

Comparative Report on Alternative Lenders in Canada

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Introduction

Generating enough capital to start or grow a business – a struggle many SMBs have stumbled upon throughout history. Majority of small business owners are unable to receive a loan from a traditional bank, as a matter of fact 80% of loan applications are denied. Financing remains to be a problem, but new trends are constantly surfacing to fix this matter. With the development of alternative lending, small business owners can finally meet their financial needs. By resorting to Alternative Lenders, SMB owners can efficiently secure funding to keep their operation running. These lenders are also known as as online lenders or FinTech companies because they utilize technology to provide financial services or products. Alternative Lending helps small businesses with capital, whose credit score does not match up to the bank's standards.



Industry Analysis

- ◆ The Demand for Alternative Lending
- ◆ Understanding the Market - Where do SMB's struggle?
- ◆ Global Alternative Lending Public Company Returns

Industry Analysis

According to [Statista](#), the total transaction value in the Canadian Alternative Lending industry added up to \$87.1 million USD in 2019, and provided 4.2 thousand loans. On average, alternative lending firms are providing loans that range from \$10,000 to \$300,000.

The industry is successfully growing in Canada, as well as across the [globe](#). As of 2019, the total transaction value of the global alternative lending industry adds up to 260 billion US dollars. By 2023, it is forecasted to show a CAGR of 10%, reaching a total transaction value of 400 billion.

The Demand for Alternative Lending

According to credit and information provider for SMB's [Nav](#):

- 53 % of SMB's have applied for funding in the past 5 years.
- 1 out of 4 has applied more than once.
- 45% were turned down more than once.
- 23 % don't know why they were denied.
- 26% avoided hiring and expansion because they were frustrated with trying to access funds.

Understanding the Market - Where do SMB's struggle?

- 29% say it's harder to reduce operating costs
- 24% say it's harder to plan for unforeseen expenses
- 29% experience lack of growth
- 22% have experienced cash flow issues.

Global Alternative Lending Public Company Returns (US exchange)

Alternative lending— public company returns

As of 01/02/2018

Name	Company Description	IPO Date	IPO Valuation (M)	01/02/17 Valuation	% Change	S&P 500 Return Over Trading Period
LendingTree (NASDAQ: TREE)	Loan Broker	2/15/2000	\$250	\$4,004	▲ 1502%	92%
Lending Club (NYSE: LC)	P2P lender	12/11/2014	\$5,420	\$1,750	▼ -68%	32%
OnDeck Capital (NYSE: ONDK)	SMB lender	12/17/2014	\$1,320	\$429	▼ -67%	35%
Yirendai (NYSE: YRD)	Marketplace lending	12/18/2015	\$585	\$2,750	▲ 370%	34%
Elevate Credit (NYSE: ELVT)	Non-prime lending	4/6/2017	\$257	\$316	▲ 23%	14%
China Rapid Finance (NYSE: XRF)	Marketplace lending	4/28/2017	\$350	\$415	▲ 19%	13%
Qudian (NYSE: QD)	Installment plans	10/18/2017	\$7,900	\$4,190	▼ -47%	5%
PPDAI Group (NYSE: PPDF)	Marketplace lending	11/10/2017	\$3,912	\$2,150	▼ -45%	4%
Credible Labs Inc (AU: CRD)	Loan Broker	12/7/2017	156.4	\$176	▲ 12%	2%
LexinFintech Holdings (NASDAQ: LX)	Chinese Lender	12/21/2017	\$1,474	\$2,681	▲ 82%	0%

