Why Crowdfunding and Credit Unions?
Individual **funders** select a **fundee** to support. Dollar amount usually has to exceed a threshold of the fundee’s “ask”

Crowdfunding **platform** provides the “marketplace” for **fundees** and arranges the financing
Over $2.7B in funds raised in 2012 from crowdfunding was in peer-based lending.
Contribution, Reward or Pre-purchase platforms could allow members to directly allocate credit union community development funding

Current Credit Union Community Giving/CSR

Credit Union Crowdfunding Platform
Affinity Credit Union, Saskatoon, Sask.
IndieGoGo use to crowdfund for 3 social enterprise finalists
  Additional in-kind support from United Way of Saskatoon, KPMG and Unite Digital Marketing Co-Operative for each
$10,000 ask for each
Most supporters wins additional $50,000
  75% for number of contributors
  25% for amount raised
Loan security provided by a separate financial institution

Financial Institution

Loan Provided minus fee

Fundee

Funder 1

Funder 2

Funder 3

Funder 4

Funder 5

Loan request

Crowdfunding Platform

Filene Research Institute
Growth in institutional investors – now 60-70% in large providers
Lender oversupply – in 2014 over half of Lending Club loans filled within 3 hours
1,230,000 loan applications made
$13,450 average loan request

1,049,000 loans rejected
610 average rejected applicant credit score
Average work experience under 1 year

Automatic rejections:
Debt-to-income ratio over 25%
(excluding mortgage)
Average work experience under 1 year
No Social Security Number
Under 640 credit score
Under 18 years of age

181,000 loans made (15%)
$73,000/year average income
$13,130 average loan granted
Average interest rate of 15%

Filene Research Institute
Type of Investment

- Refinancing: 57%
- Credit Card Payoff: 21%
- Business: 1%
- Other: 21%

Filene Research Institute
United Kingdom alternative investments include both robust SME and consumer lending.

UK, 2014

- $816M Consumer
- $1117M Business

USA (projection)

- $5,106M Consumer
- $6,990M Business

Canada (projection)

- $557M Consumer
- $769M Business

Consumer market already exceeds this; SME market much smaller.
Less than $30 million in peer-to-peer loans in total.
Loan amounts
First loan: $1,000
Second loan: $2,000
Third loan: $3,000
Fourth loan: $4,000
Final loan: $5,000

Structure of Lending Circle program
• 3-7 micro-entrepreneurs
• Weak credit histories and standard collateral
• Peer-assessment of business ideas
• Vancity loan provided once group approves

Vancouver, British Columbia
Profile: Lending Club

Current: June 2014

Filene Research Institute
Residents of Nevada are not eligible for a refinance loan at this time, and variable rate loans are not offered in Minnesota and Tennessee.
Profile: OnDeck
Profile:

- Launched in London in 2005, worldwide first
- £821M in loans to date (£280M in last year)
- Holds 2% of personal loans in UK, and 85% of market share in the UK
- Average return: 5%
- 0.25% Default Rate
STRATEGIC OPTIONS

Low Engagement
- Ignore Crowdfunding
- Become Institutional Investors
- Partner with Existing Platforms
- Develop New Platform

High Engagement
STRATEGY 1: IGNORE PEER-TO-PEER LENDING

Scenarios

+ Avoid the “pop” of a new credit bubble

- Face niche market displacement
**SWOT ANALYSIS: PEER-TO-PEER LENDING**

The credit union sector continues operations without interacting with online peer-to-peer lending

<table>
<thead>
<tr>
<th>Strength</th>
<th>Overall the strengths of this approach come from avoiding entanglement in a new and relatively untested market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weakness</td>
<td>The weakness of ignoring crowdfunding stem from missing opportunities to access a promising market for credit union members</td>
</tr>
<tr>
<td>Opportunities</td>
<td>The key opportunities in this strategy come from taking a cautious “wait and see” attitude towards this emerging industry</td>
</tr>
<tr>
<td>Threats</td>
<td>The most significant threats come from the peer-to-peer lending sector evolving in a way that drains members from credit unions while also locking them out of future engagement</td>
</tr>
</tbody>
</table>
STRATEGY 2: BECOME INSTITUTIONAL INVESTORS
**SWOT ANALYSIS: BECOME AN INSTITUTIONAL INVESTOR**

Individual credit unions participate as institutional lenders in one or more peer-to-peer platforms online peer-to-peer lending

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
</tr>
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<tbody>
<tr>
<td>Allows a credit union to engage with peer-to-peer lending as new investment category without requiring a major operational shift</td>
<td>The “credit union advantage” is unclear here. Regulatory uncertainty.</td>
</tr>
</tbody>
</table>

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<th>Opportunities</th>
<th>Threats</th>
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<td>This strategy can serve as a stepping-stone to move towards more active engagement in peer-to-peer lending</td>
<td>Relative novelty of peer-to-peer lending as an institutional investment is an inherent risk</td>
</tr>
</tbody>
</table>
STRATEGY 3: PARTNER WITH EXISTING PLATFORMS

Credit Unions Provide
New lenders
New borrowers
Offline networks

Platforms Provide
Investment vehicles
Borrowing vehicles
Ease-of-use

How to Approach?
Bargaining as a whole => clout of sector
vs
Bargaining one-by-one => flexibility
**SWOT Analysis: Retail-Level Partnership with P2P Platform(s)**

Individual credit unions strike partnership deals with existing peer-to-peer lending platforms

<table>
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<td>Added value from synergies between products available primarily in one market or the other and in providing access to each other’s core users</td>
<td>Added risks from partnerships, including those associated with being in a low powered bargaining position</td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
<td><strong>Threats</strong></td>
</tr>
<tr>
<td>Strategic specialization between primarily online peer-to-peer lenders and primarily offline credit unions could further leverage each other’s core competencies</td>
<td>As the peer-to-peer lending market evolves, current opportunities for synergies may evaporate</td>
</tr>
</tbody>
</table>
STRATEGY 4: DEVELOP NEW PLATFORM

Among non-credit union members

To or from credit union members

Within credit union system

Within a CU

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SWOT ANALYSIS: DEVELOP A CREDIT UNION SYSTEM P2P PLATFORM

One or more peer-to-peer lending platforms are developed and owned by credit unions or the credit union sector.

<table>
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<th>Strength</th>
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<tr>
<td>Fully internalize the benefits of synergies between online peer-to-peer</td>
<td>High start-up costs for entry into an industry where the credit union sector may not have</td>
</tr>
<tr>
<td>lending and the credit union infrastructure within the credit union</td>
<td>strong core competencies</td>
</tr>
<tr>
<td>system, presenting a full alternative to for-profit platforms</td>
<td></td>
</tr>
</tbody>
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<th>Opportunities</th>
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<tr>
<td>Repositioning the credit union sector as being both at the innovative</td>
<td>Evolution of the peer-to-peer lending sector may pull it in a direction that is incompatible</td>
</tr>
<tr>
<td>edge in financial services and as a value-driven alternative to the</td>
<td>with broader credit union objectives</td>
</tr>
<tr>
<td>banking sector</td>
<td></td>
</tr>
</tbody>
</table>