

# P2P LENDING AND CROWDFUNDING POPULARITY DISRUPTS TRADITIONAL SERVICES

*Influential modes of peer financial transaction gain momentum.*

It's unusual not to hear at least some news about a medical treatment being financed through a GoFundMe campaign or a new product meeting its capital-raising threshold through Kickstarter. **The media captures these crowdfunding stories with an emotional tie-in, but the realization often indicates that crowdfunding may not just be a trend but a significant disruption strategy that allows users to bypass financial institutions completely.** In addition to crowdfunding, peer to peer (P2P) lending sites, such as Lending Tree (personal loans) or Fundrise (real estate investment sharing), are being turned to by those denied or dissuaded from legacy banking services. Everything from financing a home-improvement project to acquiring pieces of a real estate pie can be done through peer interest and involvement. While there may always be a place for the suit and tie rendezvous with a bank loan officer, especially for large mortgages and bulkier lending amounts, P2P lending services have had an immense influence on the funding landscape. Ultimately, these services provide individuals and entrepreneurs an alternative path to launching ideas and funding projects, bypassing the rigors of a background check and loan application. Additionally, through the use of crowdfunding sites and social media, users often gain a level of access to the anticipated target market that they otherwise wouldn't have had pre-launch – going directly to potential consumers for firsthand product testing, utilizing word-of-mouth marketing strategies, and/or performing abnormal and aggressive advertising strategies – ultimately, eliminating the need for mediators such as investment institutions or venture capital (VC).



Crowdfunding is the idea that individuals or groups of individuals donate money to someone else's product idea or prototype with the understanding that they'll be rewarded, such as receiving a unique version or early shipment of the product, participating in the ongoing conversation surrounding what the product's function should be, or how the entrepreneur's idea could evolve. The product or idea owner on the crowdfunding platform can then communicate the ideas or strategies through videos (sometimes privately for select participant groups) and begin a dialogue with the various donors. This form of communication, from product inception to product launch, is unprecedented. The company or individual utilizing crowdfunding will often record significant milestones or benchmarks throughout the project

lifecycle to keep donors informed and grow anticipation for the product or idea reaching fruition. **Because of the success of these platforms, there has been widespread speculation about the forthcoming regulatory barriers or possibly the entertainment of an IPO culture surrounding crowdfunding.**

As of 2017, some of the top crowdfunding sites have individually raised over \$1B in funding for the various products and services hosted on their respective site. Since Lending Tree’s founding in 1998, it has facilitated over 65M loan requests. And yet, the scope and benefits of P2P lending are not fully-evident through these numbers alone; there are oftentimes impactful storytelling elements that come with it. Media entities often highlight emotional human-interest pieces captured through GoFundMe appeals, for instance, or they feature the successes of odd products, such as board game ideas or tech gadgets, that, through sites like Indiegogo, receive thousands in funds within just weeks. These stories have contributed to the growing interest around crowdfunding platforms and, in many respects, have helped alter the pathway of success among entrepreneurs. And though the financial ceiling is generally much higher with retail banking loans, with crowdfunding, a disproportionate indefiniteness exists in how much can be loaned or how much is willing to be given on behalf of interested parties and consumers – effectively uncapping potential and adding to the allure. As highlighted previously, the relationship tends to exist more so with the donor(s) than with a personal financial banking expert. There are very few collateral or background check strings attached to each financial contribution and, in most cases, the liquidity of the crowdfund is largely due to the operating company’s procedures or streamlined nature. This has, in effect, had a downstream impact on VC processes.

Crowdfunding and P2P lending has emerged as considerable competition to VC, small business loans, and IPO strategies. While VCs enact strict, regimental operations policies and dilute initial founder equity, crowdfunding only highlights an individual’s ability to market directly to their donor support. They will often have to meet or exemplify that they are working towards “milestones.” Communication and conversations with donors is usually consistent and routinely common among enthusiastic crowdfunding marketers. The ability to connect with individual consumers and gather their written feedback before the product is in the final stages has played a tremendous role in impacting the way a company approaches marketing and engages in the financing of its product or idea.

### CROWDFUNDING FORMS

- Reward-based crowdfunding
- Equity crowdfunding, or crowd investing
- Loan-based crowdfunding, or crowdlending
- Donation-based crowdfunding

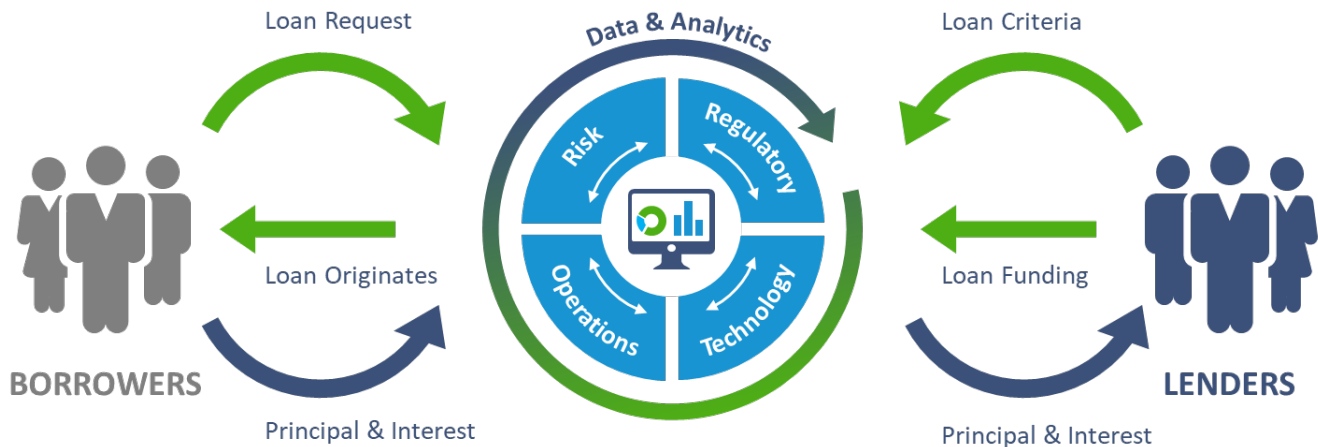
### COMPENSATION TO THE CROWD

- A product or a service
- A percentage of equity or profit-sharing arrangement
- Fixed periodic income and capital repayment
- No expected compensation<sup>1</sup>

<sup>1</sup> <https://www.vlerick.com/~media/Corporate/Images/Eenmalige-images/5%20About%20Vlerick/5-08%20News/2015/Vlerick%20Policy%20Paper%201%20-%20Crowdfunding%20pdf.pdf>

The P2P lending and crowdfunding approach to finance has revolutionized the banking services landscape, allowing individuals to directly participate in the success of a product, ownership of a building, or promotion of an idea through financial resourcing. Financial institutions are now encouraged to pivot accordingly to meet this decidedly growing trend. **Though bank spending and lending dwarfs most of crowdfunding monetary limits, the cultural shock and speed of this disruptive strategy has had an immense effect on financial services' dominance in the lending space.** The Great American Search for Yield has led many individuals to seek investment opportunities that promise higher returns than traditional asset classes. Crowdfunding and peer-to-peer lending allow investors to provide capital directly to start-ups and individual borrowers. Who needs investment banks when you can use technology to cut out the middleman?<sup>2</sup>

### VALUE EXCHANGE BETWEEN BORROWERS AND LENDERS



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<sup>2</sup> <https://www.thinkadvisor.com/2016/03/01/crowdfunding-and-peer-lending-time-to-swim-with-th/?slreturn=20180916144509>