



Fin or Tech?

Fintech valuation

Prof. Kathleen DeRose

Learning objectives

- Frameworks for valuation
- Special features of financial services company valuation
- Should fintechs be valued more like fin or tech?
- Takeaways from Lending Club's journey



Valuation

- Frameworks
 - Market structure and valuation
 - Growth and returns and valuation
- Methods
 - Cash flow (DCF, NPV)
 - Comps
- Private company valuation

Economist view-competition

MARKET STRUCTURES

Market Structures



Large number of buyers and sellers

Homogeneous Product

Perfect substitutes available

Free entry and exit

Perfect knowledge and information

No advertising or product innovation



Many sellers

Differentiated product

Close substitutes available

Relatively free entry and exit

Non-price competition in the form of advertising and product innovation



Few sellers

Homogeneous or differentiated product

Interdependent decision-making

Substitutes may or may not be available

Very difficult entry and exit

Strategic pricing, output decisions and marketing efforts



Single producer and seller

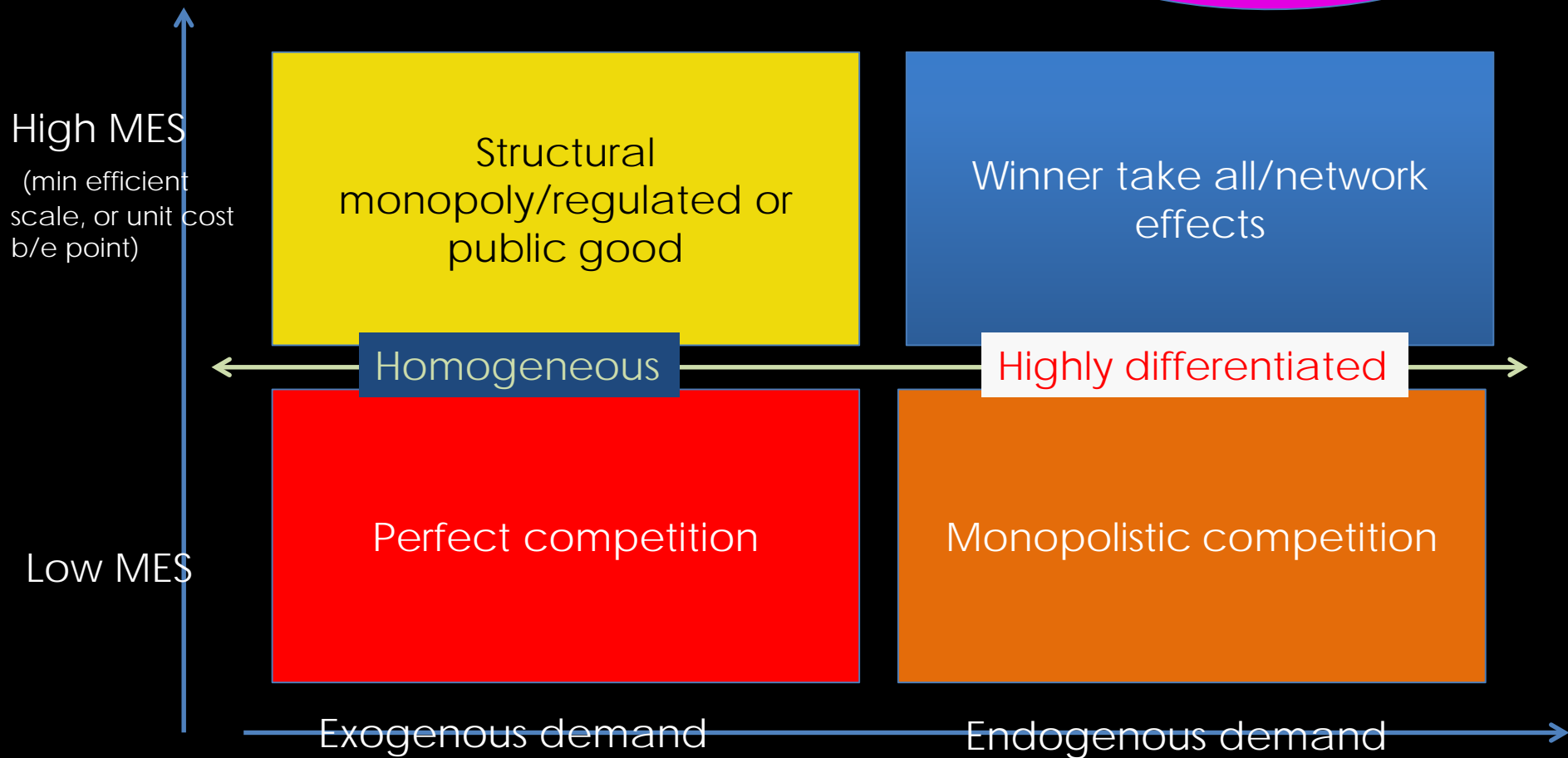
No close substitutes available

Impossible entry (pure monopoly), or may face threat of potential entrants (contestable monopoly)

Usually regulated public utilities (natural monopolies that produce essential goods)

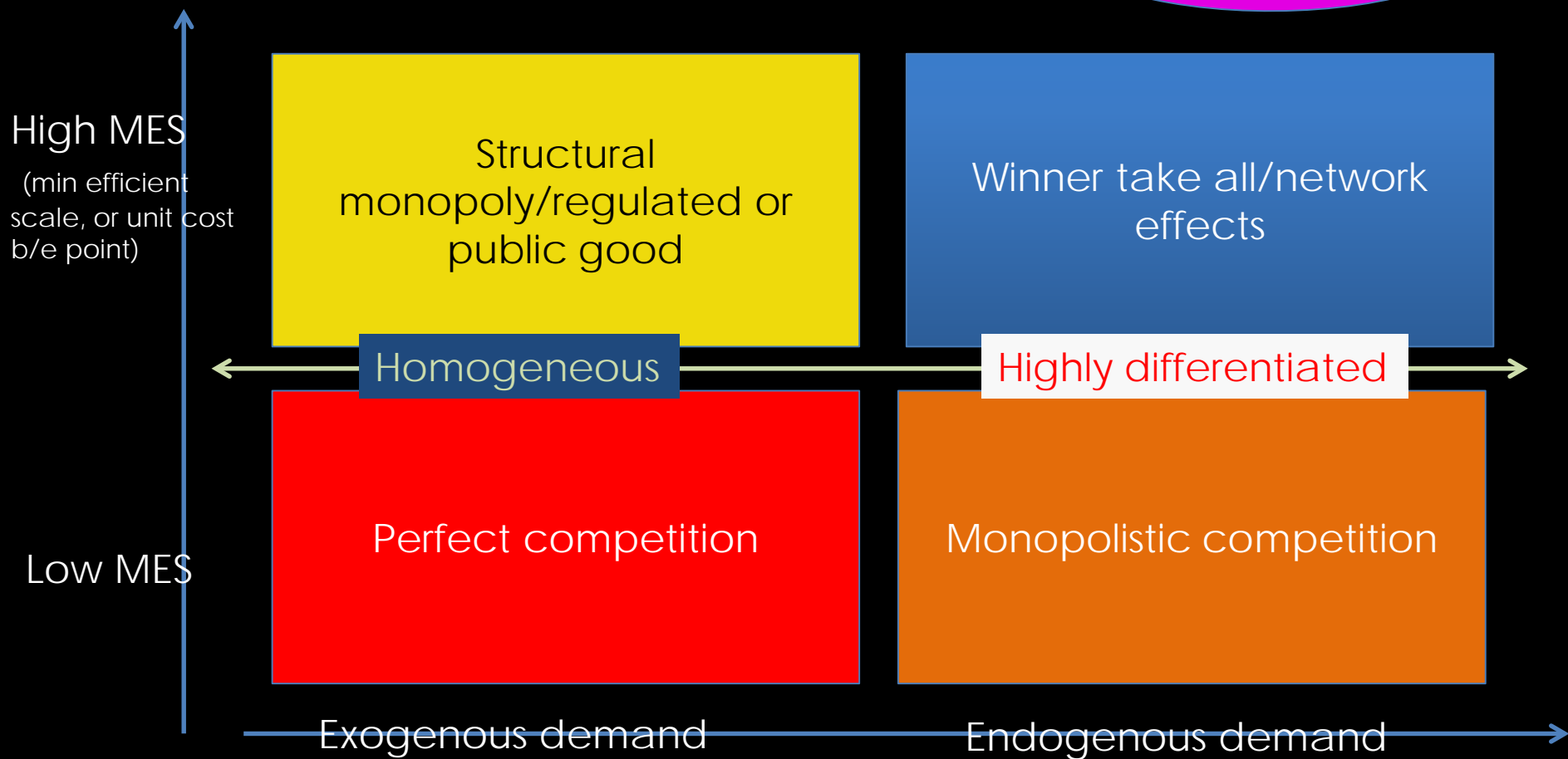
Economist view: competition with demand and scale

Where are unicorns?



Economist view: competition with demand and scale

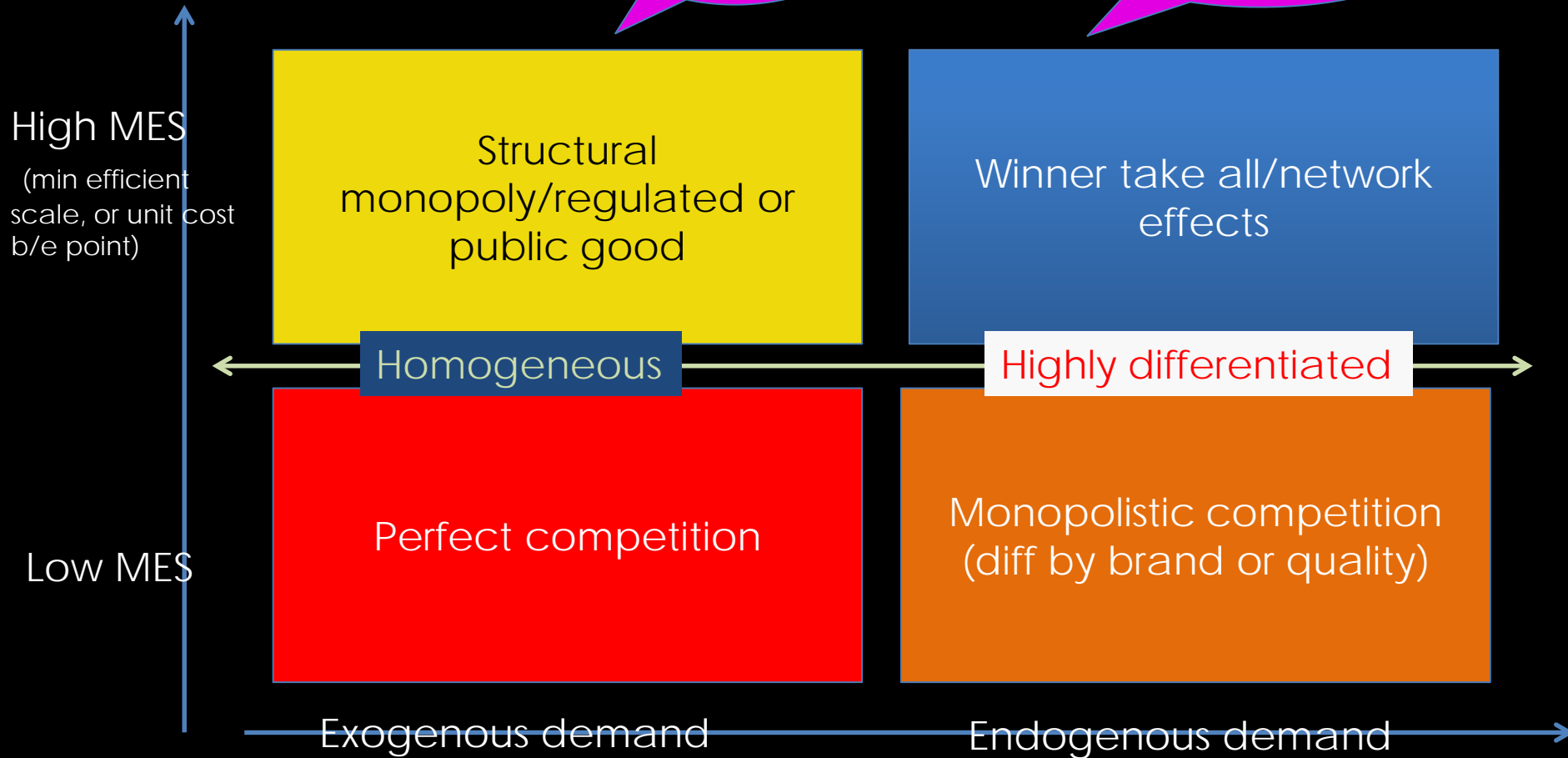
Where are banks?
Where are fintechs?



