

**Testimony of
Peter Renton
Founder & CEO
Lend Academy
before the
Committee on Small Business
United States House of Representatives**

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My name is Peter Renton and I help run three businesses that are all focused on the peer to peer (P2P) lending industry. I am the founder and CEO of Lend Academy, which operates the leading P2P lending blog, podcast and community forum. I am the co-founder and CEO of the LendIt Conference, the first and largest conference series dedicated to the broader online lending industry. I am also a co-founder of NSR Invest, which is an investment and analytics platform that provides access to P2P marketplaces for financial advisors, institutional investors, and individuals.

As you can tell, I was not born in this country. I grew up in Sydney, Australia where my father was an entrepreneur and I joined the family printing business one year after graduating college. Like most entrepreneurs in Australia I dreamed of one day starting a business in this country and I was able to do that in 1991 when I moved to Denver, Colorado to expand our family printing business. Since then I have started several other businesses and in 2003 I proudly became a United States citizen.

I have been investing in P2P lending platforms (now often referred to as marketplace lending platforms) since 2009 and I have been covering this industry full time as a blogger and analyst since 2010. What I would like to do in this testimony is give you all a little history and overview of the P2P lending industry, particularly as it pertains to small business.

Short History of P2P Lending

In this country P2P lending began in 2006 with the launch of Prosper, industry leader Lending Club followed just a year later. The SEC decided in 2008 that the loans issued by these companies are securities and should be registered with the SEC. So both companies went through a long and expensive registration process to remain open to non-accredited investors and comply with this decision. To this day these companies are the only peer-to-peer lending platforms to have undertaken this registration process. While there are dozens of platforms today every other company is only open to accredited or institutional investors.

It should be noted that Lending Club and Prosper are primarily consumer-lending platforms but they have been doing quasi-small business loans since inception. Many small business owners use their personal credit to fund their businesses; I have done that myself in the past. Since inception Lending Club and Prosper have originated around \$200 million in personal loans that were used for business purposes.

In addition to these personal business loans Lending Club has had their own small business lending program for over a year offering term loans of between 1 and 5 years. Lending Club does not share their loan volume here but my understanding is that this initiative is still relatively small although it is growing quickly. Prosper has a referral program with OnDeck Capital the largest online small business lender.

Brief Explanation of Products Offered

I should explain the variety of products offered by the broader online lending industry:

1. Term loans – typically 1 – 5 year amortizing loans with relatively low interest rates.
2. Lines of credit – to be drawn against as the need arises, has a wide range of interest rates.
3. Merchant Cash Advance – high interest, short term advances with repayments tied to credit card receipts.
4. Invoice Finance – also known as factoring where small business can get immediate cash for their receivables.
5. Crowdfunding – is not lending at all. Can be an equity based investment or a rewards-based “donation”.

What Can Government Do?

I appreciate the fact that you are having this hearing and that you are interested in learning more about this industry. The continued growth of this industry will provide many benefits to small business owners and the economy as a whole.

As to what government can do here I would like to describe some of the actions the UK government has done. They provide a blueprint for supportive actions that a government can take to impact this industry.

1. Since 2012 the British Business Bank, wholly owned by the UK government, has been investing in small business loans issued by online platforms like Funding Circle. While the total investment is relatively small this action has given the industry there a tremendous boost in credibility and trust among investors and borrowers.
2. They have created a new regulatory framework specifically for the P2P lending industry.
3. Last year the UK government announced the creation of a bank “mandatory referral scheme” where banks that reject small businesses for a loan will have to refer these businesses to alternative lenders.

Now, I am not saying that the US government should copy these actions but rather they provide some ideas of how governments can support this burgeoning sector.

I firmly believe that small business lending is going through a transformation that will have a dramatic impact on the growth of small business in this country. I hope and trust that you will see the benefits we bring and will be supportive of this transformation.