mobile payments platform, Chase Pay.[70] The proposed mobile payment network would be rolled out to 100,000 merchant locations that are part of the MCX network, as well as technology providers that allow for phone-based payments at gas pumps and order-ahead services accepted at 340,000 locations.[71]

The Bureau will continue to monitor this space to understand the benefits and potential risks to consumers.

9.3 New competitors

Outside of credit cards and distinct from mobile payments, new entrants to the consumer lending market have brought new life to consumer credit products that are far older than consumer credit cards: installment loans and credit at the point of sale. These new entrants have been able to quickly enter the marketplace and increase competition with credit card issuers for consumer debt by relying on previously untapped capital pools, low-cost business models, and data analytics, particularly using non-traditional data sources. Some analysts project that these new entrants could, over five to ten years, control as much as 15% of the $843 billion U.S. unsecured consumer lending market.[72]

DEBT CONSOLIDATION

Marketplace (sometimes referred to as “peer-to-peer” or “platform”) lending has seen enormous growth, as evidenced by the two market leaders, Lending Club and Prosper. From the fourth quarter of 2009 to the third quarter of 2015, marketplace lending platform Lending Club grew

---

[70] *See, e.g.*, Karen Webster, *Through the Mobile Payments Looking Glass*, Pymnts.com (Nov. 2, 2015), http://www.pymnts.com/news/2015/through-the-mobile-payments-looking-glass/.

[71] *See id.*; *Chase Pay Mobile Wallet Launches – with MCX as a Partner*, Pymnts.com (Oct. 26, 2015), http://www.pymnts.com/news/2015/chase-pay-mobile-wallet-launches-with-mcx-as-a-partner/.

[72] *See* Ryan M. Nash & Eric Beardsley, *The Future of Finance Part 1: The rise of the new Shadow Bank* at 12, 19, Goldman Sachs Equity Research (Mar. 3, 2015) (including $697 billion in general purpose credit card loans; $75 billion in consumer finance loans; and $71 billion in retail loans).

originations from $26 million to over $2.24 billion per quarter.[73] As of September 2015, Lending Club has facilitated the origination of over $13.4 billion in loans.[74] And the rate of growth appears to be increasing. Prosper, for instance, took eight years to reach its first $1 billion in loan issuance; it took just another six months to reach $2 billion.[75] Many marketplace lending platforms specifically target credit card debt consolidation; Lending Club, for instance, advertises that borrowers who paid off "high interest credit cards" reported that the interest rate on their marketplace loan was an average of seven percentage points lower than their prior debts.[76] Its users self-report that, as of the second quarter of 2015, around one-fifth of Lending Club's loans (by the number of loans, as opposed to loan volume) were used to pay off credit card debt and a further one-half were used to refinance other debts.[77]

While specific business models may vary, marketplace lending companies are generally operated as "platforms" that connect borrowers with investors seeking to invest in loans originated on the platform. Individuals may participate as investors, but increasingly loans are funded by institutional investors, such as insurance companies, hedge funds, private equity firms, and banks. After securing commitments from investors, the platforms generally work with their banking partners to fund and disburse loans to borrowers. Subsequently, the platform creates a security representing the right to receive principal and interest payments on the loan. The security is then sold to the investors.

As compared to mainstream credit card issuers, marketplace lending platforms retain minimal credit risk, one factor which allows them to grow to large scale quickly. For instance, credit card

---

[73] Lending Club Statistics, Lending Club, https://www.lendingclub.com/info/statistics.action (last visited Nov. 19, 2015).

[74] Id.

[75] *See supra* n.72, 9.

[76] *See* Lending Club, Personal Loans, Lendingclub.com, https://www.lendingclub.com/public/credit-card-loans.action, (last visited Nov. 19, 2015) ("Based on responses from 14,986 borrowers in a survey of 70,150 randomly selected borrowers conducted from July 1, 2014 – July 1, 2015, borrowers who received a loan to consolidate existing debt or pay off their credit card balance reported that the interest rate on outstanding debt or credit cards was 21.8% and average interest rate on loans via Lending Club is 14.8%.").

[77] See *supra* n.74.

issuers have also taken advantage of securitization to fund loans, which allows them to "re-use" capital to make new loans. However, recent changes in accounting standards have required banks to consolidate these previously off-balance sheet loans back onto their balance sheets, meaning that banks have to hold capital against the total managed loan portfolio and retain the associated credit risk.[78] In contrast, the investors in marketplace loans, rather than the platforms themselves, take on the risk of borrower default. Accordingly, before its initial public offering, Lending Club held 1.7% of tangible equity against its receivables portfolio, well below the 14% to 15% typically held by credit card companies.[79] Furthermore, like Internet-only banks, marketplace lending platforms are able to come to market without the cost and investment of building time required of brick-and-mortar branches.

