

Buy, Build, or Partner

Securing the Right Partner(s)



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Meet Your Speaker

Christian Widhalm

SVP of Lender Partnerships



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Unbundling of Financial Services



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Focused and Successful

Fintech start-up Acorns valued at \$860 million after latest funding round

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Fintech startup Plaid raises \$250M at a \$2.65B valuation

Kate Clark @kateclarktweets / 6 months ago

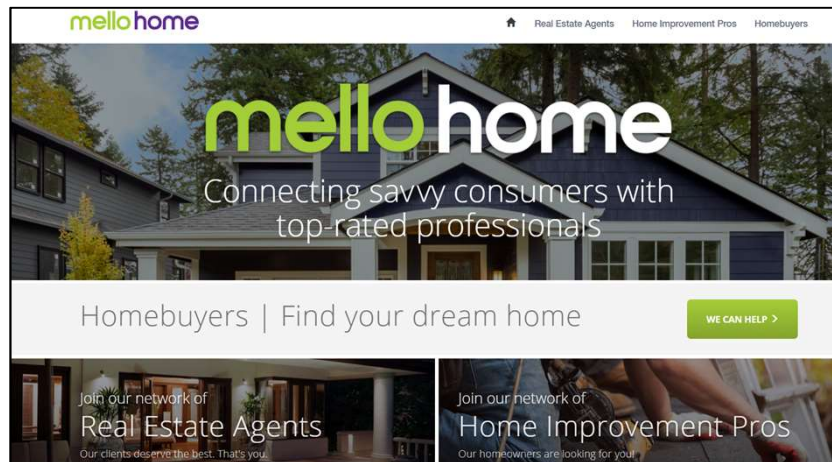
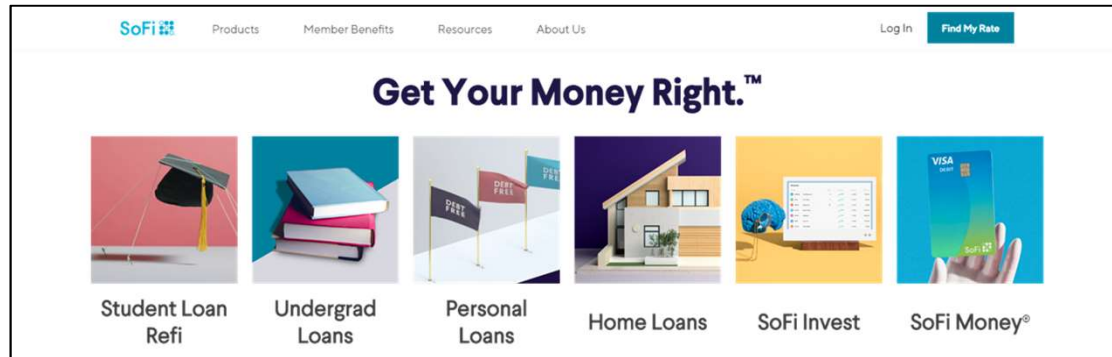
 Comment

