [PRICES AND TRADES](#) [FUNDAMENTALS](#) [TECHNICAL ANALYSIS](#) [NEWS](#)

Price (GBX)	103.50	Var % (+/-)	-0.24% (▼ -0.25)
High	103.75	Low	103.12
Volume	29,544	Last close	103.50 on 03-Apr-2017
Bid	103.00	Offer	103.50
Trading status	Market Close	Special conditions	XD

Why We Should Care About The Underserved

Eg. Importance of SMEs in Canada

90%

Private Labour Force Works For an SME

27%

Contribution to Canada's GDP

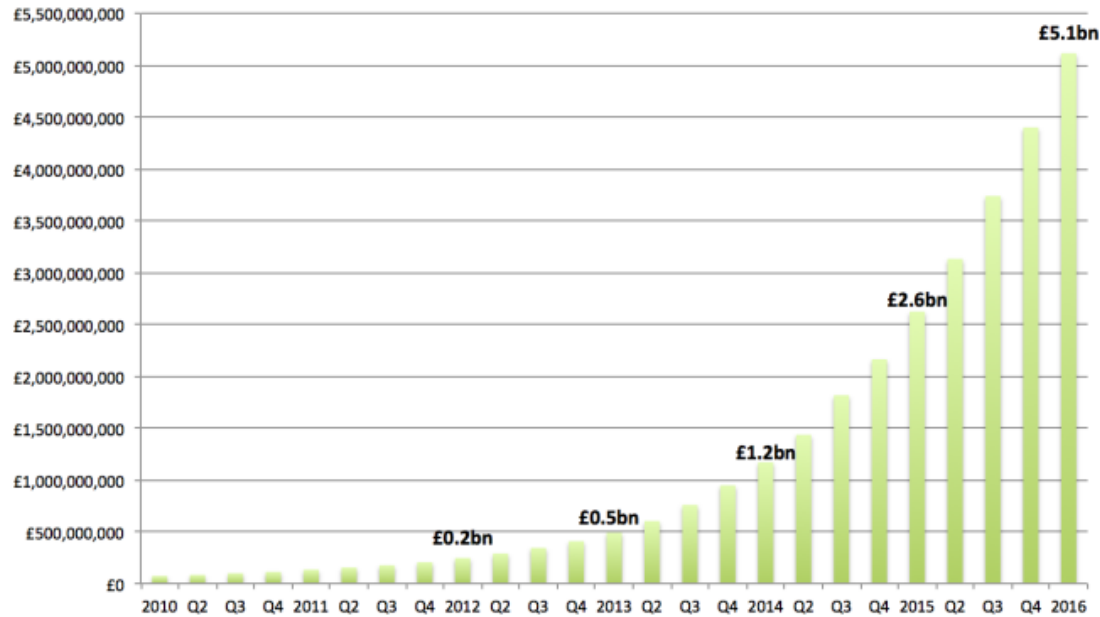
2008

Jobs Least Affected by Recession

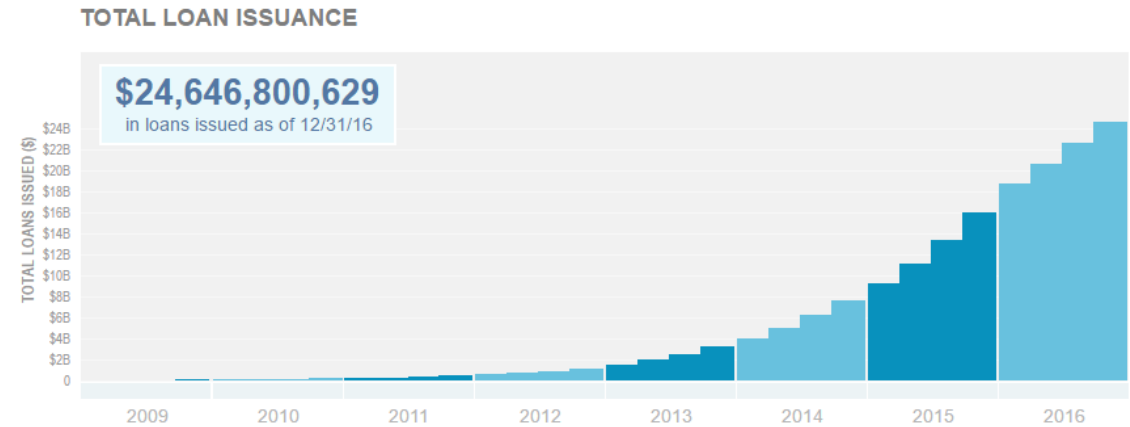
International Perspective

US and UK Platform Growth

UK P2P Originations



US P2P Originations



Funding Circle

£2,160,088,597



£2,160,000,000



£968,745,058



\$24,646,800,629



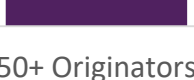
\$6,060,652,487

Lending Platforms: A Comparison

Canada

Retail/Institutional
Platforms

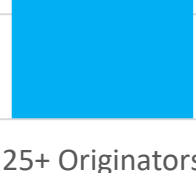
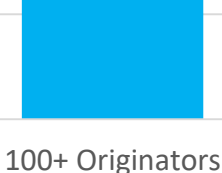
Institutional
Platforms



