

A man in a workshop wearing safety glasses and ear protection, working on a machine. The background is a blurred industrial setting with various tools and equipment.

Riding the Waves: The Future of Alternative Data in Online Lending

Noah Breslow, CEO & Chairman

ondeck



Agenda



State of Small Business Lending



Waves of Alternative Data

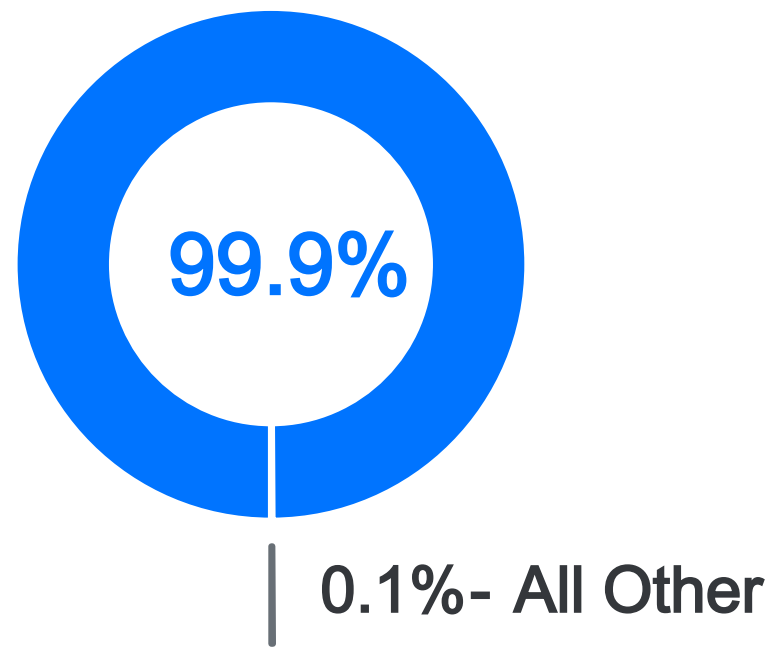


Key Issues

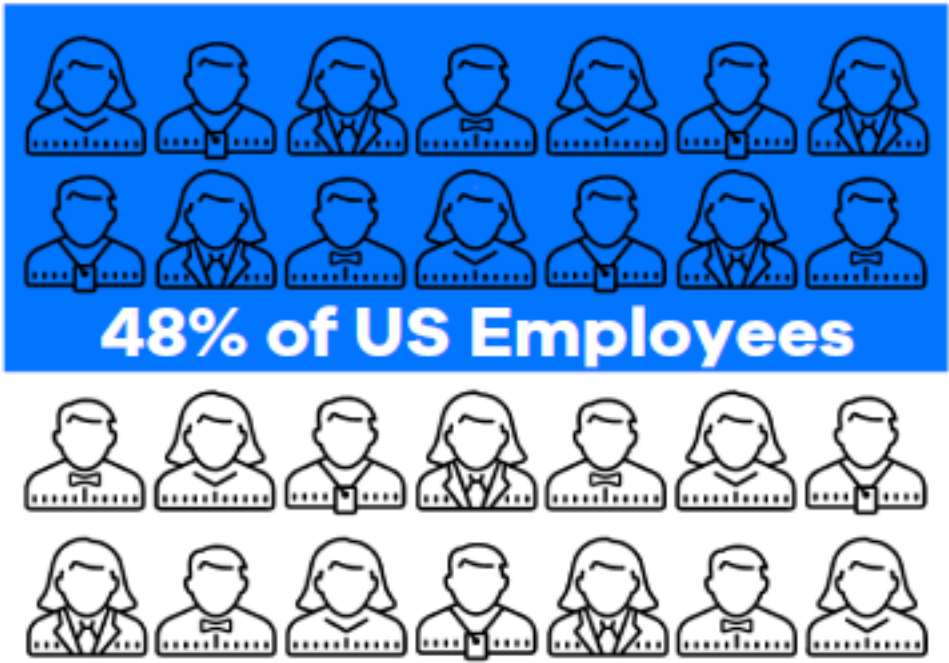
State of Online Small Business Lending

Small Business is Powerful

US Businesses that
are **Small Businesses**



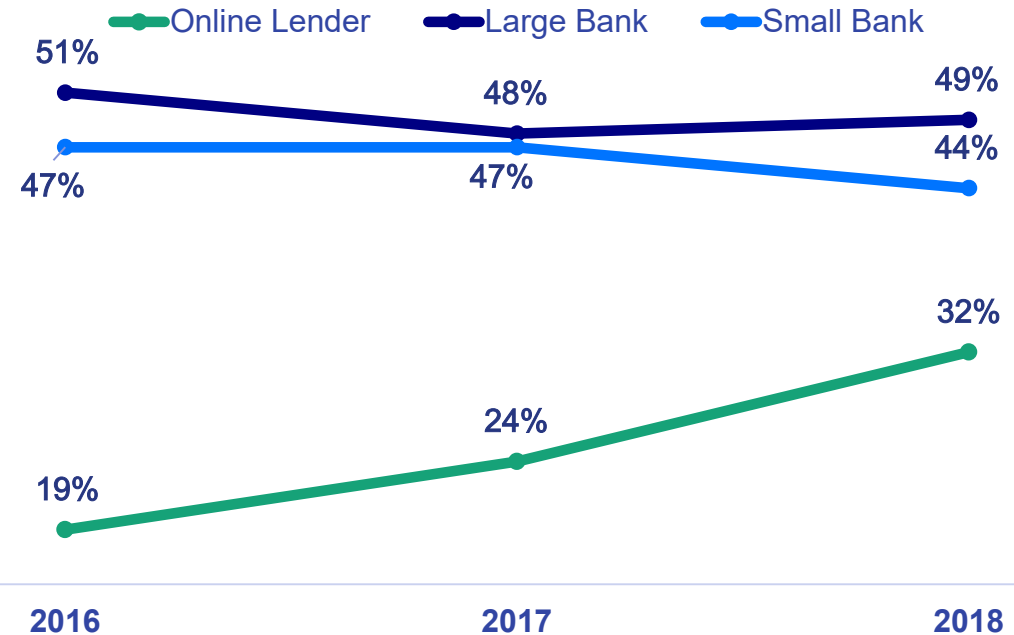
Employ 58.9 million
individuals



