



LendingClub to feed online small business loans to Opportunity Fund, Funding Circle

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LendingClub will no longer originate small business loans on its balance sheet and will instead connect borrowers to Opportunity Fund and Funding Circle, according to executives from the three companies. Opportunity Fund is also exploring whole loan sales as it expands its SMB lending footprint.

With the new co-branded partnership, Opportunity Fund will use LendingClub's technology to provide an online application experience to underserved small business borrowers, but will use its own lending models for underwriting and servicing. Meanwhile, Funding Circle will snag the creditworthy, prime SMB borrowers.

For LendingClub, the partnership creates an additional revenue stream, according to Steve Allocca, president of LendingClub.

"This is an advancement of our strategy from being focused just on manufacturing and distributing of the product on our own, to [partnering] with carefully selected partners who could provide more value added services," Allocca said. Starting this month, the online lender will forward all of its new SMB applications to Opportunity Fund and Funding Circle, which will then provide the loans to the borrowers. That's a shift from the lender's core strategy of originating loans and selling to investors. The company launched its small business product in 2014.

Opportunity Fund, a nonprofit Community Development Financial Institution (CDFI), is planning to lend more than USD 1.2bn in capital to underserved small business by 2023, according to CEO Luz Urrutia. About a third of that capital will be deployed through the LendingClub partnership, she said. The company first piloted its partnership with LendingClub in 2016 and is now expanding the program to 45 states, up from 13, she said.

"Our relationship with LendingClub is a critical component of our recently approved five-year strategic plan," Urrutia said. The program targets "the underserved businesses, which are shut out from the traditional financial services."

Opportunity Fund has funded its SMB loans through lines of credit from banks, Urrutia said. But as the volume grows, the company is exploring whole loan sales as an additional funding source, she said. The average anticipated investor yields for the product are 10%–12%, she said.

The UK-based Funding Circle began operating in the US in 2014, and has so far provided USD 2bn in financing to SMBs. The partnership with LendingClub will accelerate the company's US expansion plans, said Bernardo Martinez, US managing director.

PROPRIETARY

ABS

Financial Services
USA

Other
Funding Circle USA

Other
LendingClub Corporation

Other
Opportunity Fund

“Partnerships ... are a key to expanding our small business platform in the US,” Martinez said. Funding Circle provides loans of up to USD 500,000, while LendingClub’s loan sizes were limited to USD 300,000, said Allocca.

Funding Circle is still on track to issue its first US ABS deal, according to Martinez. The company said in March that it will enter into a loan-purchase agreement with an undisclosed bank in 1H19 in order to launch an asset-backed bond product in the US, as reported. The product is expected to add about USD 500m in funding capacity in the US over the next two years.

by Diana Asatryan

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