Where are financials? Where are fintechs?

Big banks?

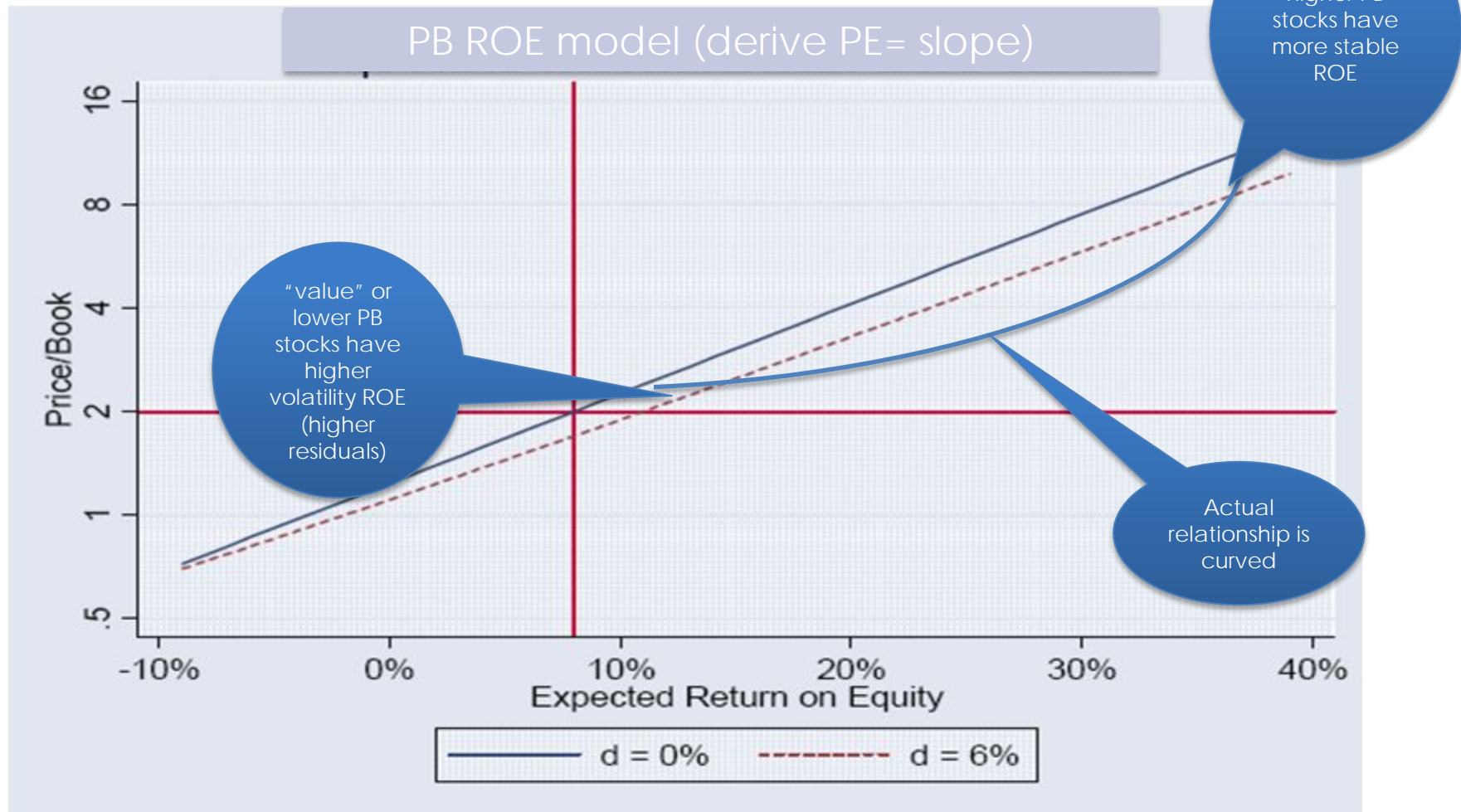
Platform Fintechs?





Competitive advantage, returns and valuation?

Market Structure: relationship between growth and valuation



*Jarrod Wilcox, "The P/B-ROE Valuation Model," *Financial Analysts Journal*, Jan-Feb 1984.

Link between growth and valuation

- ROE a proxy for g
 - $g = \text{ROE} (1-k)$
- ROE a f of
 - Sales/assets * assets/equity * pretax/assets * (1-tax rate)
- Higher ROE, higher valuation
- As long as ROE is not volatile
- Explains both growth and value stocks

Exact Solution - I

- Total Return = Price Return + Dividend yield
- If all parameters are time invariant:

$$k = \text{Total Return} = \frac{\partial P_t}{\partial t} \frac{1}{P_t} + \frac{\partial D_t}{\partial t} \frac{1}{P_t} = \frac{1}{P_t} \frac{\partial P_t}{\partial t} + \frac{1}{P_t} \frac{\partial D_t}{\partial t} \quad (1)$$
- In addition, we always have: $P_t = B_t \times P/B_t$ (2)
- Differentiate (2) w.r.t. time and divide by price to get

$$\frac{1}{P_t} \frac{\partial P_t}{\partial t} = \frac{1}{P/B_t} \frac{\partial (P/B_t)}{\partial t} + \frac{1}{B_t} \frac{\partial B_t}{\partial t} \quad (3)$$

Exact Solution - II

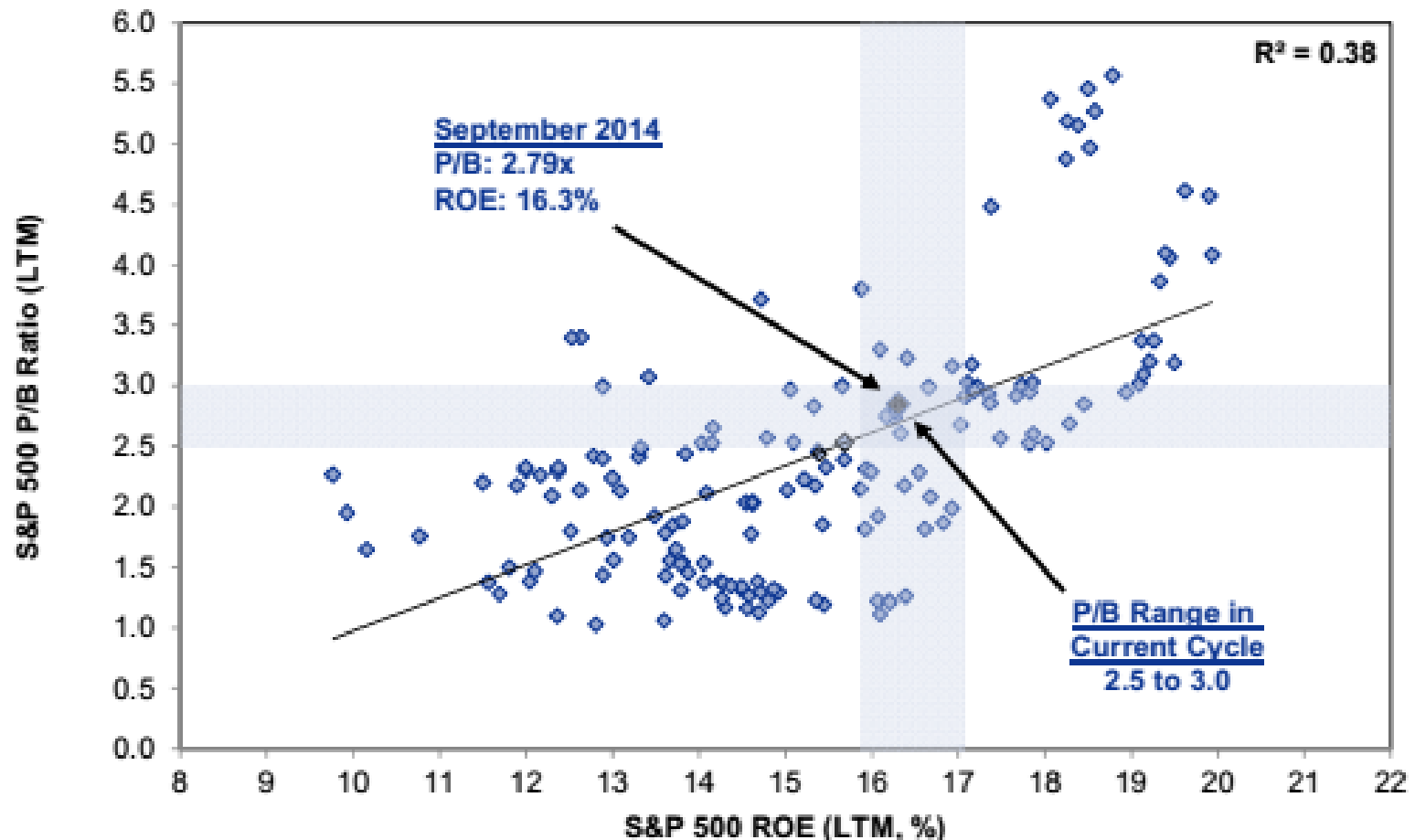
- Substitute and rearrange to get $P/B_t \times (k - g) = \frac{\partial (P/B_t)}{\partial t} + d$
- Solve this differential equation to get

$$P/B_t = P/B_0 \times e^{(k-g)t} + \frac{d}{k-g} (1 - e^{(k-g)t})$$
- $d/(k-g) = P/B^*$ if the initial conditions prevail in perpetuity.
- $\ln \left(\frac{P/B_t - P/B^*}{P/B_0 - P/B^*} \right) = (g - k)t$

Here's how it looks

Exhibit 5: ROE vs. price/book value relationship

3Q 2014 ROE still 16.3% and implies P/B in 2.5x-3.0x range



Source: Compustat, FactSet, and Goldman Sachs Global Investment Research.



Basic concepts

- Fundamental link between earnings growth and valuation
- Market is efficient but imperfect, may over and under-shoot fair value
- Market has a harder time valuing more unpredictable cash flows
- Volatile ROE a proxy for low predictability
- Do these relationships hold for private securities too?