Increasing Interest in Online Lending

Demand nearly doubled between 2016 and 2018

Credit Sources Applied To ⁽¹⁾



84% of online loan applicants were neutral or satisfied with their experience ⁽¹⁾

Online lenders approved **76%** of medium/high risk applicants and **93%** of low risk applicants ⁽¹⁾⁽²⁾

(1) Federal Reserve Small Business Credit Survey, August 2019

(2) Medium/High Risk defined as FICO below 720

Drivers of Demand for Online Lenders

Access and the need for speed



63%

Chose an online lender because of speed of funding ⁽¹⁾



61%

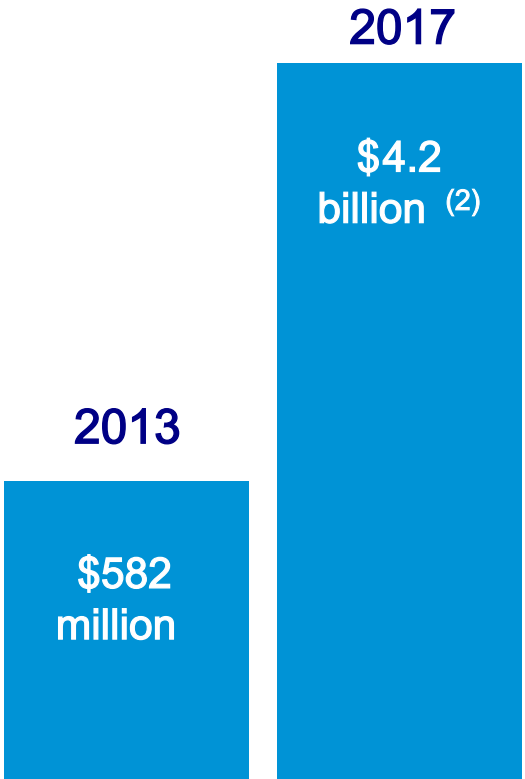
Chose an online lender because of the chance of being funded ⁽¹⁾

