

BUILDING TECHNOLOGY FOR CROSS-SECTOR COLLABORATION

A Case Study of Fintech-CDFI Partnership Success / September 2017

by Jenna Boyer and Gwendy Brown



shared vision



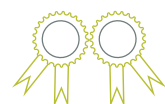
shared values



shared resources



shared risks



shared rewards

EXECUTIVE SUMMARY

Opportunity Fund has joined with LendingClub and Craft3 in a first-of-its-kind partnership between a Community Development Financial Institution (CDFI)¹ and a fintech² lender. Through this partnership, Opportunity Fund and LendingClub are expanding access to affordable capital for small businesses in the United States. In a market where many “alternative” online lenders are attracting customers with fast turnaround times and deceptive pricing, many small businesses are getting caught in high-cost financing contracts or finding themselves without affordable options for capital to help their businesses grow. The partnership between Opportunity Fund and LendingClub combines the mission focus of a CDFI with the online lending expertise of a fintech, creating a new model for transparent, responsible lending services that meet the needs of today’s small business owner. The additional participation of Craft3 as our CDFI partner creates broader potential for growth and scale for this innovative model.

As part of this initiative, and with generous support from JPMorgan Chase, the partners are committed to evaluating the model and sharing learnings with our community of stakeholders. This report assesses the evolution of this innovative CDFI-fintech partnership by discussing its rationale, history, and performance between June 2015 and May 2017. Our goal is to provide CDFIs, funders, policy makers, and other interested parties a closer look at how one mission-based lender designed, launched, and expanded a cross-sector partnership. While this is not a how-to manual, we seek to share relevant lessons for how CDFIs can create successful fintech partnerships. Some of the key takeaways revealed through our assessment include the following:

- 1. PARTNERSHIPS ARE ORGANIC**

Relationships, resources, and alignment form the foundation to a successful partnership.

- 2. LEARNING IS HARD, BUT ESSENTIAL**

It takes time, flexibility, and patience to build strong systems and collaboration.

- 3. ALL IN TO WIN**

Partners must be fully committed to the project at all levels of the organization.

- 4. EVALUATING A MOVING TARGET**

Dynamic partnerships require a nimble, nuanced approach to goal setting and evaluation.

These themes are explored in greater detail throughout the report.

This initial report does not evaluate the longer term impacts of the initiative on the business owners served through the partnership. A future report will share insights from small business owners who received funding through this cross-sector collaboration.

This report is written primarily from the perspective of Opportunity Fund, although it includes alternate perspectives from our partners when relevant.

INTRODUCTION

In May 2016, after 22 years of face-to-face small business lending, Opportunity Fund made its first online loan through our partnership with the fintech company, LendingClub. The business we funded provides training in CPR and other life-saving measures. The single mother who owns the business was unable to get a traditional bank loan, but through Opportunity Fund’s unique partnership with LendingClub, she secured financing that allowed her to expand her business and hire an assistant. Since that time, we have continued to make online loans through this first-of-its-kind CDFI-fintech partnership, and we have added a second CDFI, Craft3, which serves businesses in Washington and Oregon. What follows is an exploration of the history of this innovative partnership, its effectiveness to date, and its future direction.

CUSTOMER EXPERIENCE

Today, when a business owner applies for a loan on the LendingClub website, LendingClub’s credit models evaluate the application to see if it meets the platform’s criteria. If the application fails, it is automatically evaluated against Opportunity Fund’s lending criteria. If there is a match, the applicant receives an instant loan offer from Opportunity Fund on the same website. Applicants who meet neither

LendingClub nor Opportunity Fund criteria are declined by LendingClub and are not informed of our “second look.” Once a business owner clicks on our offer, an Opportunity Fund Loan Consultant calls them immediately—within minutes of the offer. The business owner completes the process via email and phone and receives funding within 5 business days.




Behind the scenes, LendingClub’s technology quickly underwrites the loan application using a digital credit model developed with Opportunity Fund, which leads to an automatic presentation of the best loan offer possible from Opportunity Fund. Opportunity Fund’s underwriting team then works directly with the business owner to help them complete the process. When the successful loan applicant is in Washington or Oregon, upon loan disbursement, Craft3 purchases the loan from Opportunity Fund, and the borrower becomes Craft3’s client. Although a business owner initially sought funding from a fintech (LendingClub), they received a loan and ongoing advising from a nonprofit CDFI (Opportunity Fund and/or Craft3). Most important for the business owner, they were able to quickly access the financing at a reasonable rate and didn’t end up with a high-cost, short-term loan³ in the process.