COMPETITORS AT THE POINT OF SALE

Distinct from marketplace lending, a new generation of online lending products have begun competing with credit cards on another front: real-time underwriting at the point of sale.[80] As with installment lending, discussed above, underwriting at the point of sale is hardly a new

---

[78] *See* Ryan M. Nash & Eric Beardsley, *The Future of Finance Part 1: The rise of the new Shadow Bank*, Goldman Sachs Equity Research (March 3, 2015), 13 (describing Financial Accounting Standards 167 and 177, which went into effect in 2010). Other commentators, however, have suggested that marketplace lenders could be affected by regulations approved by the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, and the Office of the Comptroller of the Currency in 2014 that require securitizers to retain at least five percent of the credit risk of asset-backed securities they issue. *See, e.g.*, Peter Manbeck & Marc Franson, *The Regulation of Marketplace Lending* at 20, Chapman and Cutler LLP (April 2015), http://www.chapman.com/media/publication/146_Chapman_Regulation_of_Marketplace_Lending_White_Paper_040815.pdf ("In view of the financial impact that risk retention would have on platform operations and the need, of course, to maintain compliance with applicable laws, both Operators and Funding Banks should carefully consider the application of the Final Regulations to their operations and may want to consider asking the Agencies to provide interpretive relief that the Final Regulations do not apply to Platform Notes.") Likewise, a recent request for information by the U.S. Treasury Department sought comment on whether marketplace lending platforms should be required to use their own capital to back loans they originate, so that they have their own "skin in the game." Public Input on Expanding Access to Credit Through Online Marketplace Lending, 80 Fed. Reg. 42866, 42868 (July 20, 2015).

[79] *See supra* n.75, 17.

[80] Other non-bank, tech-focused online lenders ("balance sheet lenders") are similar to, but distinct from, marketplace lending platforms. These lenders generally hold loans, and the associated credit risk, on their own balance sheets for at least several weeks after the loan is funded and made, rather than immediately passing on the credit risk to investors. Both balance sheet lenders and marketplace lending platforms offer a variety of different loan products such as debt consolidation loans, student loans, mortgage loans, or auto loans.

concept. Yet new entrants are able to compete with credit cards for consumer credit at the point of sale by seamless integration with Internet shopping portals and a near frictionless application and approval process.[81] For instance, Affirm, Inc. positions its "Pay Later with Affirm" button as an alternative to entering credit card information via the traditional "checkout" button in an online shopping cart.[82] A consumer enters his name, address, mobile phone number, e-mail address, date of birth, and the last four digits of his Social Security number.[83] Affirm uses its own underwriting models to make real-time lending decisions at digital points of sale, including for purchases enabled by mobile phones. "Within a matter of seconds, Affirm will approve or

---

[81] *See, e.g.*, Yuliya Chernova, *Bessemer Backs Consumer Lending Startup Bread*, WSJ Venture Capital Dispatch (Nov. 9, 2015), http://blogs.wsj.com/venturecapital/2015/11/09/bessemer-backs-consumer-lending-startup-bread/ ("Bread offers a basic unsecured consumer purchase financing loan, similar to ones from competitors such as PayPal, as well as by Affirm Inc., a startup run by Max Levchin, and Klarna AB. These companies are all competing against credit cards. In Bread's case, it is specifically going after the customers of private-label credit cards, or those that are branded by retailers such as Best Buy or Macy's.")

[82] Affirm, though it works with a banking partner to originate loans, is not a marketplace lending platform in that it ultimately retains those loans on its own balance sheet. *See, e.g.*, Dan Kedmey, *PayPal Co-Founder Takes Aim at Credit Card Industry With New Startup*, Time.com (Sept. 27, 2014), http://time.com/3430817/paypal-levchin-affirm-lending/. But marketplace lending platforms have also taken advantage of real-time underwriting technology to compete with credit cards at the point of sale. For instance, at least two major marketplace lending platforms partner with medical providers to offer consumers closed-end financing at the point-of-sale for large medical expenses that may not be covered by insurance plans, such as cosmetic and plastic surgery, bariatric surgery, dental work, and fertility treatment. *See, e.g.*, Jonathan Shieber, *Prosper Marketplace Buys American Healthcare Lending for $21 Million*, TechCrunch.com (Jan. 27, 2015). http://techcrunch.com/2015/01/27/prosper-marketplace-buys-american-healthcare-lending-for-21-million/; Press Release, *Lending Club Launches New Education and Patient Financing Product*, LendingClub (Nov. 12, 2014), https://www.lendingclub.com/public/lending-club-press-2014-11-12.action.

Likewise, Europe's largest online "buy now pay later" provider, Klarna, Inc., has partnered with various US networks, and has recently entered into an agreement with Overstock.com to offer credit at the point of sale. *See, e.g.*, Jonathan Shieber, *The Online Buy Now, Pay Later Service, Klarna Adds AmEx as a Partner*, TechCrunch (Sept. 29, 2015), http://techcrunch.com/2015/09/29/the-online-buy-now-pay-later-service-klarna-adds-amex-as-a-partner ; Cade Metz, *Now You Can Buy Stuff Online Without Paying Up Front*, Wired.com (Sept. 2, 2015), http://www.wired.com/2015/09/now-can-buy-stuff-online-without-paying-front/ ("According to the company, it has already signed 15 American customers, including Overstock. The trick is that when you key in your email address, Klarna almost instantly decides if it can extend you some credit, drawing on public and private data about, well, you. If you qualify, it gives you 14 days (and an additional grace period) to pay your bill.").