Using alternative data has increased speed of decisioning and access to credit

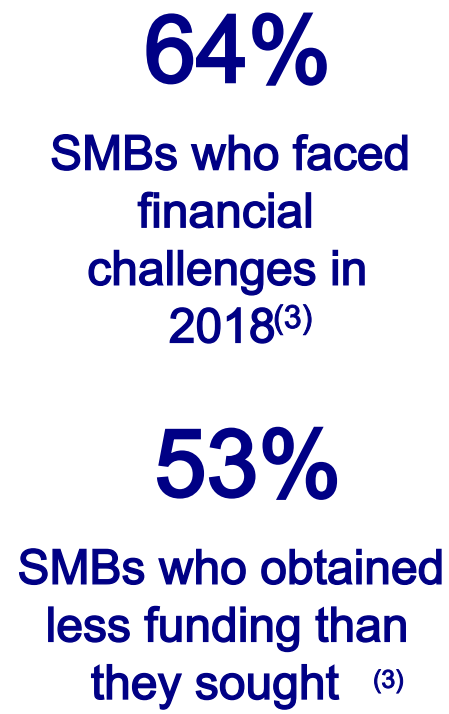
Online / Non -Bank SMB Lending Growth



Non -Bank SMB Loan Balances
are growing rapidly



But still a shortfall
remains...



(1) According to the US SBA, as of December 31, 2018
(2) Government Accountability Office, December 2018
(3) Federal Reserve Small Business Credit Survey, August 2019



OnDeck is the Leading Online Small Business Lender

\$12 Billion+ total originations

100,000+ small businesses served

International operations in U.S., Canada and Australia

OnDeck Score® proprietary credit scoring model

Strong Net Promoter Score: 81⁽¹⁾

Key Partnerships: PNC, Intuit, Lendio & more!