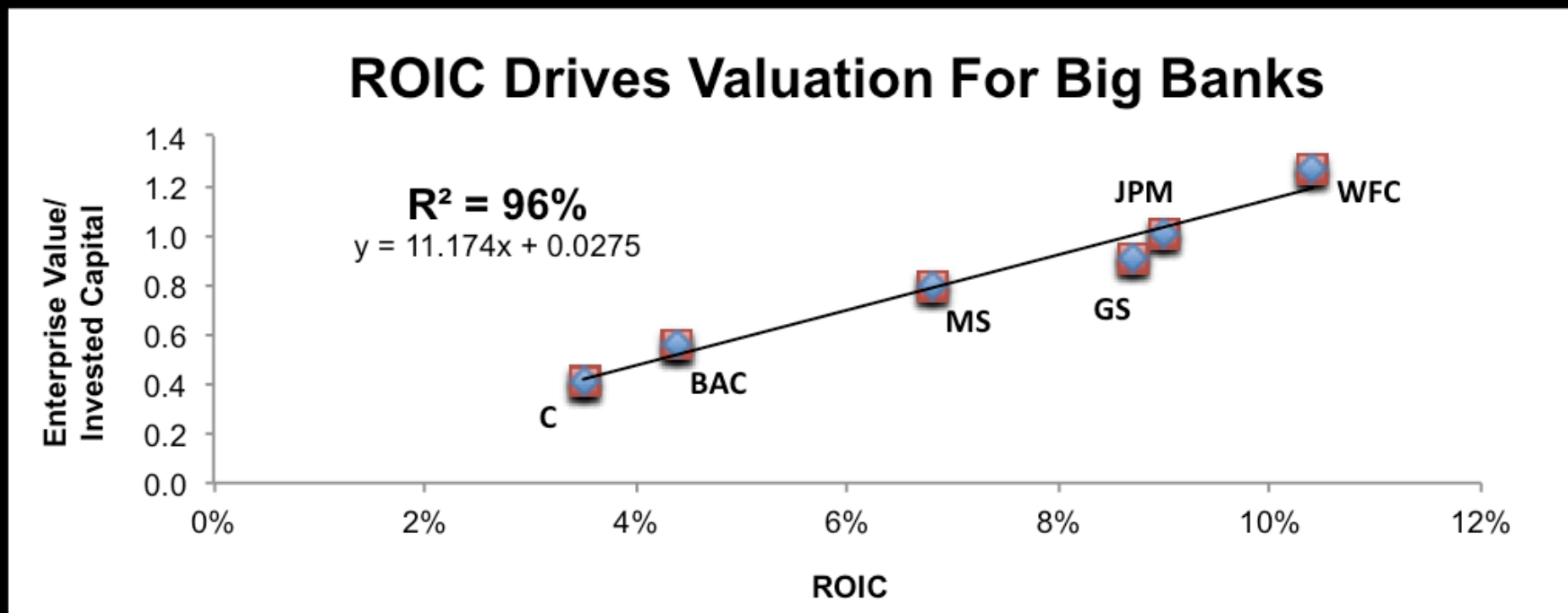
VALUATION OF FINANCIAL SERVICES COMPANIES

Where are fintechs? More fin?
more tech?

Banks price-to-book 1-1.5x



Market line for banks



Technology price-to-book

Amazon: 23x, Facebook 7.5x



Financials v. Tech

- More capital intensive
 - More leverage
 - Lower growth
 - Lower returns
 - More unpredictable returns
 - Lower valuation
-
- Caution: both sectors are heterogenous (BAC v. Visa, AMZN v HWP)

Valuation: financials

- DCF: no
- Multiples and Comps: yes
- Valuation and network effects: hmmm
- Private company securities and valuation:

Financial stocks valuation

- Capital intensive versus capital light financial services businesses
 - Spread versus fees
- Balance sheet and income statement ratios distorted by spread businesses with credit cycle
 - Loans are assets
- DCF not used for banks
- Comps and multiples-which ones
 - PB the governing yardstick for mature financials

Why do banks have low valuations?

- **Mature** business (GDP growth at best)
- Regulation caps growth and returns (**capital requirements**)
- **Credit cycle** creates earnings volatility
- Losses erode book value
- Low normalized **returns** across the cycle
- Secular earnings impairment post-crisis

Valuation gap: tech or fin?



- <https://venturebeat.com/2016/11/05/fintech-lenders-need-their-own-valuation-metrics/>

Valuation gap, or performance gap?

JPM Morgan

- \$2.3 trillion in assets
- \$100 billion in revenue
- 4-5% ROA
- P/B 1.1x

OnDeck 2015

- \$750 million in assets
- \$200 million revenue
- 40-50% ROA
- P/B AT IPO 15.4x

Are FinTechs so much more capital efficient that they justify premium valuations?

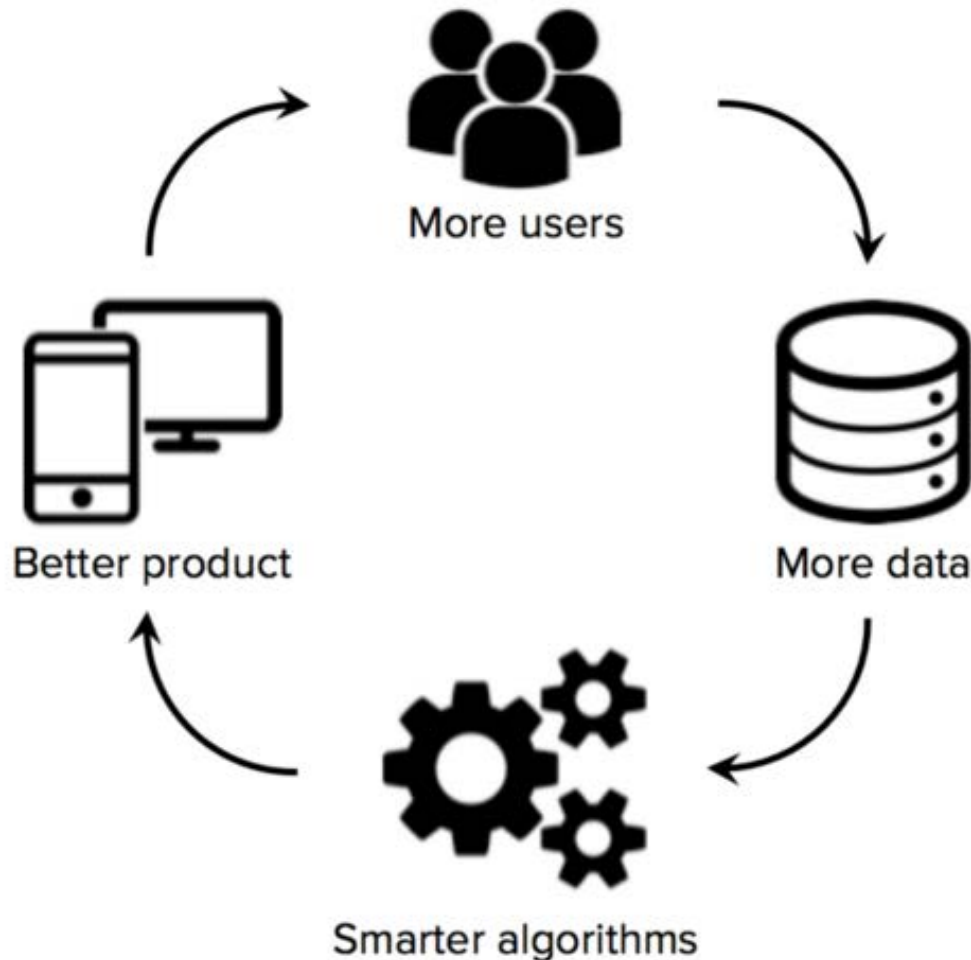
Is this due to **technology**? Or another reason?

Valuation gap or performance gap?

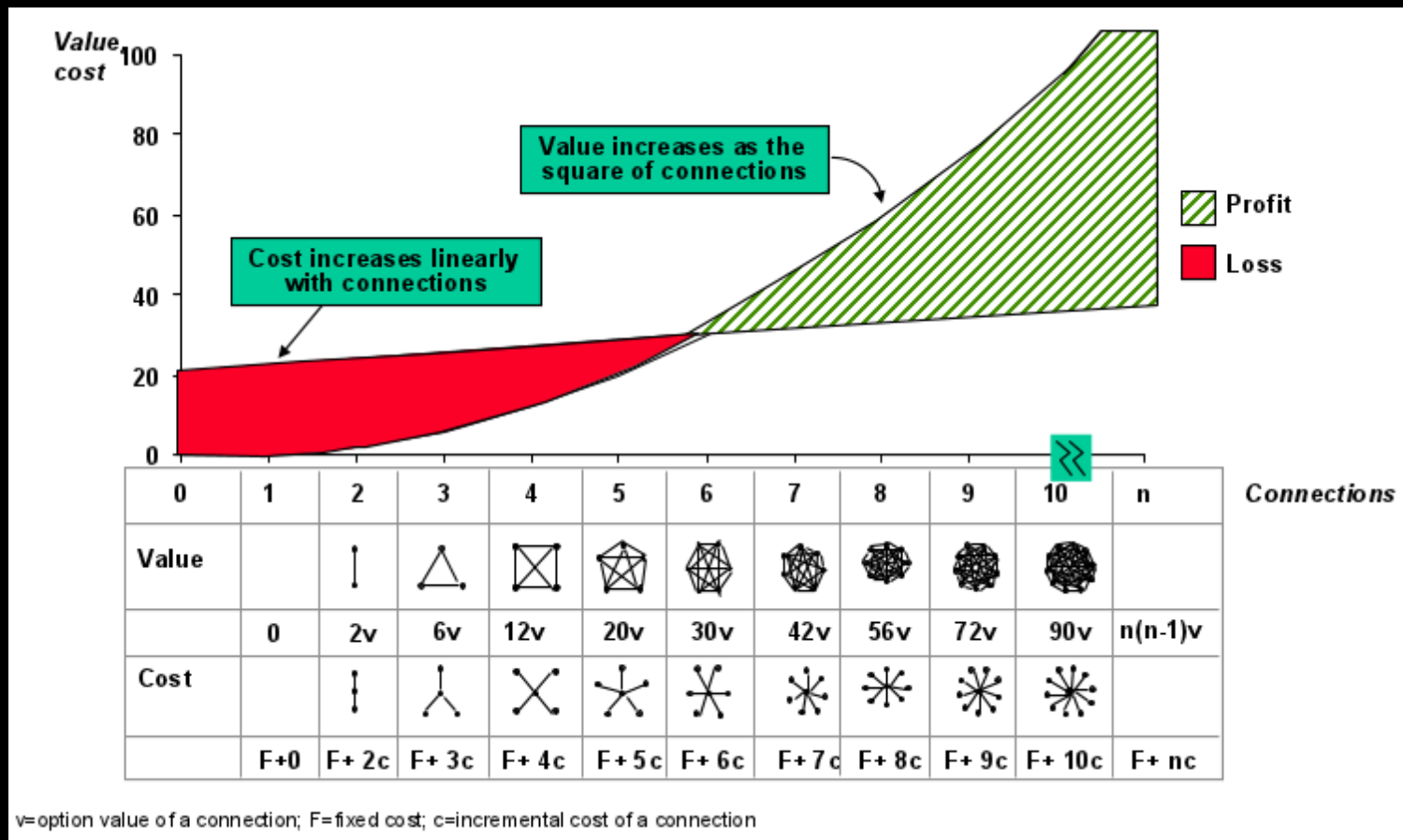
- Real differences
 - Revenue Growth
 - Earlier stage
 - Better products
 - Margin potential
 - Lower costs
 - Scalability and network effects
 - Capital usage?
 - Same rules? Or just more efficient?
- Risks?

VALUATION AND NETWORK EFFECTS

Value of network effects = exponential



Value of network effects on the business



STARTUPS FROM OUR COURSE

Pirate Booty

- Price
 - 4.75 million GBP
- Valuation
 - DCF valuation 9-18 million

Trumid

- \$82.2 million in funding since 2015
 - 2017 rounds included Chinese Co. **Credit Ease** and **Deutsche Boerse**
 - Estimated valuation: \$300-\$500 million
 - Compare to **Market Axxess**; breakeven market share of 1% of corporate bond market volume implies approximately \$100 million of revenue
 - Platform strategy, at scale revenue will be \$300-500 million
-
- Sources of information: Crunchbase, Angelist, Pitchbook (can be inconsistent)



Betterment and Stash

why is Stash selling at a much higher valuation?

- Betterment
 - \$10 billion of AUM
 - \$750 million valuation
 - \$0.08 market value per \$1.00 of AUM (8%)
- Stash
 - 1.5 million users, avg. acct. \$127 = \$200 million of AUM
 - \$240 million valuation
 - \$1.25 market value per \$1.00 of AUM (125%)



Betterment and Stash

why is Stash selling at a much higher valuation?

- Betterment
 - \$10 billion of AUM
 - \$750 million valuation
 - \$0.08 market value per \$1.00 of AUM (8%)
- Stash
 - 1.5 million users, avg. acct. \$127 = \$200 million of AUM
 - \$240 million valuation
 - \$1.25 market value per \$1.00 of AUM (125%)

How could gaps close?

