FINANCIAL TIMES

May 8, 2016 7:57 pm

Lending Club looks to cope with challenge

Ben McLannahan in New York

Share Author alerts Print Clip Comments

It is hard to imagine a less hospitable environment for Lending Club to present its first-quarter earnings on Monday.

Last week saw a succession of grim announcements from its peers in the online lending industry.

Prosper Marketplace, one of the leaders in unsecured consumer loans, said that it would lay off more than a quarter of its staff in response to a slowdown in its core unit.

Publicly traded OnDeck Capital, a specialist in supplying loans to small businesses, revealed that growth had practically stalled in the first quarter, with originations of $570m just 2 per cent higher than the fourth quarter.

Shares in Lending Club, which competes with Prosper, closed the week down about 11 per cent, while OnDeck dropped 39 per cent. The two companies are now off about 54 per cent and 75 per cent, respectively, from their initial public offerings in December 2014.

“It’s been a perfect storm,” said Haskell Garfinkel, co-leader of fintech at PwC in San Francisco.

Analysts talk about an inflection point for the fledgling industry, which was fuelled by investor demand for high-yielding fixed income assets in the wake of the financial crisis. But now that demand is flagging.

As regulation tightens, and as losses start to rise among the riskiest customer segments, investors such as hedge funds have begun to turn up their noses at the coupons on offer. That means that the online lenders, which cannot rely on deposits to fund loans, have to search for more stable sources of long-term capital.

Meantime, they are finding that they cannot pump out as many loans as they would like. Prosper originated $973m of loans during the first quarter, down from $1.1bn, its first quarter-on-quarter fall since the current management team took over three years ago. It expects another fall between April and June.

Lending Club, too, may say on Monday that revenue growth is slowing from its current rate of 93 per cent, year-on-year. Analysts expect revenues of $148m for the first quarter, up 83 per cent from a year ago.

“The market has gone from disruption to growth to a bit of a saturation point,” said Vince Passione, chief executive of LendKey, which partners with hundreds of banks to offer about $1bn of student loans and home loans.

Some say that it is natural to see a slowdown after years of hectic expansion. A report last month by the California Department of Business Oversight found that in that state alone, 13 companies increased loans by more than 900 per cent between 2010 and 2014, to $2.3bn.

“This is the first blip or speed-bump, call it what you will — a natural, healthy adjustment,” said Anthony Hsieh, chief executive of LoanDepot, which gave an early sign of tremors in the sector when it pulled a planned IPO in November.

“Unless we think lending is going to be owned by large ‘too big to fail’ lenders, we need to care that non-bank lending is going through a life cycle,” he said.

The upstarts say that their biggest problem is that once they open for business, they have to stay open.

Mike Cagney, chief executive of SoFi, a specialist in refinancing student loans, stressed in a recent interview with the FT that he has marketing costs and referral programmes which he cannot switch on and off. “I can’t go to McKinsey and say, ‘oh by the way, you just launched but don’t do any loans for a month,’” he said.

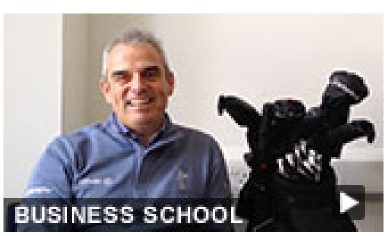
Ram Ahluwahlia, chief executive of PeerIQ, notes that the biggest players such as SoFi are keen to show regulators that they can be as dependable as the banks, which are required by charter to stay active in their segments. Even though the online lenders are not subject to supervision by the Office of the Comptroller of the Currency, “they want to make sure they’re on the right side of the regulations,” he said.

The US Treasury department is expected to produce a white paper on the online lending industry this week, containing some policy recommendations.

As the online lenders try to lock down funds, expansion has to take a back seat. More than half of Prosper’s 170 job cuts will come in Salt Lake City, where the company was trying to crack the elective-surgery loan market. According to Sarah Cain, a spokeswoman, Prosper is now refocusing on its core business of three- and five-year personal loans.

Moves like that look sensible, said PwC’s Mr Garfinkel, in view of the tougher market backdrop. “They need to stick to what they’re great at.”

Share Author alerts Print Clip Comments



Leadership lessons from golf

Trump's newspaper criticism put to test

Pocket AI — bar raised for digital assistants

COMPANIES VIDEOS