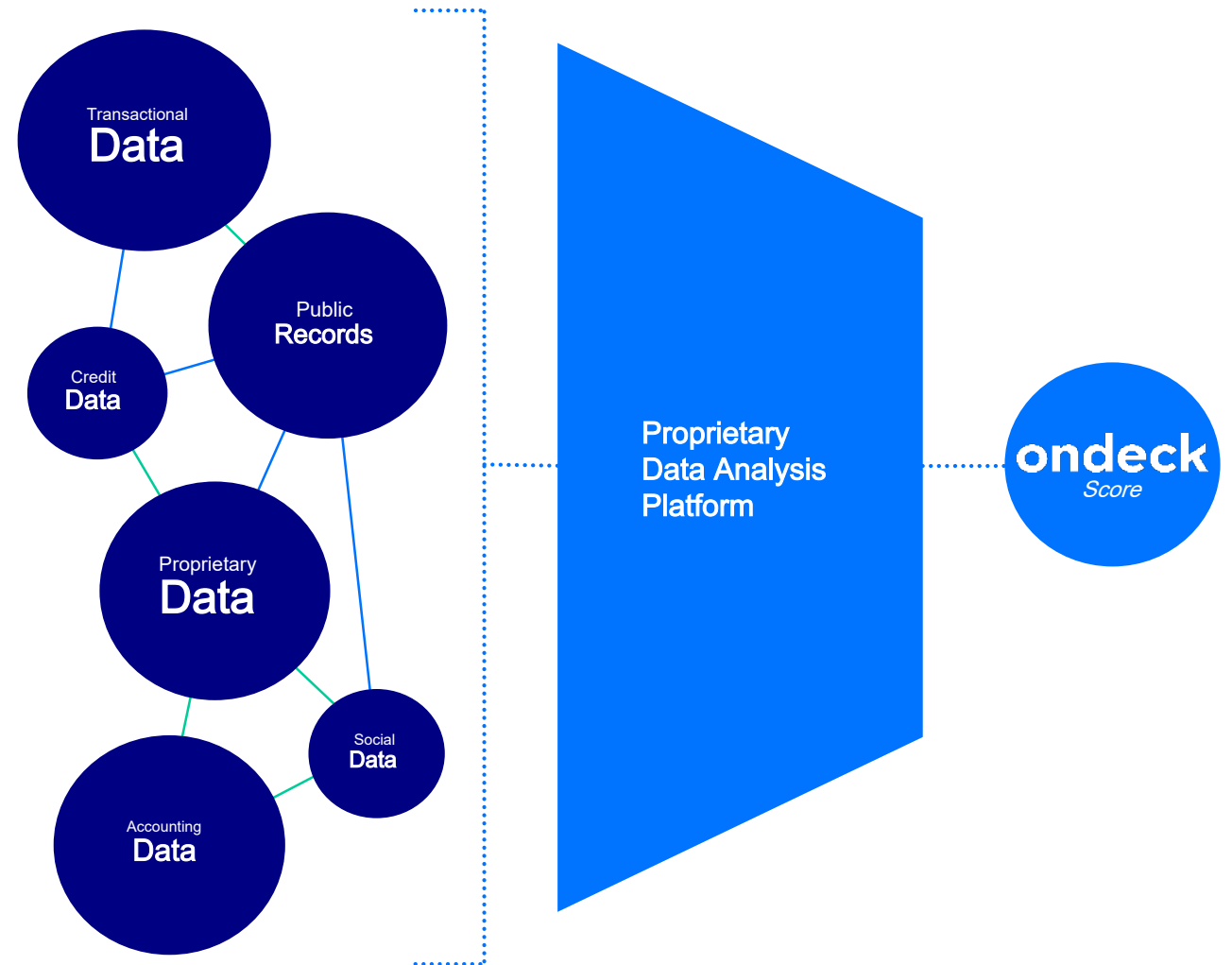
Scalable and Profitable financial model

(1) Based on all OnDeck's distribution channels for the year ended June 30, 2019

The OnDeck *Score* ®

Proprietary and built for small businesses

- **Next Generation**
proprietary credit scoring model
- **Large Database**
of small business information
- **1.7 Million+**
completed applications
- **20 Million+**
customer payments
- **1,000+ data points**
creating unique credit profile



Economic Impact of Online Lenders

In a 2018 study of 5 Online Lenders that funded **\$10B to 180,000 small businesses** across America from 2015 -17, the loans:

Boosted Local Economies

Overall, the loans generated **\$23B** for the borrowers and **\$38B** for local economies

Created Jobs

358,911 jobs were created, leading to **\$12.6 billion** in wages for local economies

Expanded access to credit

About **1/3** of online business borrowers were located in lower -income communities

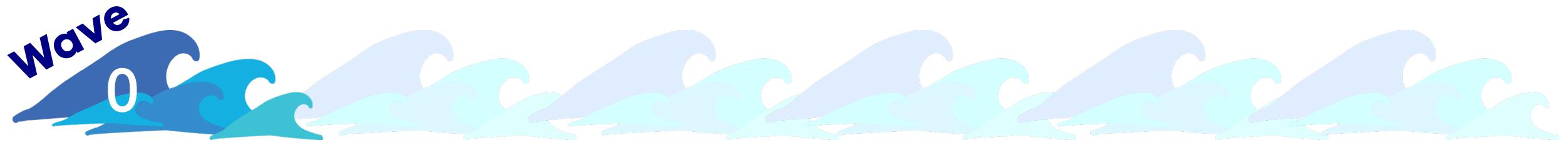
Increased revenue

Borrowers' revenues increased by about **\$2.31** for every **\$1** borrowed

Waves of Alternative Data





A vibrant, high-contrast photograph of a massive blue wave crashing, with white foam and spray visible. The sun is shining brightly in the upper left, creating a lens flare effect. The overall color palette is dominated by various shades of blue and white.