- Public private gap
- Public public gap
- Performance gap
- Incumbents buy startups (does this make sense?)
- Startups fail

LENDING CLUB



Public fintechs

- Peer to peer lending (P2P) IPOs:
Lending Club, OnDeck, and SoFi
- **Lending Club story...**

OnDeck price chart

On Deck Capital Inc ONDK

Open an account.
EXTRADE

[Add to Portfolio](#) [Get E-mail Alerts](#) [PDF Report](#) [Data Question](#)

[Quote](#) **Chart** [Stock Analysis](#) [Performance](#) [Key Ratios](#) [Financials](#) [Valuation](#) [Insiders](#) [Ownership](#) [Filings](#) [Bonds](#)

[Compare](#) [Indicators](#) [Fundamentals](#) [Draw](#) [Display](#)

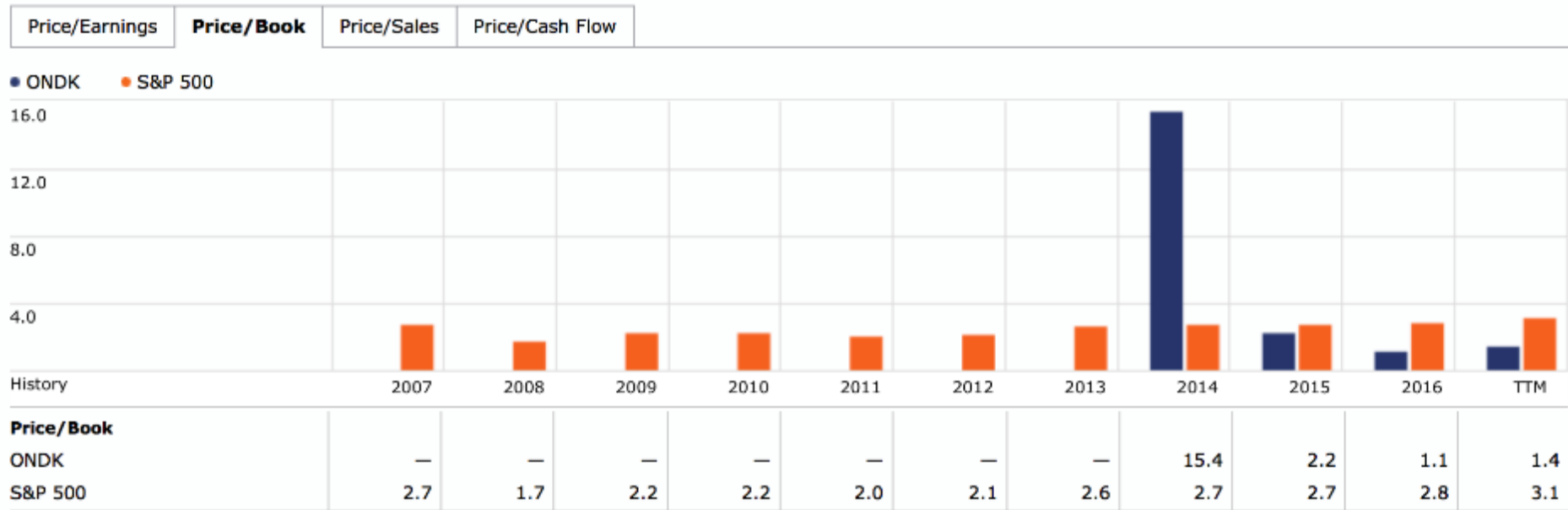
[Dec 31, 2014](#) [Nov 27, 2017](#) [Monthly](#) [1 D](#) [5 D](#) [1 Mth](#) [3 Mth](#) [YTD](#) [1 Yr](#) [3 Yr](#) [5 Yr](#) [10 Yr](#) [Max](#)

Dec 31, 2014 - Nov 27, 2017 ● ONDK



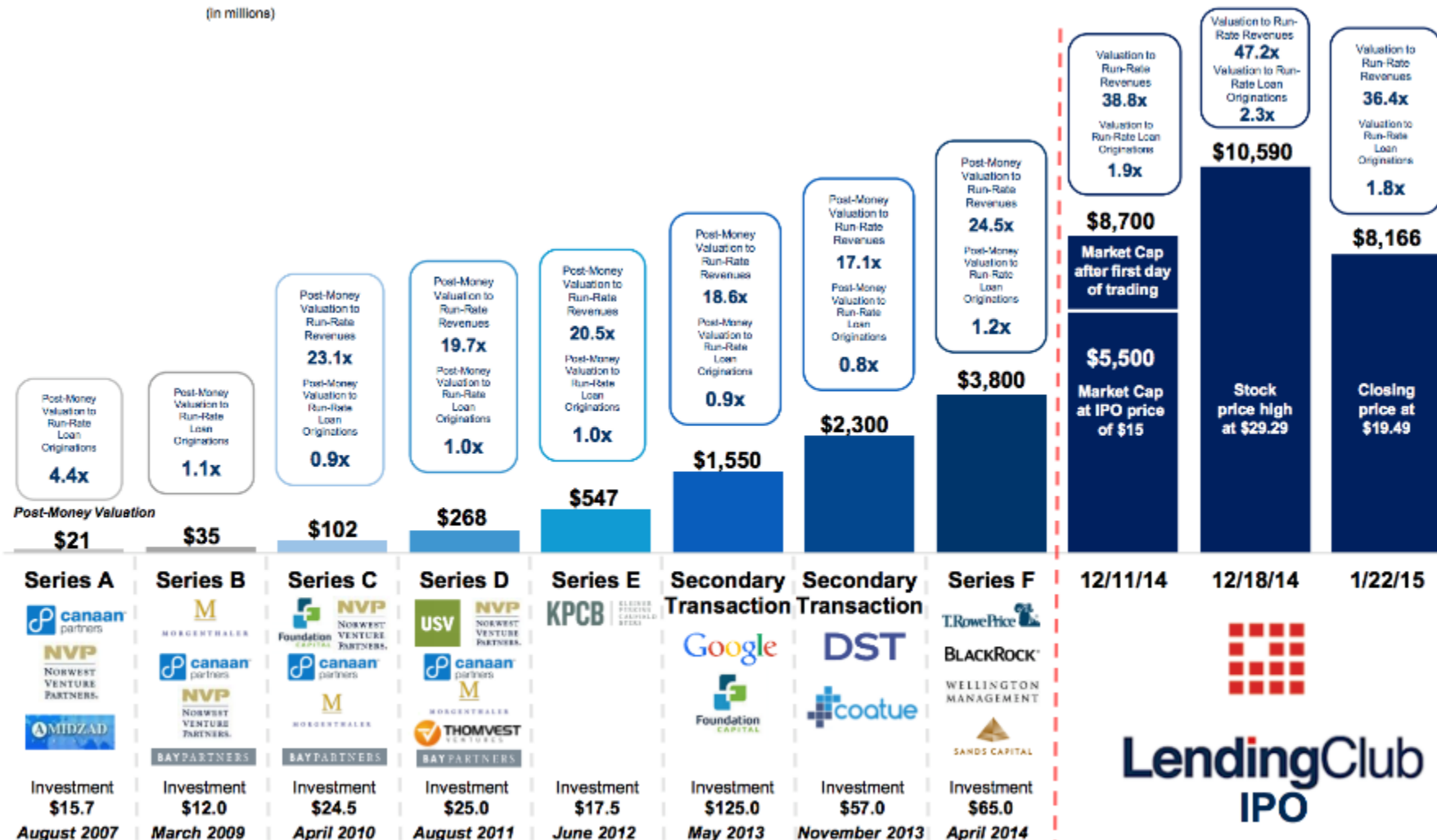
OnDeck P/B

Valuation History ONDK



The March to the IPO: Valuation Timeline

(in millions)



**LendingClub
IPO**

P2P lending



MARKETPLACE LENDING IN 2014

TOTAL VALUE OF MARKETPLACE LOANS ORIGINATED IN 2014

\$8.6 BILLION

(MORE THAN ALL PRIOR YEARS COMBINED)

LOAN SECURITIZATIONS

COMPANY	TYPE	AMOUNT
LendingClub	CONSUMER	\$128M
OnDeck	NON-SEA SMALL BUSINESS	\$175M
SoFi	STUDENT	\$416M
CircleBack	CONSUMER	\$500M
TOTAL		\$1.219B

INITIAL PUBLIC OFFERINGS FILED



NOTABLE INVESTORS IN P2P PLATFORMS

INVESTOR	PLATFORMS
BLACKROCK	LendingClub PROSPER
T. ROWE PRICE	LendingClub
GOOGLE	LendingClub OnDeck
SEQUOIA	PROSPER
KLEINER	LendingClub Upstart

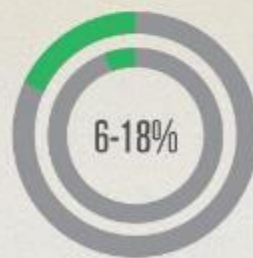
VERTICALS COVERED



NUMBER OF COUNTRIES WHERE AVAILABLE



AVERAGE ROI



VENTURE CAPITAL MONEY INVESTED IN P2P STARTUPS



NUMBER OF LOANS

Funding Circle	7,358
PROSPER	206,000
LendingClub	438,000

TOTAL OVER: 500,000

Lending Club CEO

<https://www.youtube.com/watch?v=pji5VLnevZY>



How it all goes wrong

Over and under-
estimating valuation



The traditional way...

@InfoEcon



- Estimate global taxi market
 - Estimate market share
- Est. risk adjusted cash flow
 - Consider proprietary methods, barriers to competition
- **Value: \$5.9 Billion**

Aswath Damodaran: NYU Finance professor, Corporate
Valuation author, Herb Simon Prize.
Twitter: @InfoEcon :: marshall@mit.edu :: PlatformEconomics.com

© 2015 Parker & Van Alstyne

The platform way

@InfoEcon

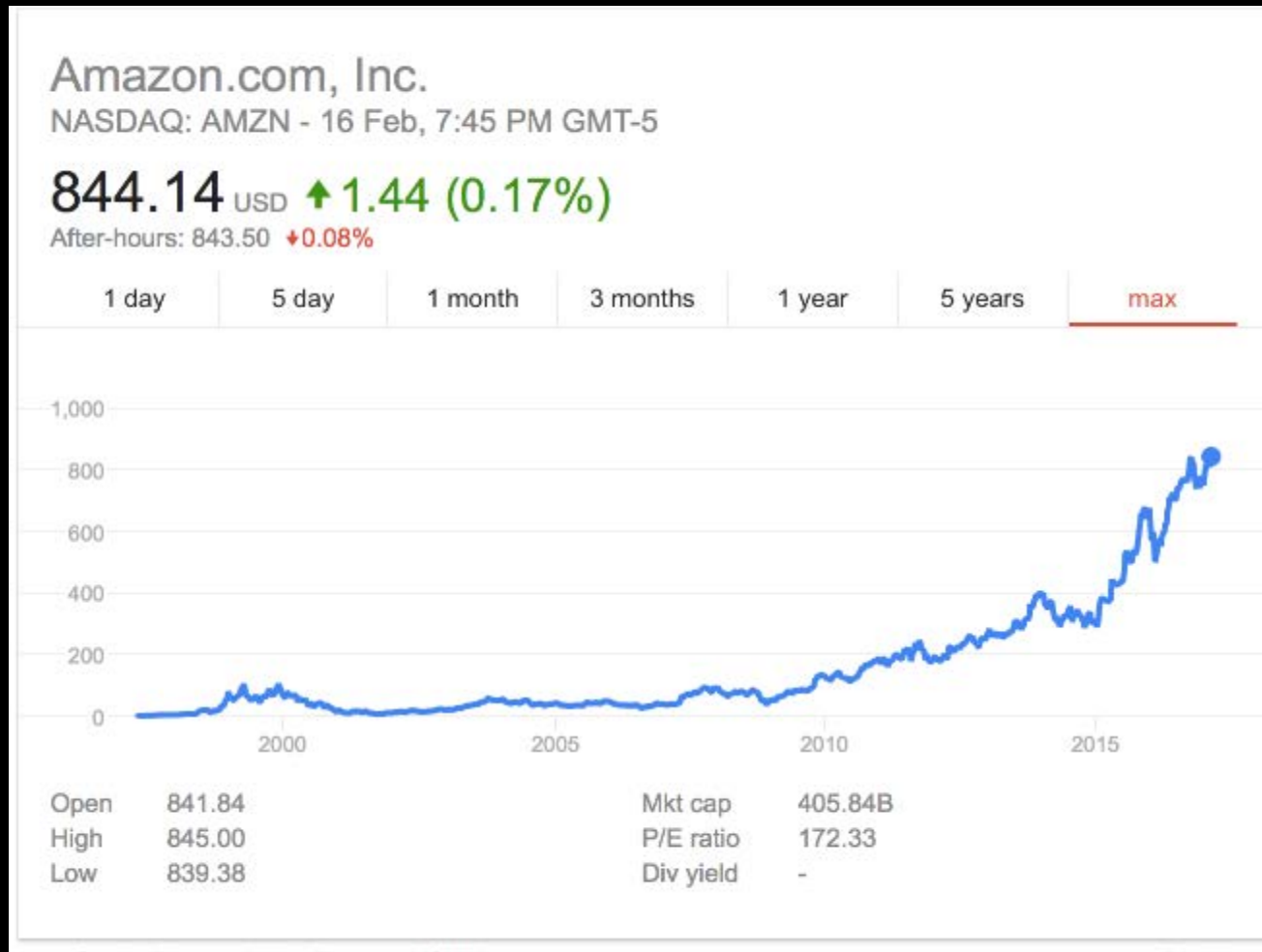
- All true but overlooking network effects.
- Prices declining expanding to rental car market and car replacement market and delivery market.
- Oh, BTW, already 3x size in 2009 when Uber started.
- **Value: \$17 Billion**