CBINSIGHTS

Average return of US stocks over different periods: 23.1%

Average return of publicly traded Alternative lenders: 178.1%

Evolution Of Alternative Lending

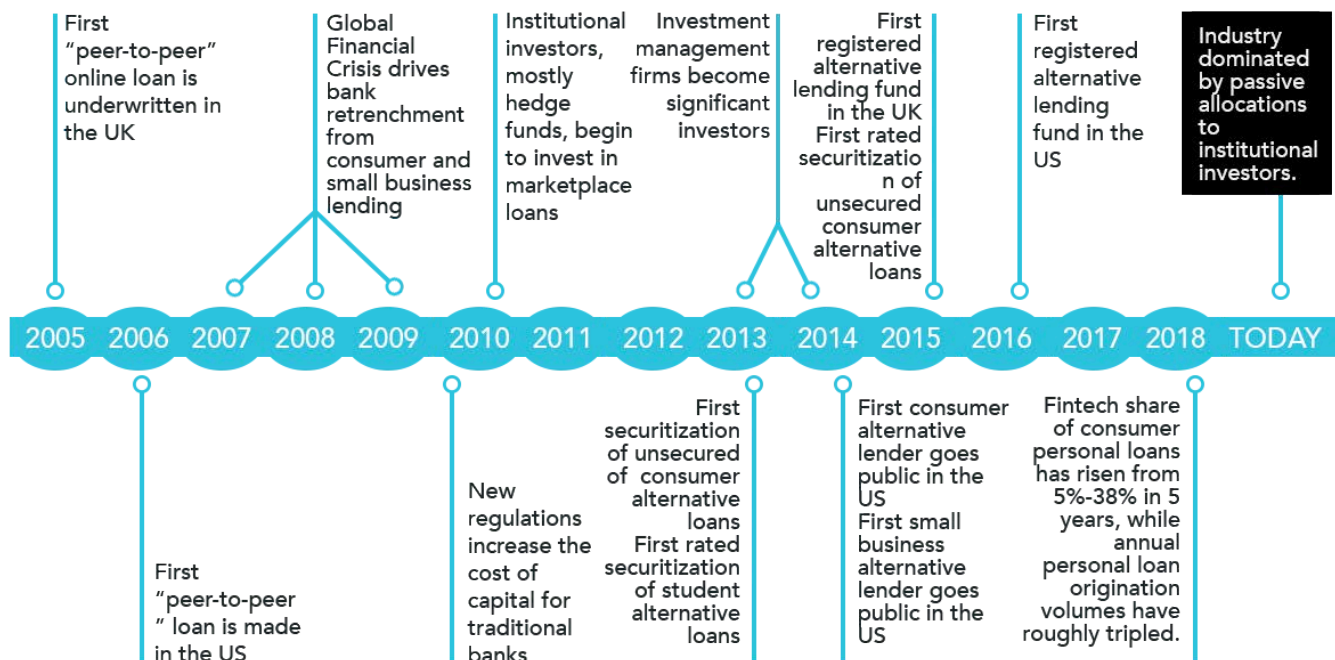


Image source: Morgan Stanley



Alternative Lending Solutions

- ◆ Merchant Cash Advance
- ◆ Term Loans
- ◆ Line of Credit
- ◆ Invoice Factoring
- ◆ Equipment Financing
- ◆ P2P Lending
- ◆ Unsecured Business Loans

Alternative Lending Solutions

Alternative Lending companies offer different financing services and products to meet their clients needs. Generally there are four solutions proposed to borrowers:

Merchant Cash Advance

A fixed amount is lent to a business in exchange for a set percentage of their future sales. This is the least cost-efficient alternative lending option.

Term Loan

A loan is given at a fixed rate and repaid in a sequence of payments over a set period of time. Installments have a set schedule and interest rates. On average a term loan lasts between 90 days to 5 years.

Line of Credit

Small business owners are given access to a sum of money at their convenience. Once the funds have been used interest rates are debited from the outstanding balance.

Invoice Factoring

At a discounted rate, a business sells their invoices to a lender. Afterwards, the lender accumulates the payment from the invoiced client and redirects it to the business with an additional service fee.

Equipment Financing

A loan which businesses use to buy equipment, and that same equipment is put up as collateral for the loan. On average, lenders will ask for a 20% upfront down payment.

There are three ways to receive equipment loans:

1. Credit: the most common choice for SMB owners with good credit scores.
2. Cash- Flow: by providing a steady cash flow, you will have access to equipment financing.