**Several waves of data innovation
have changed the way SMBs borrow
money...**







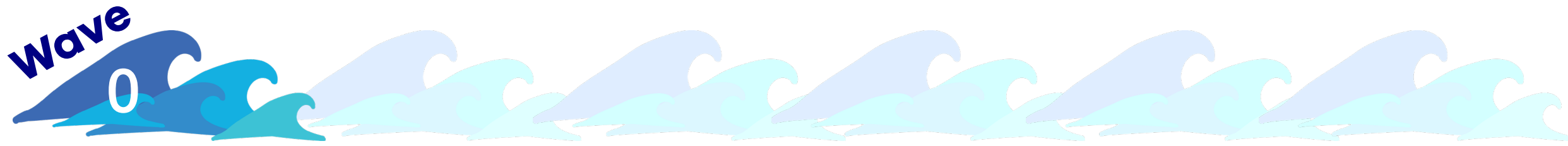
Business Information from Owner – The “Traditional Way”

Data

-  Business Plans
-  GAAP Financials (current and projected)
-  Resumes
-  Personal and Business Tax Returns

Limitations

-  Data is supplied / estimated, leaving room for errors or fraud
-  Requires human judgement to interpret
-  Non - standard formats inhibit automation
-  Data may be stale, not reflecting current performance



SBA Loan Paperwork

- ☒ Personal Background and Financial Statement
- ☒ Business Financial Statements
 - Profit and Loss (P&L) Statement
 - Projected Financial Statements with explanation
- ☒ Ownership and Affiliations
- ☒ Business Certificate/License
- ☒ Loan Application History
- ☒ 3 Years of Personal and Business Income Tax Returns
- ☒ Resumes
- ☒ Business Overview and History
- ☒ Business Lease



*Average time to get an SBA Loan: 60 -90 days (Source: Fundera)

Business Results from Data

Data



Credit Bureau data (FICO®, Equifax, Experian)

- Most predictive for businesses with longer histories
- Data may be incomplete for some businesses



Cash Flow, Payments, Accounting Data

- More timely, granular & universally available
- Some data is third party verified

Progress



Real-time data on business cash flow and obligations



Standard formats remove human error/judgement and enable automation



Studies now say cash flow data is just as accurate and objective as FICO ⁽¹⁾



Enabled the start of online lending!

Drivers of Performance

Data



Point of sale data



Data “behind” accounting and payments data (customers, employees)



Utility / Government data



Social data



Location / Mobile Data

Progress



Captures the predictive factors of performance



Helps quantify external factors that affect results



Can be used to benchmark similar businesses



Helps identify other risks (e.g. customer concentration)

Measuring Owner and Business Outlook

Business outlook and the owner's "character" are leading drivers of creditworthiness – can we measure and verify with data?



Behavioral/Psychometric Data



Personal consumption habits
(travel, luxury spend, housing)