Source: David Sacks, COO PayPal, CEO Yammer

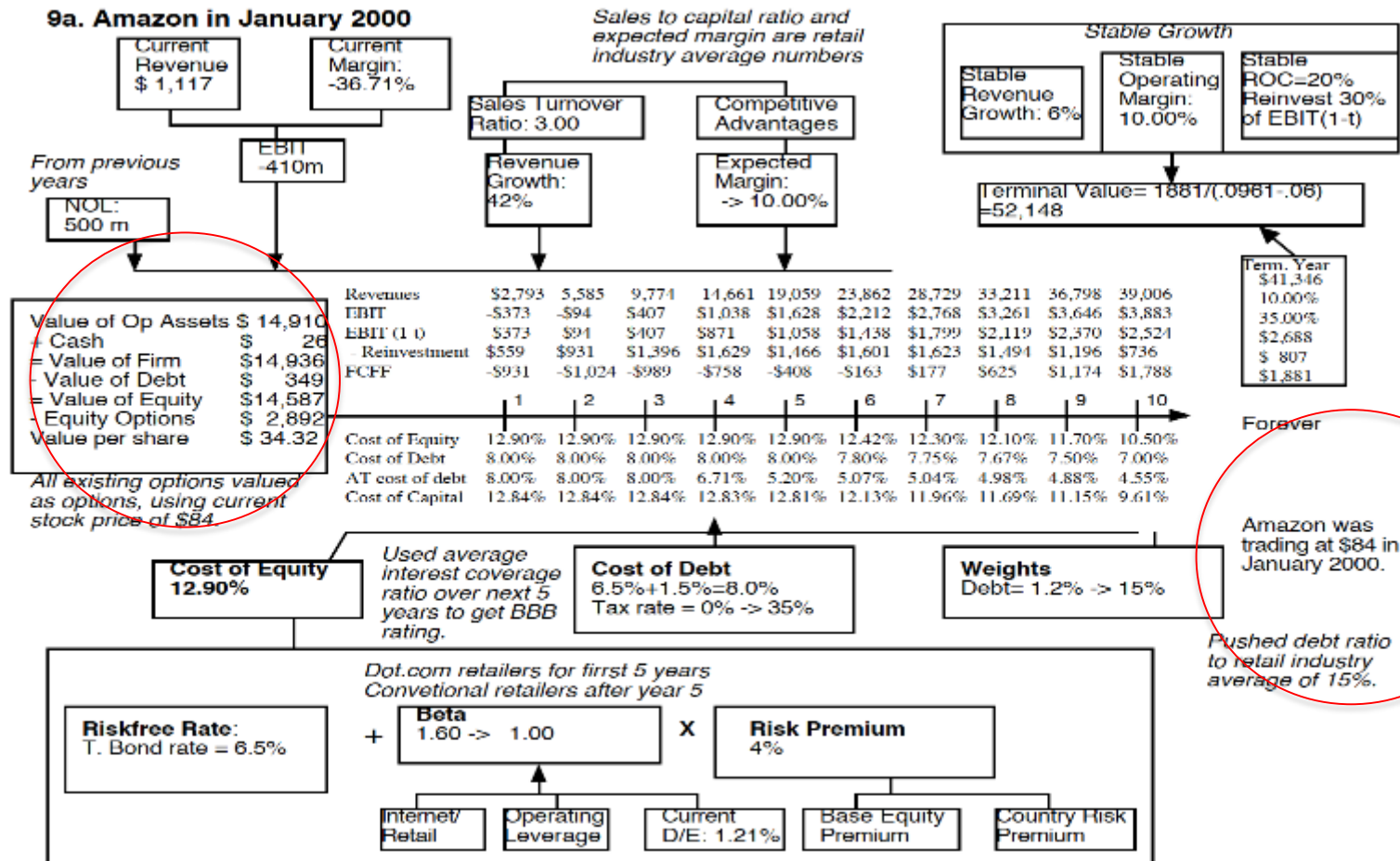
Bill Gurley: Venture Capitalist, OpenTable, Zillow, Uber