**Affirm Raises \$300 Million
At A Reported \$2.9 Billion
Valuation**

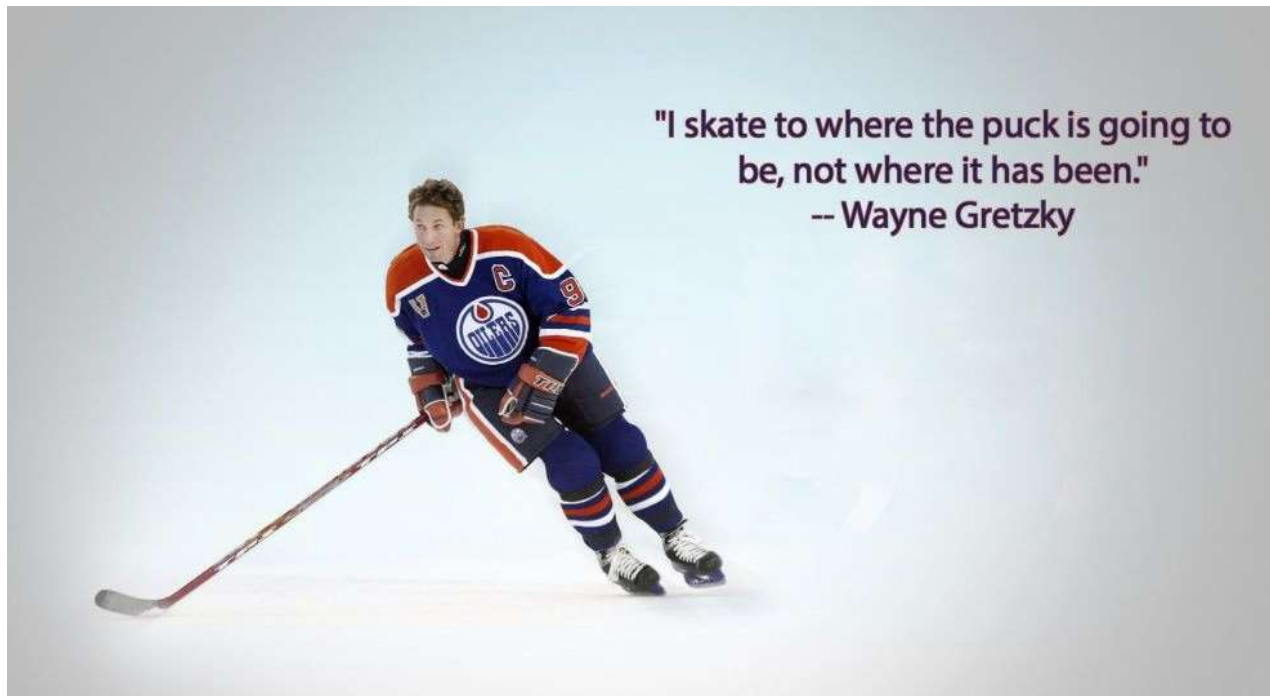
By Amit Chowdhry • April 8, 2019



Vertical and Horizontal Expansion



How to Keep Up?



"I skate to where the puck is going to be, not where it has been."
-- Wayne Gretzky



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Credit Unions Competitive Advantages

Strong Brands

Many credit unions have recognizable brands that can be leveraged for security and trust

Physical Presence

Yes, millennials want digital first solutions. However, they also have a desire to speak to an expert for life's more complicated matters such as buying a house

Deeper Product Lines

Having more products to offer means having more lines in the water

Balance Sheets

Balance sheets put credit unions in a better position to lend than the many of the new players

Existing Relationships

Relationships with millions of retail deposit members provides low acquisition costs



Assessing Your Options



BUY

PURCHASE THE
TECHNOLOGY & STAFF

PROS: Complete control

CONS: Costly, time intensive, on-going maintenance and operating expenses, regulatory and compliance burden



BUILD

BUILD & MAINTAIN A
DIGITAL LENDING
TECHNOLOGY PLATFORM
IN-HOUSE

PROS: Complete control, personalized platform

CONS: Costly, time and resource intensive, on-going maintenance and operating expenses, risk of being outdated by the time it's integrated



PARTNER

PARTNER WITH A
TECHNOLOGY COMPANY

PROS: Low cost, decreased time-to-market, limited operating expenses, continuously improved products, regulatory and compliance support

CONS: Less control, limits on full customization



Potential Benefits of Partnering with Fintech Companies

- Expand into new markets
- Reach new members
- Provide new products/services to existing member base
- Allow for greater efficiency/flexibility
- Access to data/expertise
- Ability to continuously innovate



