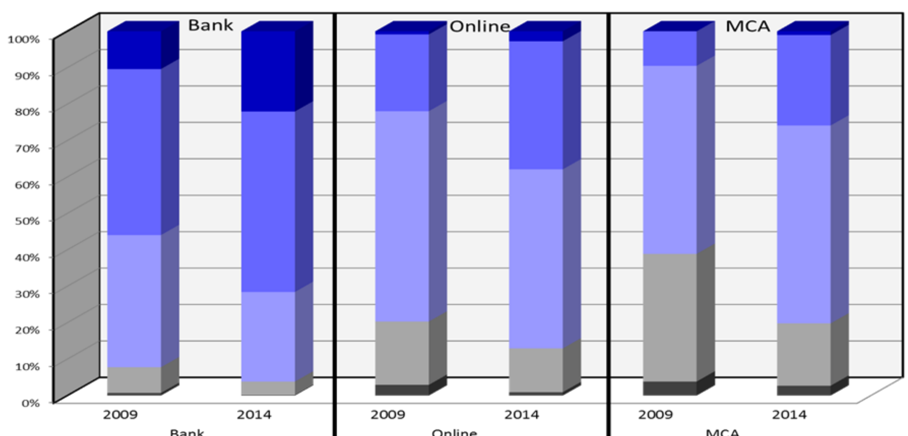
Taking the Risk Out of Small Business Lending

Because You Asked…

What is the Credit Quality of Marketplace (Alternative) Lenders?

Marketplace refers to a broad category of companies providing capital to businesses and consumers at a lower cost than traditional channels using a combination of technology, data, analytics, and traditional credit systems. The Marketplace lending model is generally high risk with high return. But just how risky are these borrowers? PayNet analyzed the portfolios of marketplace lenders to determine the absolute level of credit risk and differentiate by lender type. These are the results:

1. 87% of On-Line lenders' portfolio quality stands at a score of 640 or higher. In comparison, 96% of banks' portfolio is the same credit quality.
2. Overall credit quality has improved for On-Line lenders from 658 in 2009 to 669 at year-end 2014.
3. Credit migration shows that in 2009, 80% of on-line lender's portfolio stood at 640 or higher, which means 7% more lower quality borrowers were on the books in 2009 vs. 2014.
4. Credit risk differentiated between on-line/direct versus merchant cash advance lenders. On-line/direct lenders show a score of 669 which equates to a default rate of 4.8%. Bank customers maintain a credit score over 700 which equates to a default rate of less than 1.6%.
5. MCA portfolio credit quality stands considerably lower than On-Line lenders with a score of 647 which equates to a 10.0% default rate.



	Bank 2009		Bank 2014		Online 2009		Online 2014		MCA 2009		MCA 2014	
A 720+	10%		22%		1%		3%		0%		1%	
B 680-719	46%	92%	50%	96%	21%	80%	35%	87%	9%	61%	25%	80%
C 640-679	36%		25%		58%		49%		52%		54%	
D 600-639	7%		4%		17%		12%		35%		17%	
F <600	1%		0%		3%		1%		4%		3%	

Marketplace lenders appear to overlap with a majority of banks' customers as measured by credit quality. B and C quality borrowers make up 75% of bank's customers and 84% of On-Line lender's customers.