Proof of Expansion / Investment
intent



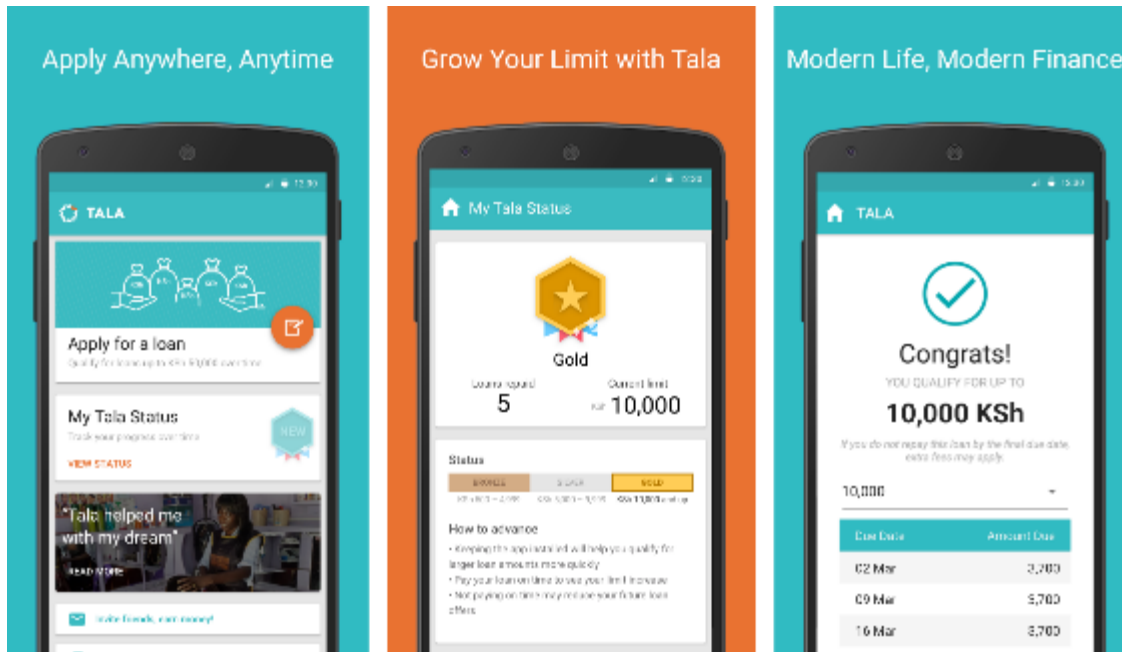
Business outlook for the owner,
industry, or location



Shared industry databases to
combat fraud and improve
credit outcomes



makes microloans to consumers and small business owners in emerging markets using mobile phone and social network data.