Amazon today



Amazon January 2000

Price: \$84, Fair value \$34 during the tech bubble



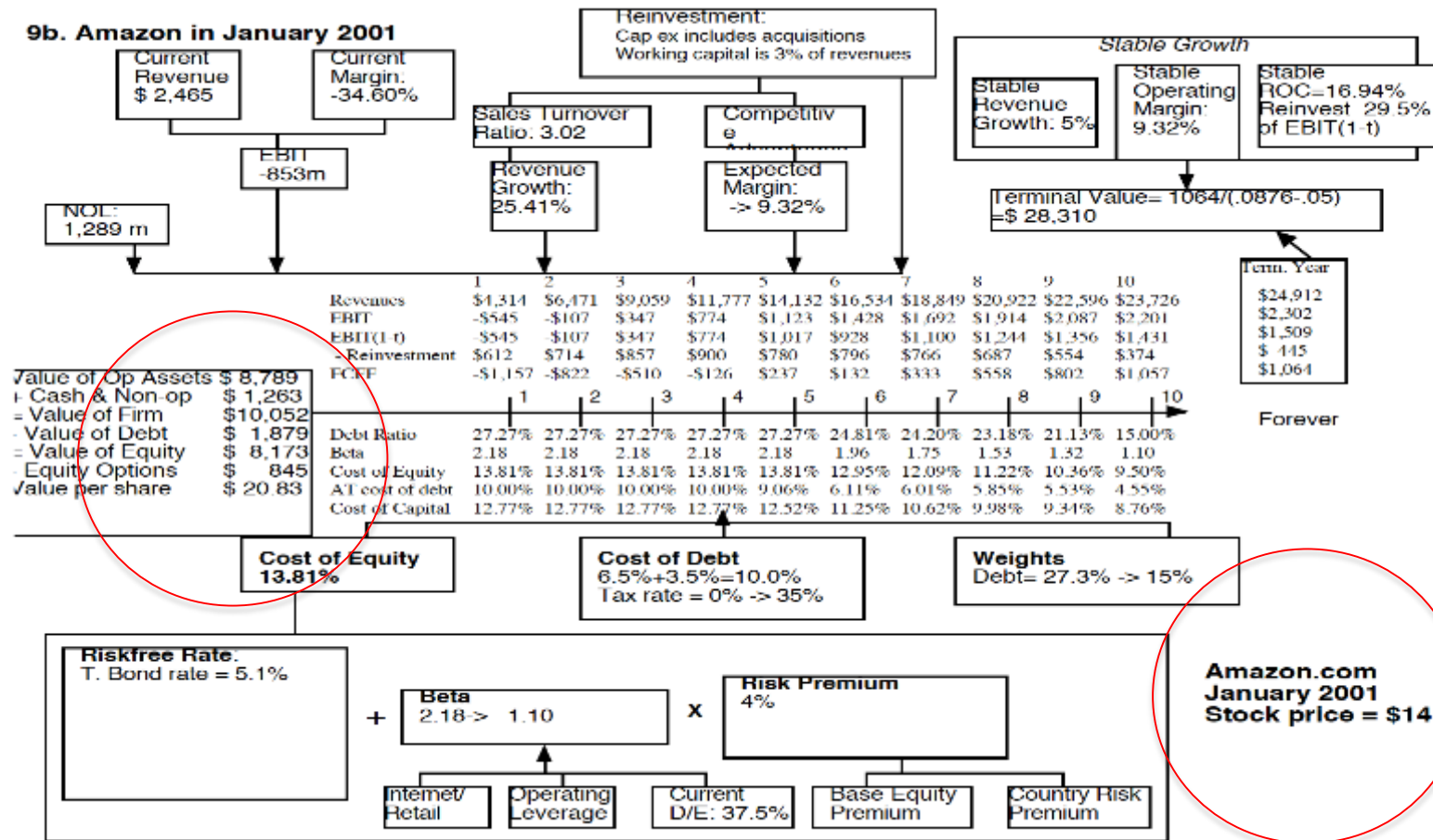
Aswath Damodaran

10

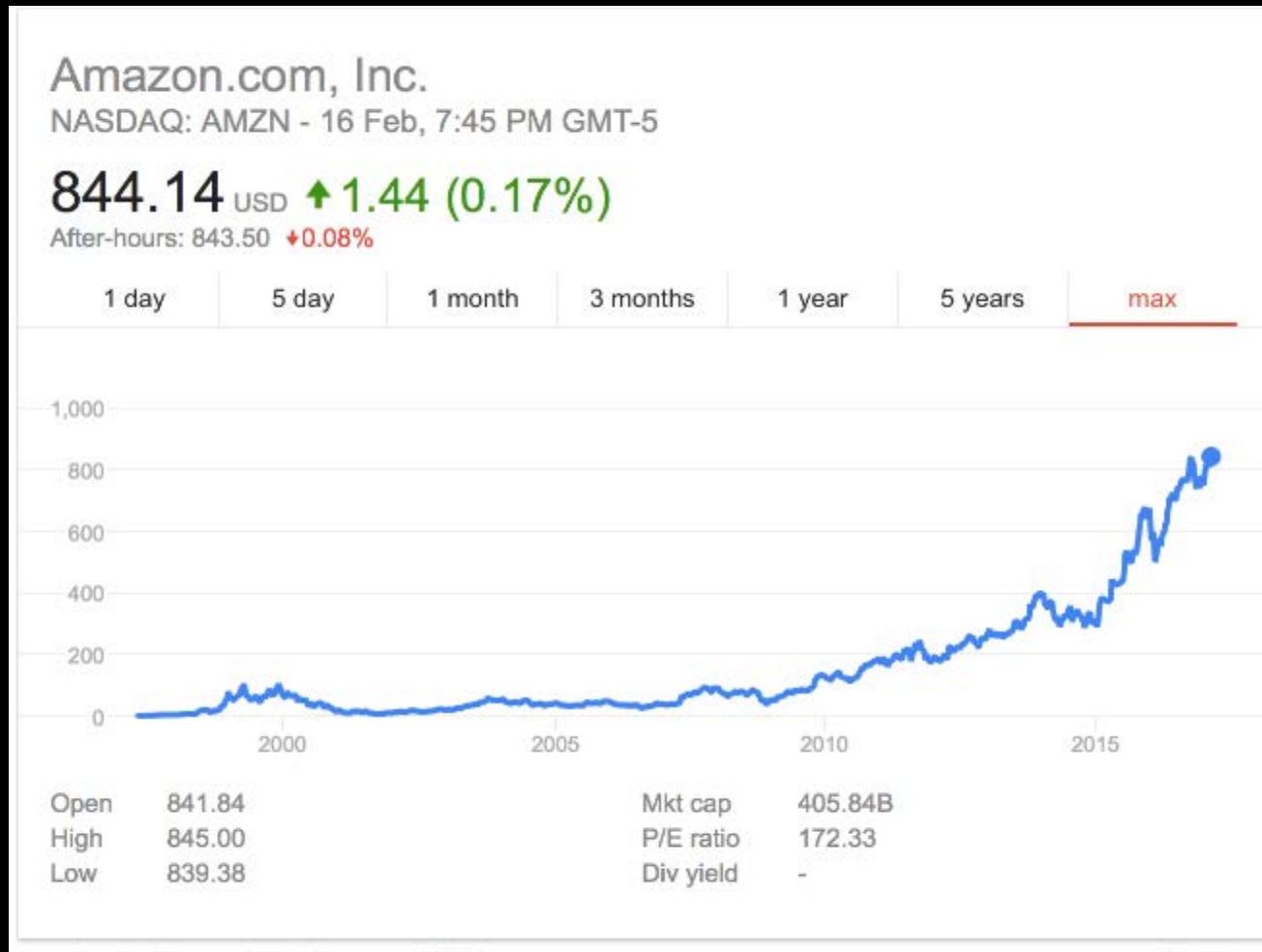
Amazon January 2001

Price \$14, Fair value \$21
after the tech bubble

9b. Amazon in January 2001



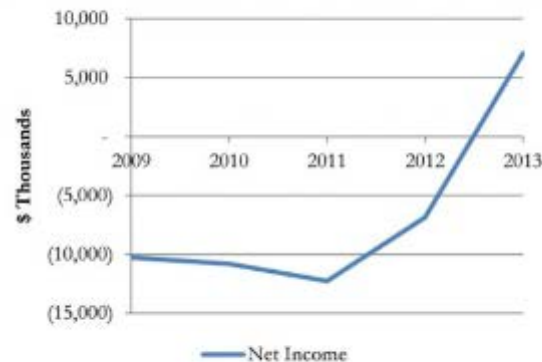
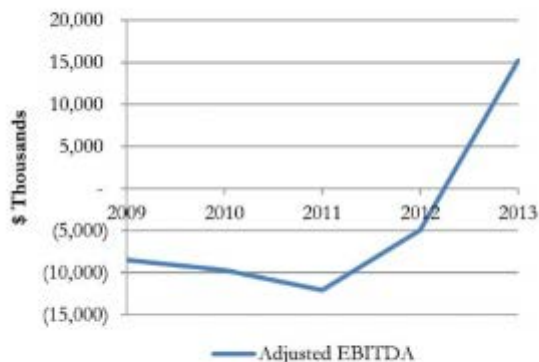
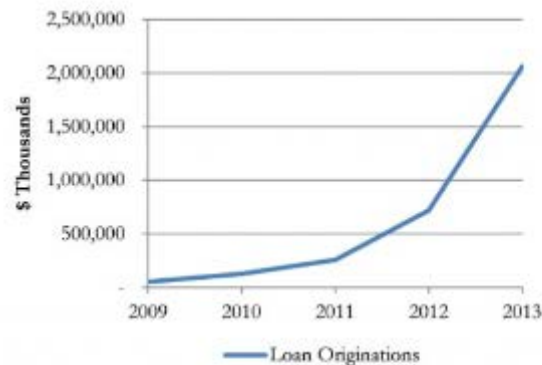
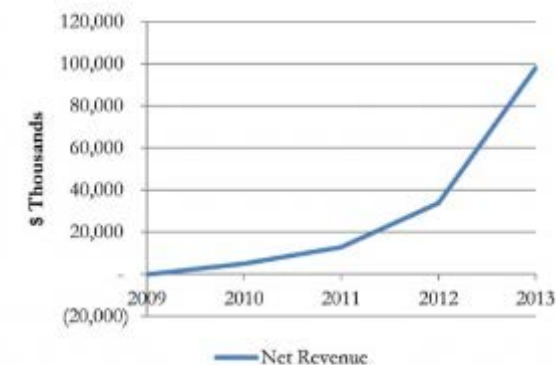
Amazon today



LC operating performance

Charts: LC's operating performance pre-IPO

Data in the charts below were retrieved from LC's SEC filings



At the time of the IPO

The Mercury News | **Lending Club nabs \$9 billion valuation in IPO,...**

1 of 2

LendingClub Corporation led by Founder and CEO Renaud Laplanche and members of the company's management team at the New York Stock Exchange on Dec. 11, 2014, in New York City.

By **HEATHER SOMERVILLE** | Mercury News
PUBLISHED: December 11, 2014 at 1:12 am | UPDATED: August 12, 2016 at 4:51 am

SAN FRANCISCO — Lending Club on Thursday shot up 56 percent in its Wall Street debut, making the online lending startup one of the most valuable financial institutions in the country and positioning the once-rookie Internet lending sector to challenge the traditional banking industry.

Shares of Lending Club started trading at \$24.75, a 65 percent jump from its \$15-a-share price set the previous night, before finishing the day at \$23.43. The startup's debut was unfazed by the tumble that rattled Wall Street on Wednesday, when the Dow Jones lost more than 200 points, and it joined other stocks to rally the market back to healthy territory Thursday morning.

"We know that we are going to be measured over the long term and our success will play out over the years, but it was certainly a great way to start the day," said Scott Sanborn, the company's chief operating officer.

The strong debut lifted the company's valuation to \$8.5 billion, higher than all but 14 U.S. banks. By the close of Wall Street trading Thursday, Lending Club's market cap nearly matched the value of Comerica and CIT Group, and surpassed the value of the

December 2014
IPO at \$15 or \$5.4 b
valuation,
immediately pops
56% to \$24.75 or \$9
billion

Attempts to value LC in 2014

versus originations (growth proxy)...what?

Table 2: LC's Valuation/Originations over time

Date	Valuation (Millions)	Total Originations (Millions)	Price/ Originations
4/17/14	\$ 3,750	\$ 4,052	0.93x
11/12/13	2,300	2,817	0.82x
5/1/13	1,550	1,685	0.92x
6/6/12	570	671	0.85x
8/3/11	275	326	0.84x
4/14/10	80	104	0.77x

Attempts to value LC in 2014

versus "peer" companies still looked expensive

Table 4: LC's executive peer group's operating metrics and valuation multiples at IPO

(click on the image below to view at [full size](#))

(Dollars in Millions)

Company Name	Ticker	IPO Date	Offered Amount	Enterprise Value	LTM Revenue	LTM EBITDA	Last Calendar Year Revenue Growth	LTM EBITDA Margin	EV / LTM Revenue	EV / LTM EBITDA
LinkedIn Corporation	LNKD	5/18/2011	\$352.8	\$3,793.6	\$292.3	\$38.4	102.4%	13.1%	13.0x	98.9x
Workday, Inc.	WDAY	10/11/2012	637.0	3,744.6	199.1	(75.8)	53.8%	-38.1%	18.8x	NA
HomeAway, Inc.	AWAY	6/28/2011	216.0	2,330.7	183.7	31.1	39.6%	16.9%	12.7x	75.0x
Pandora Media, Inc.	P	6/14/2011	234.9	2,284.4	167.2	(0.6)	149.6%	-0.3%	13.7x	NA
ServiceNow, Inc.	NOW	6/28/2012	209.7	1,928.4	150.3	(2.8)	NA	-1.9%	12.8x	NA
Splunk, Inc.	SPLK	12/20/2011	229.5	1,357.2	121.0	(6.9)	82.6%	-5.7%	11.2x	NA
Yelp, Inc.	YELP	3/1/2012	107.3	824.5	83.3	(7.1)	74.5%	-8.5%	9.9x	NA
Angie's List, Inc.	ANGI	11/16/2011	114.3	606.5	78.7	(44.5)	29.5%	-56.5%	7.7x	NA
Mercadolibre, Inc.	MELI	8/9/2007	289.4	557.1	64.1	13.1	84.3%	20.5%	8.7x	42.5x
Zillow, Inc.	Z	7/19/2011	69.2	452.8	44.9	1.1	74.2%	2.4%	10.1x	425.6x
MarketAxess Holdings Inc.	MKTX	11/4/2004	55.0	364.7	73.4	22.2	233.9%	30.3%	5.0x	16.4x
OpenTable, Inc.	NA	5/21/2009	60.0	346.9	58.6	5.4	35.7%	9.2%	5.9x	64.6x
Trulia, Inc.	TRLA	9/19/2012	102.0	346.1	51.3	(8.0)	94.7%	-15.6%	6.8x	NA
Financial Engines, Inc.	FNGN	3/15/2010	127.2	334.2	85.0	8.5	19.2%	10.0%	3.9x	39.3x
CoStar Group Inc.	CSGP	7/1/1998	22.5	52.3	10.6	(1.1)	82.2%	-10.2%	4.9x	NA
Min			\$22.5	\$52.3	\$10.6	(\$75.8)	19.2%	-56.5%	3.9x	16.4x
Max			637.0	3,793.6	292.3	38.4	233.9%	30.3%	18.8x	425.6x
Mean			188.5	1,288.3	110.9	(1.8)	82.6%	-2.3%	9.7x	108.9x
Median			127.2	606.5	83.3	(0.6)	78.3%	-0.3%	9.9x	64.6x
Lending Club			500.0	4,480.6	147.9	17.3	189.9%	11.7%	30.3x	229.4x

Source: Data retrieved from CapitalIQ as of September 11, 2014


Note 1: LC LTM figures based on the twelve month period from July 1, 2013 to June 30, 2014.

30x revenue
> peers

Platform: sides

- Borrower
 - Who are they?
- Investor
 - Institutions: banks = 40%+, hedge funds, investment banks (securitize)
 - Advisors
 - Retail
- Lender
 - Utah banks provide balance sheet

Borrower

BORROW ▾ | INVEST ▾ABOUT USHELPSIGN IN

[Safety & Privacy](#)

How much do you need?

What is it for?

How is your credit?

Get a quote in minutes
Check Your Rate
(Won't impact your credit score!)

4.8
18,764
Reviews

Ratings
by Category

★★★★★

Application Process

★★★★★

Customer Service

99%
Recommend
this Product

★★★★★

02/08/2016

"Quick and easy!"
The process was straightforward and easy. I am saving a ton by paying off all my credit cards and my monthly payment is lower. I was already making extra payments to the CC companies to pay down my debt but this is such a huge advantage! I would recommend any one looking to consolidate CC debt to check out Lending Club.
- Jphyill

State **New Mexico**
Loan purpose **Debt Consolidation**

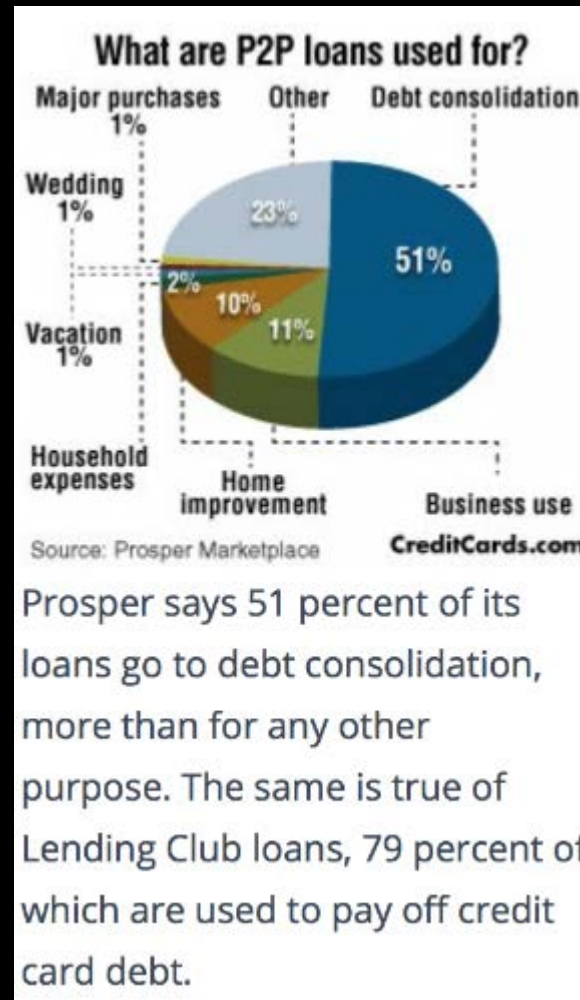
★★★★★

02/08/2016

"Very easy to use!"