3. Collateral: a large down payment or form of collateral for security.

Peer-to-peer lending

A new form of lending that allows you to borrow from a group of investors online. Investors work directly with borrowers, and transactions are performed online. Loans can range from \$2,000-100,000 with 3-5 year repayment terms. There is no application fee, but P2P lenders will charge an origination fee which is usually between 1-5%.

Unsecured business loans

The name speaks for itself - your business loan isn't secured with collateral. These loans usually have higher fees and shorter terms, and there is more risk to lenders.

Every business has different needs, therefore they require different solutions. Choosing a suitable loan that fits your business' frame is important. For the overall growth and success of your business, long-term lending is proficient. Where as loans with shorter terms are beneficial to cover equipment damage, or during the slow season.



Trivial Facts

- ◆ General Things to know
- ◆ What do lenders look for?

Trivial Facts

General Things to know

Non Bank Lenders: The majority of the industry relies on non-bank companies that provide capital to SMB's. In 2018, an online survey by Smarter Loans was reported that 24% of 1,160 Canadians sought their first loan through alternative lending, and only

Higher Approval Rating : Banks on average have an approval rating between 13% - 20%, where as Alternative Lenders have an approval rating for SMB's between 61% - 64%

Rapid Growing Industry: In 2017, the alternative lending boomed significantly. Market Volume reached \$867.6 million, up 159% from \$334.5 million in 2016 (Source: Cambridge Centre for Alternative Finance.) There is a demand for SMB's to receive funding online quickly and efficiently.

What do lenders look for?

Every alternative lender has specific requirements and each differ in their own way. However, there is an overall check-list which majority of lenders follow:

- 1. Credit:** Lenders will always check your personal credit score when SMB owners are requesting for funding.
- 2. Cash-Flow + Income:** When lenders assess risk, they analyze the debt-to-income ratio.
- 3. Age :** Most lenders will finance businesses that have been in business for at least 24 months.
- 4. Debt:** The more debt, the harder it is to receive a loan.
- 5. Collateral:** These based loans are easier to get and have lower interest rates.
- 6. Industry:** Some industries do better than others. Lenders will assess the market prior to funding.



Benefits & Challenges of Alternative Lending

- ◆ Pros & Cons According to Customer Surveys
- ◆ 6 Alternative Lending Challenges & How To Overcome Them

Benefits & Challenges of Alternative Lending

Pros & Cons According to Customer Surveys



Pros	Cons
Instant access	Less options for prepayment
Simple, convenient online application process	Not all lenders are credible
Easy to receive a quote	Unforeseen fees and costs
No paperwork	High and frequent payments
Fast approval and funding process	High APR
Competitive rates due to less overhead	Scam /identity theft
Willingness to deal with business loans	Payday loans

6 Alternative Lending Challenges & How to Overcome Them

Alternative Lending has made a notable leap into the financing world. By 2025, spectators have forecasted it to reach \$ 1 trillion globally.

The industry was shaped by the financial doom and the low interest rate environment that investors did not foresee. The outpouring of online technology enabled supply to

measure up to demand, the development of P2P platforms provided loans, value and cash flow capital to FX.

As alternative lending ripens, investors stumble upon the following challenges to secure their endurance:

1. Provide a superior reason for clients to choose them.

One of the key components for alternative lenders is that they can provide loans when banks refuse to. This catch line needs to be secured, so that borrowers fundamentally turn to the alternative lending industry for capital.

2. Inform the target audience

In order for alternative lenders to woo the mass market, they need to build awareness and interact with clients. This can be achieved through devotion to marketing.

SMB owners want to be confident that their capital providers are well-trusted on a significant scale. They resort to recommendations and their own knowledge of the market superiors.

Alternative finance borrowers need to be constantly informed in order to funnel the mass in adequate figures. Through email marketing, social media awareness, SEO, and advertising will form omni-presence.

3. Banks are stripping alternative lending of ideas.

Banks are now viewing alternative lending companies as direct competition. Investment and financial institutions have a great advantage with customer foundation, and are well aware of their credit history. This should not be disregarded, and alternative lenders need to provide sufficient reasons to be clearly differentiated.