PARTNERSHIP OVERVIEW

Mission-based CDFI lenders like Opportunity Fund and Craft3 have traditionally defined their role as providing financing to small businesses that cannot access conventional capital such as bank loans. During the past five years, however, there has been dramatic transformation in the small business lending space, with many banks withdrawing from the small and micro business market, and new alternative lenders—including fintechs—moving in with a range of financing options from the affordable to the predatory. Thus CDFIs now not only seek to finance business owners who get a “no” from a bank, but also to engage head-on with alternative lenders.

The partnership between Opportunity Fund, LendingClub, and Craft3 is set against this backdrop of rapid and dramatic change in financing. In this quickly evolving marketplace, many CDFIs are questioning how they can best achieve their mission of providing responsible capital to those who need it, particularly to low-income and minority business owners. Our CDFI/fintech partnership—the first of its kind—is one solution, responding to the need of small businesses to access financing quickly and easily while upholding principles of transparency and affordability.

ABOUT THE PARTNERS				
ORGANIZATION	TARGET POPULATION SERVED + GEOGRAPHY	MISSION STATEMENT	SMALL BUSINESSES SERVED	ROLE IN THE PARTNERSHIP
 <p>Established in 2007 Marketplace Fintech Lender</p>	Consumers and small businesses in the United States	Small business vision: Leverage technology and data to help small businesses succeed through a seamless and transparent way to access capital at a fair price.	2017 Q1-Q2 results: 350,000 loans to consumers and small businesses, \$4 billion	<ul style="list-style-type: none"> • Customer generation • Instant offer presentment • Accessible, fast, easy online customer experience
 <p>Established in 1994 Nonprofit CDFI</p>	State of California*, focus on low and moderate income business owners	To advance the well-being of working people by helping them earn, save and invest in their future.	FY2017 results: 2,188 loans to small and micro businesses in California, \$65.7 million	<ul style="list-style-type: none"> • High touch sales experience • Underwriting and loan closing • Loan servicing and collections • Business advising
 <p>Established in 1994 Nonprofit CDFI</p>	Oregon and Washington state	To strengthen economic, ecological and family resilience in Pacific Northwest communities.	FY2016 results: 97 commercial loans, \$32.2 million 370 consumer loans, \$5.9 million	<ul style="list-style-type: none"> • Purchase eligible loans • Gain knowledge about small-dollar business lending to improve services • Provide ongoing advising

*In March 2017, Opportunity Fund began lending in an additional 12 states through this partnership, and will expand to more states beginning in fall 2017

PARTNERSHIPS FOR RAISING OPPORTUNITY IN NEIGHBORHOODS (PRO NEIGHBORHOODS)

JPMORGAN CHASE & CO.

In 2015, JPMorganChase launched PRO Neighborhoods, a \$125 million, five-year commitment to address neighborhood quality issues, which are among the biggest drivers of income and wealth inequality.

The PRO Neighborhoods initiative supports CDFIs and housing innovators that can leverage capital and expertise to drive greater investment in low- to moderate-income (LMI) neighborhoods through:

- **Annual CDFI competition and peer learning program** for CDFIs that address complex community challenges by aligning talent, technology and balance sheets
- **Innovative housing financing models**, to increase or preserve affordable housing, that connect LMI individuals to resources that drive economic mobility
- **Research and data** that informs local planning and investment decision-making

The partnership, lending and research activities described in this report were supported through a three-year, \$2.6 million PRO Neighborhoods Grant.

BORROWERS' BILL OF RIGHTS

Opportunity Fund and LendingClub were founding members of the **Small Business Borrowers' Bill of Rights**, which identifies six fundamental rights that all small business owners seeking financing deserve, along with the specific practices that lenders and brokers must abide by to uphold and protect these rights. The Small Business Borrowers' Bill of Rights is a product of the Responsible Business Lending Coalition (RBLC), a network of for-profit and non-profit lenders, brokers and small business advocates. Coalition members share both a commitment to innovation in small business lending aimed at making credit more accessible, and serious concerns with the rise of predatory and irresponsible lending practices in the small business lending market.



1. The Right to Transparent Pricing and Terms



4. The Right to Fair Treatment from Brokers



2. The Right to Non-Abusive Products



5. The Right to Inclusive Credit Access



3. The Right to Responsible Underwriting



6. The Right to Fair Collections Practices

PARTNERSHIP OVERVIEW *(continued)*

PARTNERSHIP TIMELINE

Opportunity Fund and LendingClub began to discover mutual interests when, in 2015, they came together with others to co-found the *Small Business Borrowers' Bill of Rights* (BBoR), largely in response to the rise of high-cost alternative loans. BBoR signatories are dedicated to fair, transparent lending practices. Through their work with the BBoR, the two organizations began to discuss how they might more directly influence customer-centered, responsible lending in the alternative lending space. After months of planning, LendingClub and Opportunity Fund announced their groundbreaking collaboration at the 2015 Clinton Global Initiative. At the same time, Opportunity Fund was planning a strategic geographic expansion with Craft3 that would benefit both organizations.