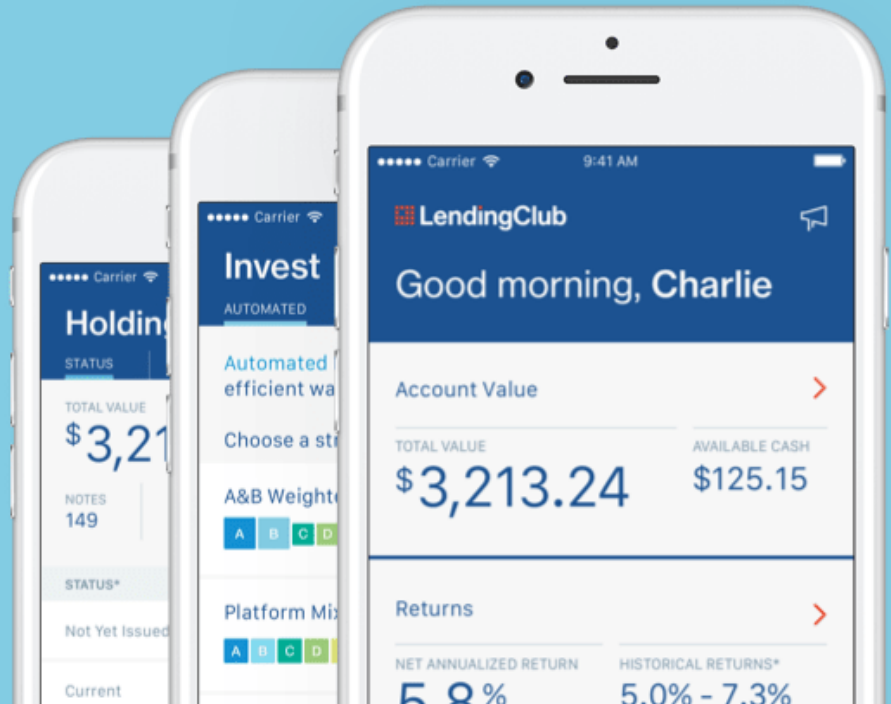
Borrower

- Debt consolidation loans = 79% for Lending Club



Investor

**Check your
LendingClub
investor account
anytime,
anywhere.**



Investor benefits: retail

You can easily build a diversified portfolio that can offer these benefits

Solid Returns



Lending Club Notes have historical annual returns between 5% and 7%. Each Note represents a fraction of an underlying loan.¹

Low Volatility



99% of investors who invest in 100+ Notes of relatively equal size have seen positive returns.²

Monthly Cash Flow



Investors receive between 3-6% of their total investment back in cash payments as borrowers make their monthly loan payments.³

Investor benefits: institutional

Lending Club Solutions for Institutions

Increasingly, institutions—asset managers, pensions, and banks alike—are looking to whole loans available through the Lending Club platform to:

- **Access a new asset class.** Institutions can purchase personal and small business whole loans easily and directly through the Lending Club platform.
- **Generate cash flow and competitive yields.** Consumer credit interest rates have been consistently high throughout different interest rate environments. Today, while other fixed income assets continue to yield near zero, whole loans available through the Lending Club platform can generate income and consistent cash flows.
- **Seek attractive returns.** Personal loans available through Lending Club's standard program have projected returns between 4% to 10%.^{1,3} [Click here](#) for information on the standard program.

As the world's largest online credit marketplace, Lending Club facilitates billions in loans each year. We have an annual run rate of \$9.8 billion as of September 30, 2017. Lending Club offers institutions the longest track record in the industry, sophisticated risk management, and easy-to-use tools to build and modify customized loan portfolios.

[Contact us](#) to learn more.

Investor benefits: securitization

LendingClub Corp

+ Add to myFT

Jefferies closes Lending Club bonds sale

Securitisation signals step in rehabilitation of scandal-hit online lender



© Reuters

AUGUST 7, 2016 Ben McLannahan in New York and Kadhim Shubber in London

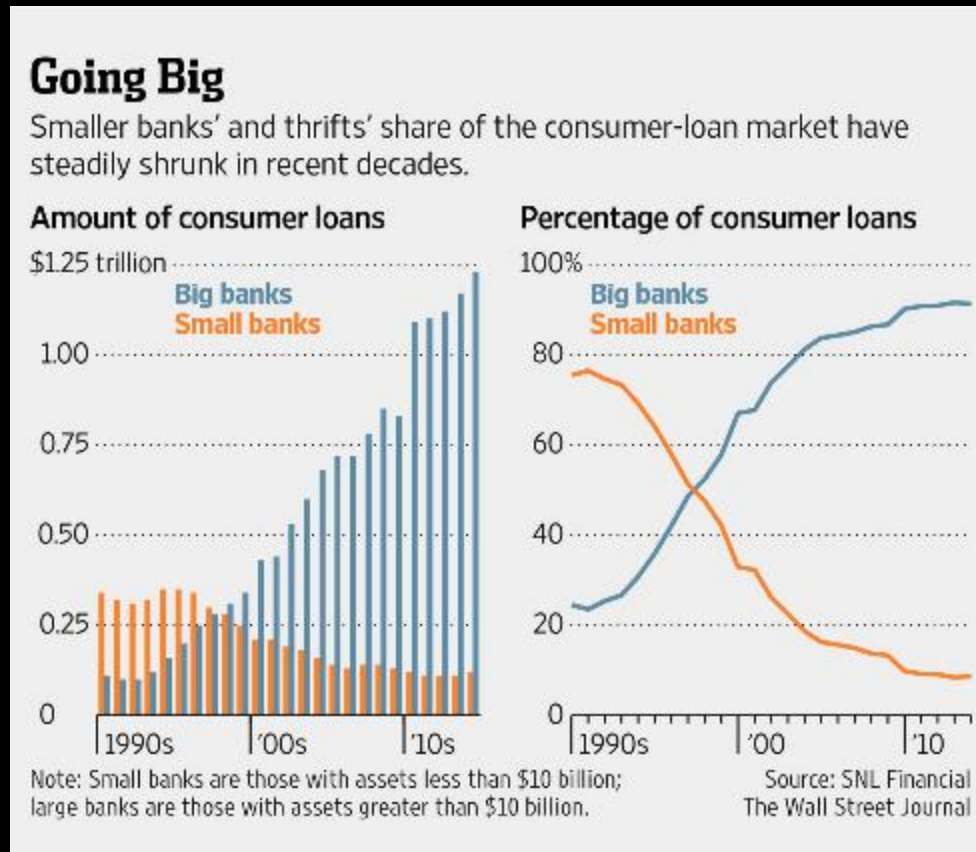
3 comments

Jefferies has closed a private sale of bonds backed by personal loans originated by [Lending Club](#), marking a step in the rehabilitation of the scandal-hit online lender ahead of its second-quarter earnings.

However, [losses have begun to rise](#) on loans to the riskiest customers, casting doubt on the prospects for the rest if the credit cycle begins to turn.

Morgan Stanley noted in a research report last month that four of 47 securitisations carried out by marketplace lenders had breached performance triggers, diverting cash toward senior bondholders at the expense of junior investors. Three of the four deals were arranged by Jefferies.

LC's small bank partners



LC operational partners

Partners

Lending Club works closely with industry leaders to offer a comprehensive person-to-person lending platform.



BankServ is our financial services processor handling the submission and receipt of our ACH transactions. BankServ supports over 400 banks in 52 countries and operates a PCI-compliant data center.

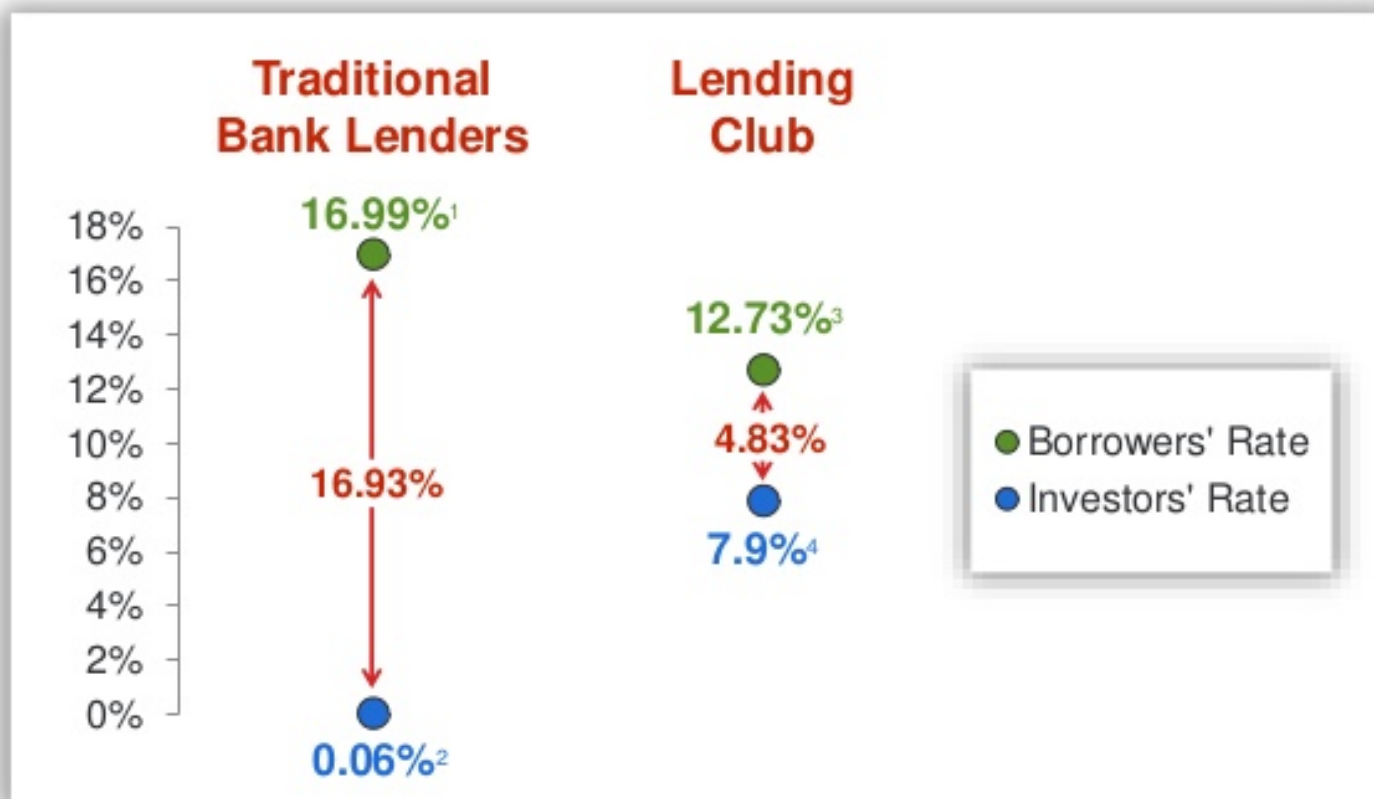


Credit information is obtained through TransUnion. TransUnion is a global leader in credit and information management with 50,000 customers on six continents, supporting more than 500 million consumers worldwide.



WebBank is a FDIC-insured, state-chartered Industrial Bank organized under the laws of the State of Utah. Lending Club partnered with WebBank in order to provide Lending Club installment loans on a consistent basis across all 50 states. Lending Club loans are originated by WebBank.