4. Have an impact on influencers

Accountants, brokers and the media. These 3 groups have a major influence on alternative lending clients.

Some accountants may discuss alternative lending as an option, but most are discreet about advising it. They propose alternative financing only when their clients inquire about it in abundant numbers. Therefore there is no alternative to bringing forth awareness as discussed in point 2.

Brokers have a completely separate perspective, as their income solely depends on commission. They will steer their clients towards the road with the best openings for commission. Problems surface, as appealing commissions can only be proposed at a cost to the client, consequently weakening one of the key principles of the proposition. Brokers then have to brainstorm innovative commission strategies, by conjoining them with business value. Convincing clients to appreciate the long-term benefits then becomes a greater challenge.

Media influencers are a powerful plug to bring clients into the industry. Through different means of publication, borrowers can be persuaded to trust alternative financing. Journalists themselves crave news about P2P and alternative lending, as it creates a compelling story. Influencers need to be constantly informed of happenings because through word-of-mouth it will create awareness and popularity for the industry.

5. Hanging on to “hot money”

When interest rates are higher, it's a challenge for the big guys on the block. Nonetheless, institutional money will move on if the yield drops, through reduced margins or sustained default. On the other hand, retail money is less likely to be hot, but it has a foundation of individual investors that can offer stability. Proposing strategies to retail investors for securitization should be a priority for the success of

alternative banking. Regardless if lenders are institutional or individual, they seek a successful investment, so they can confidently put forth more money once again.

6. Nurturing existing clients

The cost and process of convincing a client is more elusive than nurturing an existing one. Building a bond with existing clients to generate the return on investment is crucial for success in any business. Maintaining eligibility will increase the lifetime value. In alternative financing trust is important for clients. If they find the right service that meets their needs, and delivers results - you'll have their loyalty.

For this to come to realization, alternative lending needs to perfect client retention. Whether it's through additional support or efficient offers, the client needs to feel at ease. Customer satisfaction is a high priority in the alternative financing industry because people don't want to be numbers.

A Bright Future

These challenges are not invincible, they just need to be defeated. Lenders and borrowers will succeed by following visions, strategies, and resources to capitalize on.

Business owners will resort to alternative lending as long as it is convenient, efficient and offers favorable rates. The high returns as well as diversification will magnetize and secure investors. The future of alternative lending is bright, it just needs to be tuned according to clients needs and satisfaction.



Quality Assurance

- ◆ How Can Canadian Alternative Lending Companies Improve?
- ◆ What do Applicants look for?
- ◆ Smart Loans Canada Survey

Quality Customer Service

How Can Canadian Alternative Lending Companies Improve?

- Approve more people with bad credit or no credit for a chance to improve.
- Allow more flexibility with income types (such as disability and child tax)
- Provide approvals based on income not credit scores.
- Supply more customer service tools
- Provide more information about terms and qualifications required for approval.

What do applicants look for?