UK

Retail/Institutional
Platforms

Institutional
Platforms



Evolution of Peer-to-Peer Lending: UK

- **2005:** P2P Lending is introduced In the UK with the launch of Zopa, Lenders connect with Borrowers through a Direct Contract (where P2P platform is agent)
- **2011:** Incumbents self-regulate, form P2PFA to “promote high standards of conduct and consumer protection”
- **2005 – 2014:** Forward-looking supervisory visits were undertaken by the Financial Conduct Authority (FCA) to assess the governance, management and controls of five market participants to understand the risk that the sector posed to their statutory objectives
- **April 2014 -** FCA Begins Regulating P2P Lending requiring all Peer-to-Peer Lending platforms to go through an authorization process:

Success of Peer-to-Peer Lending: UK

- Government-backed British Business Bank programme has lent £100M through Peer-to-peer lending platforms to ensure capital is in the hands of small business owners
- Government has marked P2P loans as eligible for ISAs to help boost the returns of investors, thus growing investment in the sector
- The top 9 Peer-to-peer Lending platforms in the UK have originated > £7B since 2005
- P2P is one of the most important vehicles to removing the “too big to fail” bank mentality

“We believe that Peer to Peer lending (P2P) is a brilliantly innovative new form of finance – which we want to see continue to grow and evolve.

So many of our small businesses tell us about the difficulty of accessing finance. Many of you in the audience know exactly what I mean! Peer-to-peer lending can plug that gap. Proportionate regulation will protect consumers lending and borrowing via a P2P platform and allow the sector to continue to grow.”

- Harriett Baldwin, UK Economic Secretary

Evolution of Peer-to-Peer Lending: NZ

- 2013: *Financial Markets Conduct Bill (FMCB)* passed by Parliament
 - *“Dominated by four Australian owned and protected banks, New Zealand’s financial market has grown stagnant. Our “Big-4” banks are protected by Aussie legislation known as the “four pillar” policy, which has not only allowed the creation an artificial oligopoly, but also made those four banks among the most profitable in the world – even more than their Australian counterparts. Without much in the way of serious challenge, these banks have dominated the market with neither need nor motivation to change.”*
- The *FMCB* created two separate license categories
 1. Crowdfunding Service
 - *“When you invest via crowdfunding you're buying shares - usually in a start-up or growing business.” – NZ Financial Markets Authority*
 2. Peer-to-Peer Lending Service
 - *“When you invest via peer-to-peer lending, you're earning interest by loaning your money directly to an individual, small business, community group or charity.” – NZ Financial Markets Authority*

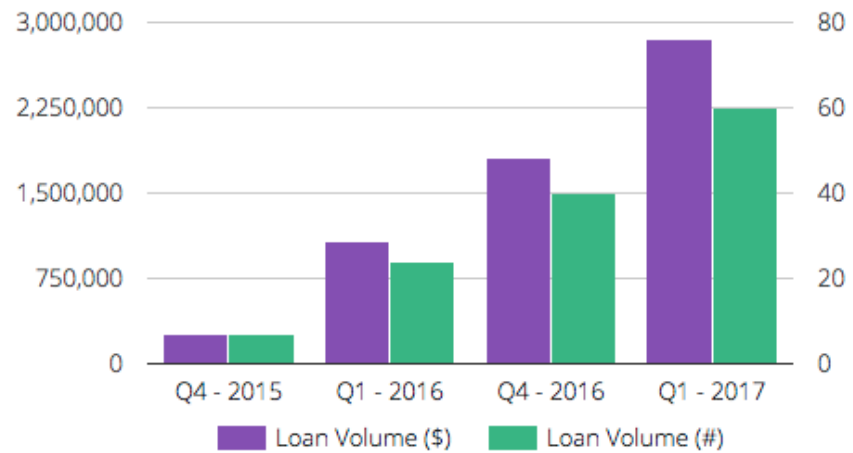
Conclusion: Canada

Why is Canada Lagging?

1. Lack of Direct Government Support (Contrasted to UK)
 1. Bank Referral Program
 2. Open Access to Banking Data
 3. Investment Promotion (ISA)
 4. Direct Investment (BBB)
 5. Vocal Government Support Increased Legitimacy
2. Historically Unfavourable Regulatory Environment
3. Absence of Adequate Funding
4. Banking Oligopoly Leading to Unfair Competitive Practices
 1. Challenger Bank Licenses

We're Catching up Quickly

Origination Volume



Loan Characteristics by Band



We Don't Need to Reinvent the Wheel!

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