Examples in Digital Lending

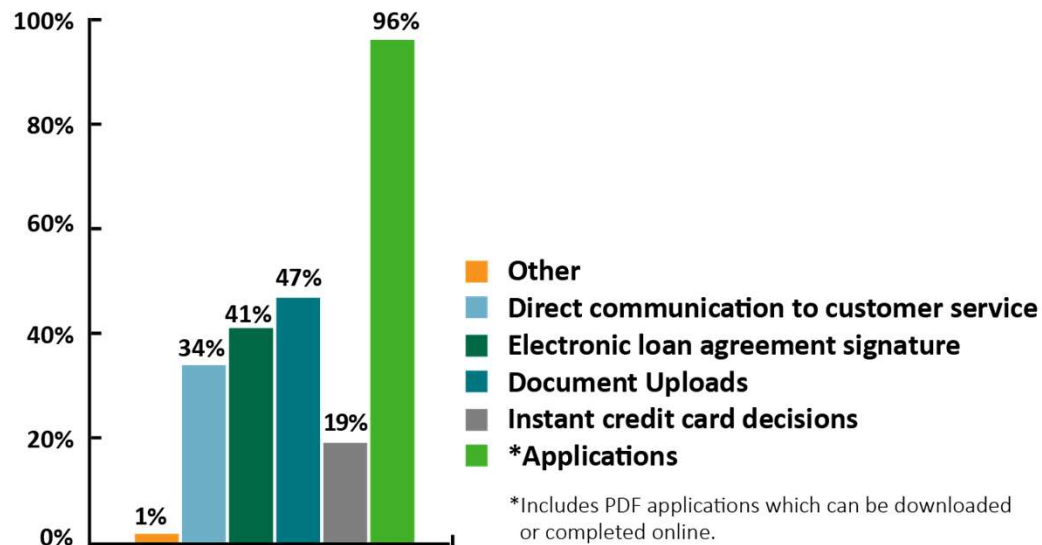
Most credit unions provide a digital application, but the remainder of the work is manual

Only 7% of credit union products are handled digitally from end-to-end



Which online features do you provide to your customers?

All Credit Unions



	Less than 1 billion	More than 1 billion
*Applications	96%	95%
Instant credit decisions	13%	32%
Document Uploads	54%	32%
Electronic loan agreement signature	46%	32%
Direct communication to customer service	33%	36%
Other	2%	0%
Total	100%	100%



Examples in Digital Lending

Current percentage in operating expenses of outstanding loans:

6%

Credit unions



2%

Non-credit union/
alternative lenders



ADVANTAGES OF GOING DIGITAL

Reduces time to underwrite, loan approval, and operating expenses

Increases amount of product offerings, loans, and revenue



TRADITIONAL
IN-BRANCH

FUTURE
DIGITAL



COST TO GENERATE A \$30K LOAN

\$3,050

\$750



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Challenge and Opportunities of Partnering

Challenges

- Integration
- Compliance risk
- Vendor management
- Lack of resources/expertise
- Vetting the right partner
- Additional fixed costs

Opportunities

- Lower costs
- Greater efficiency
- Increase ROA
- Offer superior experience without adding operational expenses
- Quick-to-market
- No maintenance
- Increase member experience and outreach



Assessing Partners & Mitigating Risk

- **Credit unions are accountable for the actions of their service providers**
- Initial and on-going vendor management/due diligence
 - Fintech companies come in all shapes and sizes and present various levels of risk
 - Vendor management is not “one-size-fits-all”; A risk-based approach should be utilized based on the potential of:
 - Reputational risk
 - Regulatory risk
 - Risk of material disruption upon loss of vendor/product/service
 - Impact to members



Understanding Laws/Regulations Applicable to Fintech Partners

- Which laws/regulations apply to the fintech provider?
- Subject to regulator supervision?
- Licenses/registrations?



Conduct Periodic Audits/Reviews

- View the Fintech provider as an extension of your institution that should undergo similar types of audits and examinations
- Conduct periodic monitoring and regular audits of the Fintech provider
 - Ensure that the Fintech provider has appropriate formal, documented processes and procedures that are adhered to and complied with in accordance with applicable law





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Thank
You!