[83] Affirm, FAQs "What is required to have an Affirm account", Affirm.com, https://www.affirm.com/faqs/ (last visited Nov. 24, 2015).

deny the loan," potentially offering the consumer an installment loan with an APR of 10% to 30% over a three, six, or 12 month term.[84]

PayPal (and its banking partners Comenity Capital Bank and WebBank) similarly offers a "PayPal Credit" service, formerly known as "Bill Me Later," to consumers.[85] In public filings, PayPal explains that "lenders extend credit at the point of sale using our proprietary segmentation and credit scoring algorithms and other analytical techniques designed to analyze the credit risk of specific customers based on their past purchasing and payment history as well as their credit scores."[86] From a consumer's perspective, a "PayPal Credit" button appears as an option in an online shopping cart.[87] According to PayPal, approval "takes just seconds." PayPal advertises that PayPal Credit is available for purchases at "thousands of stores that accept PayPal," eBay, and "exclusively at thousands of other online stores."[88] In addition to being used for purchase transactions, the product is also available for person-to-person transfers as well.[89]

---

[84] *See* John Paul Titlow, *With Affirm, PayPal Cofounder Has a New Way For You to Buy Things Without Credit Cards*, Fast Company (Oct. 27, 2015), http://www.fastcompany.com/3052796/elasticity/paypal-co-founder-has-a-new-way-for-you-to-buy-things-in-stores (last visited Nov. 19, 2015) ("Affirm is hoping to court people with thin credit profiles, such as immigrants and millennials who have chosen not to use credit cards. By pulling in what Lin calls 'thousands of data points' beyond one's FICO score, Affirm is able to get a broader, more accurate idea of how likely each applicant is to repay their loans.").

[85] This year, the Bureau ordered PayPal to repay consumers $15 million for engaging in unfair, deceptive, and abusive practices in how it promoted and structured its credit offers, as well as how it integrated them into the broader payment process. It also ordered a fine of $10 million for the same conduct. *See* CFPB Takes Action Against PayPal for Illegally Signing Up Consumers for Unwanted Online Credit, Consumer Financial Protection Bureau report (May 2015), http://www.consumerfinance.gov/newsroom/cfpb-takes-action-against-paypal-for-illegally-signing-up-consumers-for-unwanted-online-credit/.

[86] PayPal Holdings, Inc., Quarterly Report (Form 10-Q) at 51 (July 23, 2015), http://www.sec.gov/Archives/edgar/data/1633917/000163391715000008/pypl10-qq22015.htm.

[87] *See* FAQs ("How do I select PayPal Credit as my payment method?"), PayPal.com (Oct. 2015), https://www.paypal.com/selfhelp/article/FAQ2870.

[88] PayPal Credit, FAQs ("How does PayPal Credit Work") PayPalCredit.com , https://www.paypalcredit.com/index.html (last visited Nov. 19, 2015).

[89] *See* FAQs, PayPal Credit, PayPal.com (Oct. 2015), https://www.paypal.com/selfhelp/article/FAQ2862 (noting that for person-to-person transactions "[a] flat fee of 2.9% + $0.30 US dollars (USD) per transaction is included"). As of October 2014, the APR for standard purchases and cash advances was 19.99%, notwithstanding special offers with lower promotional rates.

As of December 31, 2014, PayPal reports that the total outstanding principal balance of consumer receivables was $3.1 billion, for which the weighted average consumer credit score was in the prime range.[90]

These kinds of services may offer benefits to consumers if they are consistent with the law and their financing is fair, transparent, and competitively priced.[91] These innovations, however, may also pose risks to consumers if any of those conditions are unmet. The Bureau plans to monitor the evolution of these platforms and the way consumers engage with them in coming years.

---

[90] See *supra* n.86, 34. Some 9.3% of the pool of consumer receivables was due from consumers with subprime scores.

[91] Affirm, for instance, touts its transparency as an advantage over credit card issuers, as well as a lack of late fees or other "sneaky" credit card fees. *See* John Paul Titlow, *With Affirm, PayPal Cofounder Has a New Way For You to Buy Things Without Credit Cards*, Fast Company (Oct. 27, 2015), http://www.fastcompany.com/3052796/elasticity/paypal-co-founder-has-a-new-way-for-you-to-buy-things-in-stores ("So why bother with Affirm when credit cards exist? For one thing, Affirm's director of marketing Ed Lin tells Fast Company, the company aims to be more transparent than their traditional counterparts. Upon making an Affirm-backed purchase, the customer is explicitly shown how much interest they will be required to pay and what the monthly payments will look like.").