How To Compete With Marketplace Lenders

lending fintechs customer experience

Summary: Marketplace lending is expected to reach almost $559B in 2027 and has grown 33% in market share over the past 5Ys. Is this something that community financial institutions should be concerned about? We give you the background of marketplace lending, who their customers are, how the experience is different, and how to entice their customers to borrow from you instead.

Some interesting news: tea seems to be a natural source of fluoride! We are told that it can protect you from tooth decay and gum disease. As you contemplate switching out your coffee for tea this morning, we shift to something more important these days — sourcing loans.

With low loan demand, every sourced loan is important. Not only that, but the market players have changed, making it more competitive. The share of loans sourced by marketplace lenders has skyrocketed from 5% to 38% over the past 5Ys. Furthermore, the global market is forecasted to hit close to $559B in 2027. Is this growing lending segment something that community financial institutions (CFIs) should be concerned about?

Background. Marketplace lending, also referred to as P2P lending, started in 2006 when Lending Club had the idea that individual borrowers and individual savers should be matched to serve each other's needs. With advanced technology, the customer experience for these platforms has become a priority and a competitive advantage.

Even though Lending Club pulled out of marketplace lending at the end of last year due to its acquisition of Radius Bank, there are several other top marketplace lenders still out there. Top players include Credit Karma, Lending Tree, Bankrate, SoFi, and others. PwC estimates that there are around 200 digital lenders in the US.

Credit-worthy, digital native customers. These lenders have made borrowing easy for their customers, who tend to be digital natives. As PwC notes, "marketplace lenders are disrupting consumer and small business lending by combining innovative cultures with advanced technology and data to improve borrower experiences." Not only that, many of these customers have credit scores above 650. According to Lending Club, 63% of its 2019 borrowers had credit scores of more than 650, and 32% had scores over 720.

These credit-worthy customers are highly valued. In fact, some financial institutions (FIs) may have attracted those customers, until they moved on to more digital pastures. In 2019, 68% of these marketplace loans were made to refinance other loans or credit card debt.

Their underwriting isn't always the strongest, and their rates are often high. So why are marketplace lenders thriving?

The experience is different. The answer is in the different experiences they offer loan applicants. At an FI, customers typically must visit in person to fill out an application and prove their ability to repay the debt, then wait to hear whether they've been approved. Partially online application processes usually involve trip(s) to a branch. Plus, they can be confusing and take longer, as the online and offline parts get coordinated.

Alternatively, marketplace lenders handle all customer transactions completely online from requesting a loan using a mobile app to doing all their banking from the comfort of their sofa. That’s appealing to many, especially these days. According to a Deloitte study, 39% of customers would likely do more business with FIs if they could handle the entire process online.

Entice their customers to borrow from you

It’s understandable that community financial institutions (CFIs) haven’t moved their loan application processes entirely online. After all, they offer a much greater buffet of financial services than do marketplace lenders, and they must focus on all their operations — not just lending. Still, CFIs may want to consider upping their game in the digital lending area to appeal to the digitally-savvy borrower. Here are some ways to do that.

1. **Compete on the numbers.** Because they’re deposit-based, CFIs have a lower cost of capital than do marketplace lenders. Use that advantage to offer attractive rates, when and where it makes sense.
2. **Offer transparent, clearly communicated rates**. Even if you aren’t the lowest rate, borrowers may appreciate the clear and honest information you provide and choose your institution for its credibility and trustworthiness.
3. **Keep investing in a seamless customer experience.** Talk to your customers about their expectations and set the bar accordingly. Then, work on continually improving processes to gain and retain a broader type of borrowers.
4. **Communicate advancements.** Tell your existing customers about the innovations being made to the lending process and make sure to help with any questions or adjustments.

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ECONOMY & RATES

Rates As Of: 06/11/2021 05:11AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.03	0.02	-0.06
6M	0.04	0.01	-0.05
1Y	0.05	0.01	-0.05
2Y	0.15	0.01	0.03
5Y	0.73	-0.07	0.37
10Y	1.46	-0.15	0.53
30Y	2.14	-0.14	0.50
FF Market	**FF Disc**		**IORB**
0.06	0.25		0.10
SOFR	**Prime**		**OBFR**
0.01	3.25		0.04