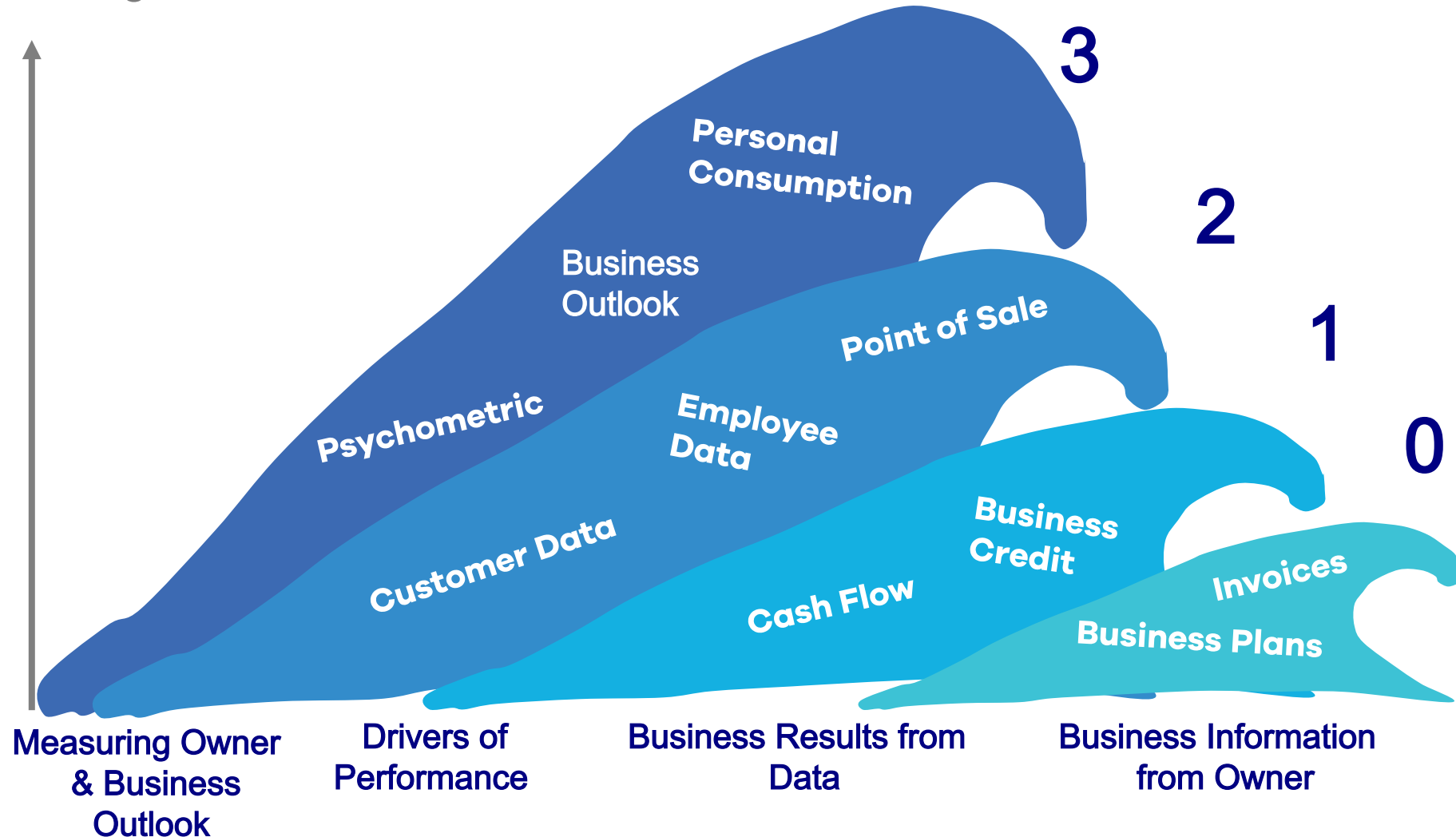
- **2 billion** people worldwide are **unbanked**.
- Tala evaluates over **2,000 data points** **available on the client's phone** to inform a credit decision ⁽¹⁾.
- Tala identified that **if 40% of a person's phone contacts are listed with first and last names**, they're **16 times more likely to repay** ⁽²⁾.

(1) Shivani Siroya . 2016. TED Talks – A smart loan for people with no credit history yet. Video content. Available at: www.ted.com/talks/shivani_siroya_a_smart_loan_for_people_with_no_credit_history_yet# -100284


(2) <https://ideas.ted.com/how-can-you-trust-if-someone-will-repay-a-loan-look-at-their-smartphone/>

Each wave of data builds a stronger signal of a business' health...

Strength of Signal



Key Issues



Important issues to
consider as the use
of alternative data
expands

What data can
we use?

Accuracy

Is this data exact or estimated?

Can it be falsified?

Cost


What does it take to capture the data?

Coverage

Will this data be available for all
applicants?

Efficiency

How much data is too much data? What
adds predictive value?



Important issues to
consider as the use
of alternative data
expands

What data should
we use?

Fairness

Can this data be applied equally and
without discrimination across
applicants?

Privacy and Permission

What will consumers share?

71% of consumers would be willing to share more
personal data if it resulted in a fairer credit
decision. ⁽¹⁾

Correlation and Causation

Does a particular type of data actually
drive creditworthiness?

(1) Harris Poll and Zest Finance, 2019

Online lending has changed how SMBs borrow money, forever.

Old “Wave 0” data sources required human judgement and manual effort to interpret.



Wave 1 ushered in online lending



Waves 2 and 3 are the next frontier

As online lenders use more data, there are important issues to consider.

Working together to innovate and tackle key issues of fairness and privacy,
we can increase access to capital.

And, that's what online lending is all about!

On it.

Follow what we're doing to help small businesses succeed.



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