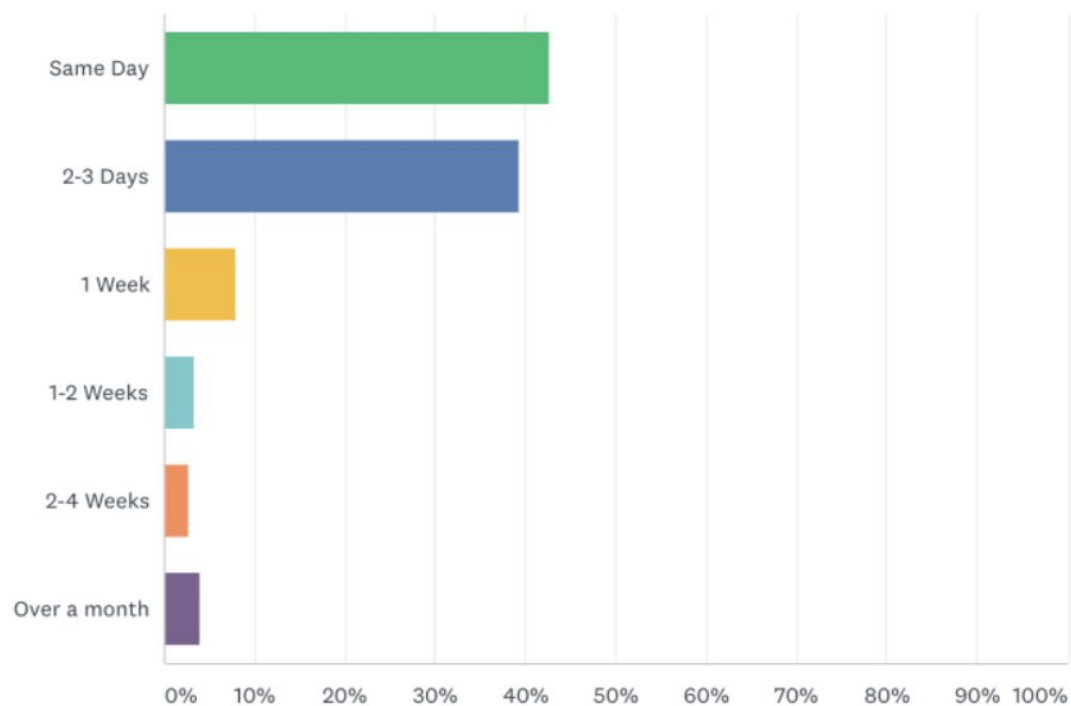
- Application process time
- Information required by lender
- Approval requirements/qualifications
- APR rates
- Repayment terms: frequency, length,
- Penalties
- Method of repayment
- Minimum -> Maximum loan amount
- Speed of funding

Other contributing factors:

- Background on lender
- Customer Reviews
- Application approval rate
- Cost savings for early repayment

According to Smart Loans, applicants received their loan in:

Smart Loans Canada Survey





Lending Trends

- ◆ Regulation
- ◆ Development of Financial Technology
- ◆ Digital Loan Alternatives

Lending Trends

There are emerging trends driving the alternative lending market, which are completely reshaping financing for SMB's.

Regulation

Regulations have greatly improved within the online lending industry. The the relationship between lenders and borrowers is monitored more closely. By publishing statements, organizing fintech conferences and forming industry trade associations, alternative lending for SMB's has become more regulated in comparison to years before.

Development of Financial Technology

The pace at which financial technology is developing, has disrupted traditional funding for SMB's. With options like smart contracts, AI, and mobile banking, the way lenders communicate with SMB's has changed. Fintech firms are using the latest technology to make loan approvals more efficient, accurate, and quick for both lenders and borrowers using the online marketplace. The development of Fintech has enhanced customer experience and decreased a significant amount of operation costs.

Digital Loan Alternatives

The rapid growth of e-commerce companies as digital loan alternatives is impacting the SMB marketplace. PayPal, OnDeck, Kabbage, Square and recently joined Amazon, are amongst the top 5 digital small business lenders.