The evolution of the partnership can be thought of in three stages: Design, Exploration, and Growth (see image below). In the design phase, the partners focused on making public commitments, deepening relationships, and securing the resources necessary to move the project ahead. This took nearly a

year. The next year represented the exploratory phase, when the partners did the very hard work of translating vision into reality. This second phase included going “live” on the LendingClub website, numerous process iterations, issuing the first 100 loans, and the initial expansion outside California with Craft3.

In May 2017, Opportunity Fund and LendingClub launched an Application Program Interface (API), a major technology improvement that enables instantaneous Opportunity Fund loan offers to be delivered to business owners via LendingClub’s website (rather than sent via email). This represents the beginning of the growth phase of the partnership, with the potential to dramatically increase conversion rates, that is, increasing the percentage of business owner applicants who see a loan offer and receive financing. Beginning in fall of 2017, a second geographic expansion will enable business owners in at least two dozen states to access affordable, responsible capital online through the partnership.



METHODOLOGY

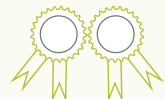
“I think it’s important for organizations like ours, we should be in the business of sharing our lessons learned, period.”

COMMITMENT TO LEARNING

Opportunity Fund’s evaluation team conducted in-depth interviews with a total of 18 key staff at the three partner organizations in March 2017, to discuss perceived attributes of success, challenges, and future potential for the partnership. Our team based the interviews on a partnership assessment framework from Partners in EXCELLENCE⁴. The framework posits that effective strategic partnerships maximize five attributes of success: Shared Vision, Shared Values, Shared Resources,

Shared Risks, and Shared Rewards (SV2 + SR3). Balance and alignment along these attributes is critical to a strategic partnership’s success. (The interview questions, as well as a list of participating staff interviewees, can be found in the appendix.) Our findings, organized around the partnership framework attributes, explore themes of greatest consensus amongst interviewees, as well as areas of divergence.

FIVE ATTRIBUTES OF STRATEGIC PARTNERSHIP SUCCESS





shared vision

What are the shared objectives and expected outcomes of the partnership?

What motivated each partner to do this work?

SHARED VISION

Interviewees were asked to reflect on why their organization and the partner organizations chose to embark on this initiative and how success was defined at the outset. While each organization had its own motivation and goals, these were generally complementary; there was an overarching shared vision to **expand small business owners' access to affordable capital in a responsible way**. There was strong consensus among staff of all three organizations that the partnership was a way to serve more customers, particularly business owners who otherwise would have few affordable alternatives. Interviewees believe that by leveraging LendingClub's robust online presence and marketing capability and Opportunity Fund's flexible underwriting criteria, we are able to reach significantly more small business owners who don't qualify for traditional credit but who would not have otherwise found Opportunity Fund.

“One approach looks at data in aggregate (fintechs), and one approach looks at businesses' story (CDFIs). I think for these market problems to be solved, those two approaches need to be synthesized. That might be the most fundamental complement and driver of this partnership.”

The partners also had shared visions of **seamless technology integration** and **putting the borrower's needs front and center**. It wouldn't be enough to simply offer capital to business owners in the traditional CDFI method and timeframe; the partnership needed to mimic an online lending experience. This meant not only minimizing customer friction points, but also making sure that Opportunity Fund's back-end teams could support a speedy, standardized process. Ultimately, to successfully compete with other offers a business owner might be evaluating, we had to merge a CDFI product with a fintech experience to create a “high tech, high touch” model.

“What we've learned is that we have to make things really, really simple, but we are working hard internally to not abandon the relationship-driven model. So how do we, while making that really simple and easy and quick for our clients, still build and maintain a relationship?”

Along with this shared vision, each of the three partners had its own vision and motivations for taking on this initiative. For Opportunity Fund, this partnership provided a way to expand to new markets in California as well as in new states,

SHARED VISION *(continued)*

providing a responsible alternative to high-cost cash advance products. Another Opportunity Fund goal was learning by doing: building the technical systems and processes, through collaboration with a leading fintech, that we simply could not have done on our own.

This partnership allowed LendingClub to expand service to subprime small businesses through a trusted partner and deepened its reputation as a responsible innovator. LendingClub was further able to demonstrate to the alternative lending industry that subprime customers can be served fairly. The partnership also provided a means for LendingClub to earn revenue; Opportunity Fund pays a referral fee when customers accept its loan offer.

The partnership enabled Craft3 to learn about small-dollar lending from a CDFI with considerable expertise in this area. Craft3 also learned how to play a role in online lending, without requiring a major technology investment. Lastly, Craft3 hopes to reach new customers, and, ultimately, convert some to longer-term Craft3 clients.