LC provides value to both borrowers & investors



1. Average consumer credit card rate for overall market as of May 15, 2014 (Source: indexcreditcards.com). 2. National average APY paid on savings accounts paid by U.S. depository institutions for non-jumbo deposits as of April 7, 2014 (Source: FDIC). 3. Average Interest Rate for 36-month public policy loans in Q1 2014. (Source: Lending Club). 4. Median Adjusted Net Annualized Return for investors with 100+ notes, note concentration of <2.5% of portfolio value, and portfolio age of 12-18 months (Source: Lending Club).

LC's loan rankings



Lending Club



How LC makes money

- One time fees
 - To borrower: origination fee of 1.11-5% of the loan
 - Transactions fees = 94% revenue in 2015
 - To lender: service fee of 1% of each payment borrower makes



Where does LC get the money to lend? (What is Web Bank?)

The image is a screenshot of the WebBank website. At the top left is the WebBank logo. To its right is a navigation menu with links: "Products & Services", "Cardholder Agreements", "Careers", and "Contact Us". Below the navigation menu is a large banner with the text "A program with WebBank can help you expand your business model." In the center of the banner is a white box containing the following information:

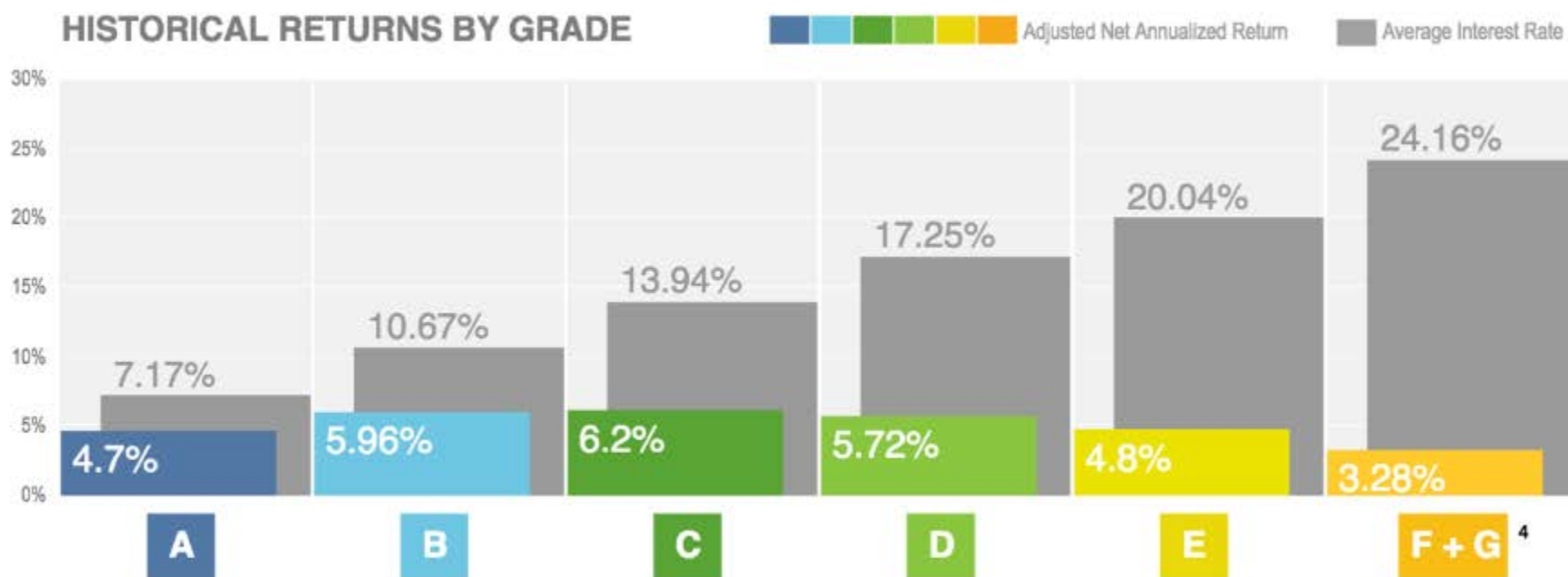
WebBank	
Location	Salt Lake City
Total assets	\$226m
Employees	38
Return on equity	44%

Below the banner, there is a line of text: "WebBank is a state-chartered industrial bank...".

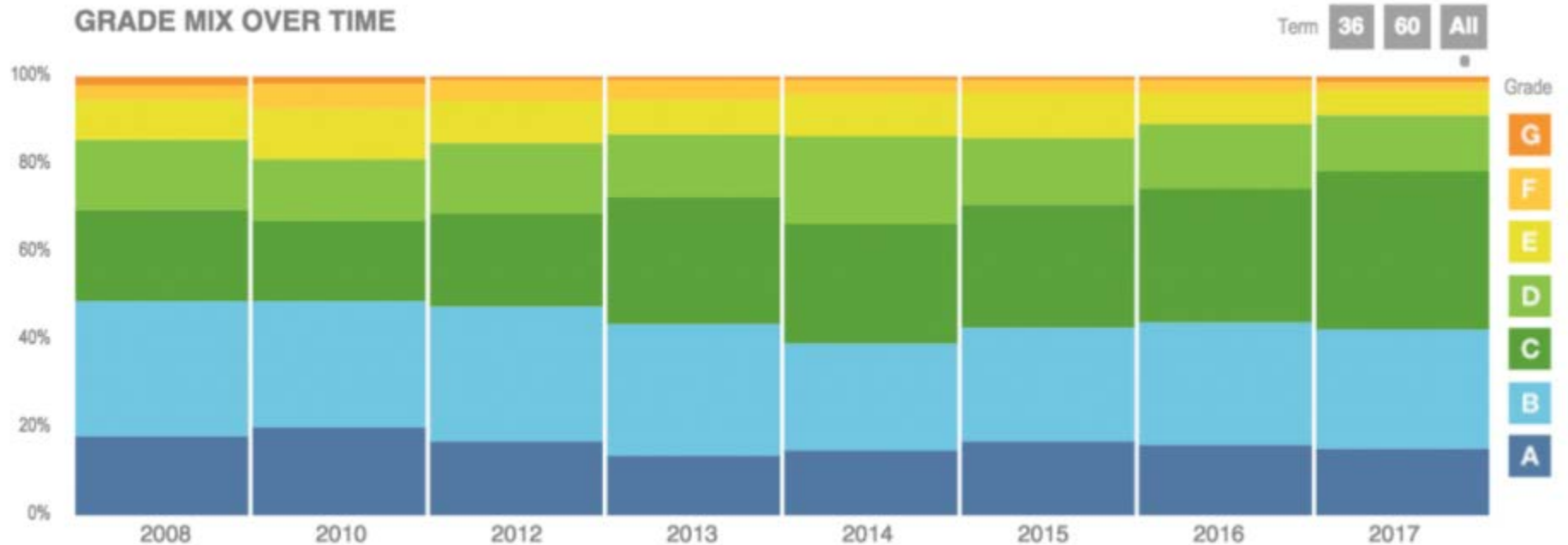
Annotations on the image:

- A blue oval at the bottom left contains the text "State chartered industrial bank".
- A pink box on the right side contains the text "WebBank makes loans", "LC avoids regulations", and "WebBank doesn't hold loans".

Returns by grade



Mix trends



Who holds capital against loans?
Who bears the credit risk?

Bank capital requirements

Core equity capital: risk weighted assets

Bank Capital Requirements	
Global Systemically Important Financial Institutions (SIFIs)	Institutions Not Considered Systemically Important
4.5% New Tier 1 capital common equity ratio	4.5% New Tier 1 capital common equity ratio
2.5% Capital buffer required under Basel III	2.5% Capital buffer required under Basel III
1%-2.5% Additional capital surcharge proposed by the Financial Stability Board	Total 7%
Total 8%-9.5%	

Recent announcements

- Concerns about credit quality
- Lower return forecasts to 4-6%
- Grades F and G no longer available to investors

What happened to Lending Club #1: credit quality ?

"Loan Stacking" – The Blind Spot That Could Blow Up The P2P Model



by Tyler Durden
Jun 16, 2016 7:00 PM

30
SHARES



Back in February [we noted](#) that there were cracks starting to show in the world of P2P lending, and more specifically, with LendingClub's **inability to assess credit risk of its borrowers** that were causing the company to experience higher write-off rates than forecast.

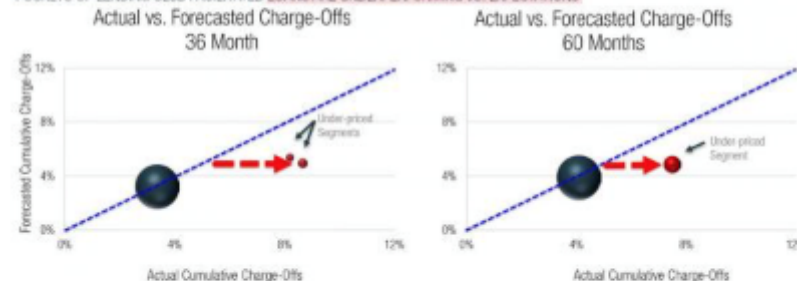
From that February post, here is a chart that was used in a LendingClub presentation showing just how far off the company was in predicting write-off rates – it was evident then that **their algorithms weren't working very well**.

Here is what we said at the time:

*What the slide above shows is that LendingClub is terrible at assessing credit risk. A write-off rate of 7-8% may not sound that bad (well, actually it does, but because P2P is relatively new, we don't really have a benchmark), it's **double the low-end internal estimate**.*

That's bad. In other words, we said, the algorithms LendingClub uses to assess credit risk aren't working. Plain and simple.

POCKETS OF LENDING CLUB FACILITATED LOANS ARE UNDERPERFORMING VS. EXPECTATIONS



And now courtesy of [Reuters](#), we learn of a **critical blind spot in the world of online lending**. The risk to these online P2P companies such as LendingClub, is that as shown above, robust enough credit checks have not been developed to gauge true credit risk of borrowers. If said borrowers had what are referred to as "stacked" loans, meaning they have taken out one loan in order to pay for a prior loan, sometimes the algorithm won't be able to pick up all of those obligations in a timely enough fashion, and the borrowers credit risk is significantly understated.

What happened to Lending Club #2: CEO resignation

P2P Bubble Bursts? LendingClub Stock Plummets 25% After CEO Resigns On Internal Loan Review



What happened to Lending Club #3 loan packages

FINANCE

FINANCE

BANKS

INVESTING

WALL STREET

HEDGE FUNDS

M&A

INSURANCE

Does this sound familiar? Peer lenders are packaging loans and selling them to Wall Street

Jeff Cox | @JeffCoxCNBCcom

Published 2:28 PM ET Thu, 9 Feb 2017 | Updated 4:50 PM ET Thu, 9 Feb 2017



Video #2 after the fall

<https://www.youtube.com/watch?v=levhNdl76Aw>

P2P versus bank lending

- Borrow Mix is riskier
 - P2P more credit card consolidation loans
- Spreads are narrower
 - P2P spreads < credit card spreads
- Investor/Lenders mix is different
 - Retail small investors
 - Institutions seeking returns and securitization fees (small banks, hedge funds, brokers)
- Still need capital to lend, from partner bank
- Credit risk is not borne by platform
 - Moral hazard?

Lending Club today



LC what happened

After Firing Its CEO, Lending Club Is Facing a Crisis

Here's what you need to know about the latest developments in the scandal involving the peer-to-peer lender.

By Oscar Williams-Grut *Business Insider*



WRITE A COMMENT



LC: what happened?

- **Regulatory arbitrage**
 - Capital requirements
 - Risk shifting-moral hazard (3 entities, securitizations)
 - Utah bank (usury laws elsewhere)
- **Valuation**
 - Unicorn multiples
 - Valued like “tech” really like “fin”
- **Fundamentals**
 - Rapid growth -underlying credit risk
 - Truth in advertising (contents of securitizations) and control
 - CEO conflicts of interest

Conclusions

- Valuation frameworks still matter
- Fins and Techs are heterogeneous, so is valuation
- Regulatory arbitrage won't sustain valuation
- Platform winner take all features may sustain valuation