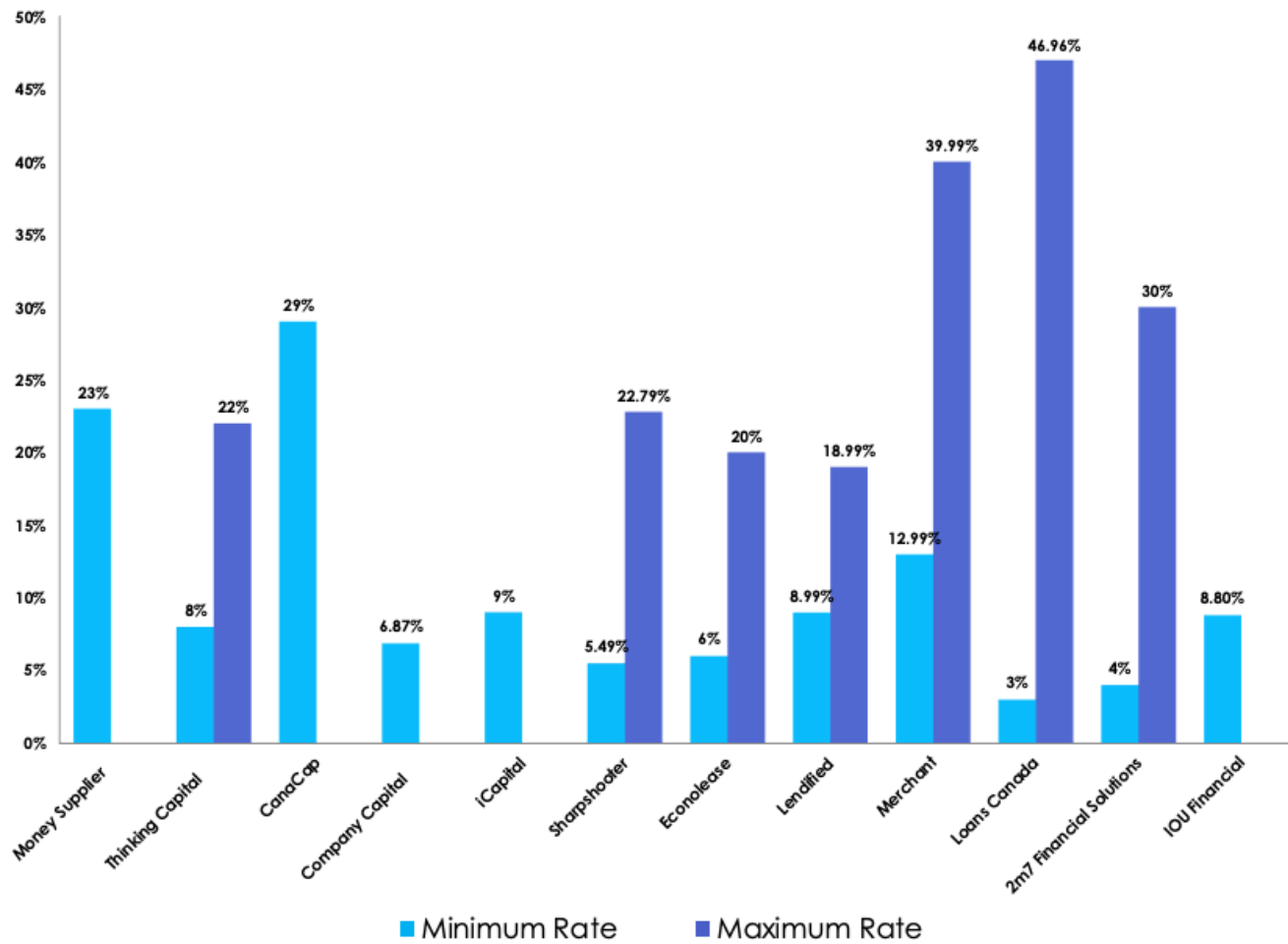


Alternative Lending Companies In Canada

- ◆ Canadian Alternative Lending APR's Comparative Graph
- ◆ List of Alternative Lenders in Canada

Alternative Lending Companies In Canada

Canadian Alternative Lending APR's Comparative Graph



List of Alternative Lenders In Canada

There's a large demand for Canadian SMB's to apply for alternative lending online, and there is plenty of competition. The following is a comparison of the top competitors in Canada and their requirements for alternative lending:



- Loan Amount: \$250,000
- APR: 4%-30%
- Time in business: 3 months
- Advances: \$1,000-250,000
- Specialize in : Merchant Cash Advances (up to 125% of monthly income)
- Terms: Flexible
- Time to fund: 24 hrs
- Daily transactions with credit or debit is required
- Flat Fee/ Interest Fee : 1.18-1.48
- Services offered in all Canadian provinces
- No key management profiles
- Site includes a blog with 8 articles (most articles cover MCA)
- 11 years in business



Recently joined OnDeck Canada

- Loan Amount: \$10,000-\$300,000
- APR: starting at 6.99%
- Time in business: 6 months
- Active commercial lease
- 0% collateral
- Terms: 4-18months
- Monthly Revenue: \$15,000
- Time to fund: 48 hrs
- Funding method: direct deposit
- Daily repayments
- Active clients: 600+
- No key management profiles for Evolocity
- Services offered in all Canadian provinces

- No investors section
- 11 years in business



- Loan Amount: \$5,000 – \$300,000
- APR: 8%-22%
- Flexible/fixed payments
- Time in business: 6 months
- Terms: unknown
- Monthly Revenue: \$7,000 (avg.card sales)
- Time to fund: 24 hrs
- Merchant Cash Advances
- Resource center available with over 100 articles
- Articles organized by topics
- Ex. Business finance, growing a business, financing your business
- Active clients: 500+
- Services offered in all Canadian provinces
- Key Management Profiles:
- Jeff Mitelman – CEO
- Jeff Bouganim – CFO & Interim President
- No investors section
- 13 years in business



- Loan Amount: \$550-750
- APR: 23%
- Bonding fee is applicable on loan allocation
- Payment cycle: weekly, biweekly, monthly
- Net income: \$1,200
- Self-employed workers are not eligible
- Terms: unknown
- Time to fund: 24hrs
- No blog
- No resource center
- No key management profiles
- Services offered across Canada

- Pay off: 90 days minimum



- Loan Amount: \$5,000-\$100,000
- APR: starting at 9%
- Term Loan Fee: 0%
- Terms: 3-18 months
- Time in business: 12 months
- No start ups
- Annual Revenue: \$100,000
- Time to fund: 48 hrs
- Funding Method : direct deposit
- Payoff method: daily or sales %
- Services offered in all Canadian provinces
- No key management profiles
- 15 articles available on blog (topics cover challenges, tips, improvement strategies)
- No investors section
- 6 years in business



- Loan Amount: \$4,000 - \$300,000
- APR: 5.49%- 22.79%
- Terms: 6-60 months
- Time in business: 100 days
- Average monthly deposits: \$10,000
- Time to fund: 24 hrs
- Payoff: monthly,biweekly,daily
- Services offered in all Canadian provinces
- No key management profiles
- No investors section
- 8 articles available on blog (lists, how to, styled content)
- 4 years in business



- Loan amount: \$1,000 - \$1,000,000
- APR: 6%-20%
- Monthly sales: \$20,000 minimum
- Terms: varies
- Time in business: 12 months
- Financing: food service & hospitality industries
- # of customers: 15,000
- Key Management Profiles:
 - Jack Yablon - Founder
 - Michael Yablon - CEO & President
- Offices in Toronto, Montreal, Edmonton, Vancouver.
- Blog available (articles cover things to know, advantages, equipment lease information)
- Spotlight series: videos covering past work with clients
- No investors section
- No resource center
- 14 years in business



- Loan Amount: \$1,000 - \$500,000
- APR: from 5.99%
- One-time fee: 3%-6.5% (for borrower)
- Collection fees
- Only regulated peer-to-peer lending marketplace
- Registered as a corporation or partnership
- Interest rates on low quality loans : 26%
- Lack of liquidity
- Time in business: 12 months
- Annual Revenue: \$ 100,000+
- Time to fund: 24 hrs
- Raised \$12 mil in debt and equity
- Investors tab available
- No key management profiles
- Services offered in all Canadian provinces
- No blog
- No resource center
- 15 years in business



- Loan amount: \$5,000 - \$100,000
- APR: 6.87%
- Terms: 3 - 18 months
- Time to fund : 24 hrs
- Time in business: 6 months
- Monthly sales: \$10,000
- Funding method: direct deposit
- Payoff: fixed daily, weekly
- Services offered in all Canadian provinces
- Key Management Profiles:
Steve Clark - President
Bruce Marshall - VP
- Over 200 Blog articles available (informative content; things to know, how to.)
- No resource center
- 13 years in business



- Loan amount: \$5,000-\$150,000
- APR: 8.99%-18.99%
- Annual Revenue: \$100,000
- Time in business: 12 months
- Credit score 610
- Apply under 10 minutes
- Time to fund: 48 hrs
- Terms: 3-24 months
- Investment platform available (affiliated with Vault Circle)
- Services offered in all Canadian provinces
- No resource center
- Key Management Profiles:
Troy Wright- Co-Founder & CEO
Kevin Clark- Co Founder & President
Sean Wilson - CFO
- Blog is organized by categories and articles are opinion based
Ex. growing, managing, financing, starting your business; online guides.
- Payoff: bi weekly



- Loan amount: \$5,000-\$500,000
- APR: 12.99%-39.99%
- Average monthly sales: \$5,000
- Time in business: 6 months
- Debit/Credit payoff accepted
- Term: 6-18 months
- Active clients: 120+
- Client log in available
- Merchant Advance articles on blog (how to, lists, opinions)
- Several featured press releases
- No key management profiles
- Services available in all Canadian provinces
- No resource center
- Video Blog series covering Merchant Advancing
- 9 years in business



- Loan amount: \$50,000
- APR: 3% - 46.96%
- Monthly sales: \$9,000+
- Time in business: 9 months minimum
- Payoff: 3 months - 5 years
- Key Management Profiles:
Scott Satov - Founder & President
- Over 200 articles available on blog (how to, lists, what is)
 - Best organized blog; has a variety of content creators specializing in finance
- No resource center
- No investors section
- Partnerships available(lead generation services, affiliate program, content marketing)
- Lender directory available
- Services available in all Canadian provinces
- Terms: Flexible



- Loan Amount: \$5,000-\$300,000
- Average Monthly sales: \$5,000
- APR: unknown
- Time in business: Canadian business operating for 18 months
- Term: 18 weeks - 14 months
- Application process: 24-48 hrs
- No credit score requirements
- Weekly reimbursements
- No investors section
- No blog
- No key management roles
- No resource center
- 13 years in business



- Loan Amount: \$ 10,000 - \$500,000
- Credit Score Requirements - 600
- APR: 8.8%
- NSF Fee \$25
- Loan Renewals
- Annual Revenue: \$100,000
- Flat Fee/ Interest Fee : 1.15 - 1.31
- High Origination & Supplemental fees - 7.8% - 8.8%
- Terms: 6-9,12,15 & 18 months
- Strict eligibility requirements: must own 80% of the business, or 50% if co owned with a spouse. Daily repayments, 10 deposits monthly into business account, and an average balance of \$3,000 on the business account.
- Services offered in Canada and US
- Key management profiles:
Phil Marleau - Chief Executive Officer, President and Director
Robert Gloer - President and Chief Operations Office
David Kennedy - Chief Financial Officer

- Site includes a blog with over 250 articles (organized by topics and industries)
Ex. Business tips, lending advice, success stories.
- Resources: smart sheets, guides, and case studies.
- Investors relations section -> stock information, presentations, statements
- 4 years in business

IOU Financial Post Servicing Fees

Department	Type	Fee
Administrative	Loan Administration Fee	\$395.00
Collections	Domestication of Judgment Fee	\$1,500.00
	Legal Process Fee	\$ 450.00
	Service of Legal Docs	\$250.00
	UCC Filing Fee	\$250.00
Modifications/Servicing	Failed Modification Fee	\$150.00
	Modification Fee	\$250.00
Servicing	Loan History Fee	\$25.00
	Payoff Fee	\$25.00
	Zero Balance Fee	\$25.00
	Change of Bank Account Fee	\$25.00
	Stacking Fee	\$2,500.00
	UCC Release Fee	\$125.00

Summary

Given the current state and forecast of the market, alternative lenders are confident of ongoing success for the industry. It is attracting new applicants daily because small business owners are being provided the solutions they need, hassle free. Alternative Lending is the answer to many small business owner's problems. They can now receive the funding they need from lenders, quickly, efficiently and in most cases without collateral.

Pine Grove Financial continues to discover ways to provide Canadian SMB's with the best rates while conserving sustainable operations. We value great customer service and strive to know more about our audience to help both lenders and borrowers succeed.