The partnership's initial goal was to lend \$10 million in the first six-12 months and then pause to monitor portfolio performance before considering expansion. In reality, it took a full year to lend \$6 million, during which time we could see that processes and systems were working well, and that we were steadily learning how to optimize performance. Thus the idea of a pause no longer seemed necessary. Instead, to take advantage of our steady momentum, we began to scale up.





shared values

What are the partners' shared values and cultural attributes?

SHARED VALUES

Shared values created the foundation for this partnership. Long before we decided to join forces, Opportunity Fund and LendingClub were connected by a common set of principles regarding small business financing through the *Small Business Borrowers' Bill of Rights* (BBoR). Interviewees reflected on the partners' alignment in values, which generally fell into one of two categories: shared values in each organization's approach to small business lending and shared cultural values.

Lending Philosophy

A common thread uniting the three partners is a dedication to **servicing entrepreneurs who have few, if any, affordable financing options** available to them. As mission-based CDFIs, Opportunity Fund and Craft3 were founded to help improve their regional communities by providing high-potential business owners with the capital and support they need to thrive. LendingClub's original mission in consumer lending—helping consumers refinance high cost credit card debt—also speaks to an underlying belief in providing affordable capital.

There is also strong consensus among all three partners about keeping the needs and interests of small business borrowers at the center of our lending approach. Many interviewees talked about the importance of **responsible lending** values, embodied in the BBoR. These include transparent pricing, fair and appropriate loans that borrowers

can afford, responsible underwriting, fair treatment from brokers, equal access to credit, and fair collection practices. (More information on BBoR on page 3.) As founding signatories to the Small Business Borrower's Bill of Rights, LendingClub and Opportunity Fund shared a common language and philosophy regarding small business lending.

Interviewees from all three companies also spoke about the importance of **responsive lending** — the belief that we should serve our clients by building efficiency and speed into the loan process. Small business owners are often frustrated by requirements for onerous documentation when applying for credit and may instead opt for a loan with less-favorable terms if the process is simpler and faster. Opportunity Fund, LendingClub, and Craft3 are committed to finding ways to become more client-centered, so business owners aren't forced to choose between difficult applications and unbalanced credit practices, between responsive lending and responsible lenders.

Ultimately, the partners believe in a convergence of responsible and responsive lending in the creation of a sustainable business model. While sustainability means different things for each organization, there is fundamental agreement that it is necessary, possible, and even sometimes profitable to align the interests of business owners and the needs of the lenders who seek to serve them.

Cultural Values

In addition to shared values around how to serve business owners, the interviews uncovered other important shared cultural values among the organizations. First, critical to our ability to form a deep collaboration, the organizations and staffs **respected and trusted** each other. This mutual respect was vital to open and honest communication, information sharing, and feedback.

“Access to capital should be a positive thing, a productive thing, not something that’ll hurt the borrower.”

Because learning was such an important goal of the partnership, it was critical that each partner fully embrace the values of **flexibility and adaptability**, especially when things did not go as planned. Opportunity Fund and LendingClub both needed to be adaptable when adjustments to the model were required. Craft3 had to be flexible to play a secondary role as the project developed. Many interviewees also noted that a culture of **risk taking** was a critical shared value essential for embarking upon such an ambitious and complex endeavor together.

REPUTATION

Reputation is a theme that cut across all categories in the interviews:

- **Vision:** Promoting/boosting each organization’s reputation through the partnership
- **Vision/Values:** A desire to work with partners that have a good reputation
- **Resources:** The positive reputation of each partner was an asset
- **Risk:** To some extent, each partner also put its reputation at risk through the partnership
- **Reward:** Advancing our reputations with our stakeholders (peers, regulators, investors/funders, etc.) as innovators and responsible lenders



shared vision



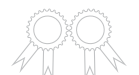
shared values



shared resources



shared risks



shared rewards

FINDINGS



What are the resources being invested by each partner?

Are they appropriately balanced?

shared resources

SHARED RESOURCES

This partnership was made possible, in large part, through a \$2.6 million grant from JPMorgan Chase's PRO Neighborhoods initiative, which was used for technology, staffing, loan capital, and program evaluation. (See page 3 for more information on the PRO Neighborhoods initiative.) LendingClub and Opportunity Fund both made significant investments in engineering, development, and staffing as well as technology infrastructure in order to create the integrated customer experience in place today. Opportunity Fund hired new staff members, including developers, product managers, and our first Chief Information Officer, to ensure the success of this strategic initiative.

“Without engineering resources and engineering capabilities, nothing is going to be possible on whatever timeline or vision that we have.”

All three partners also invested significant intellectual effort and a deep commitment at all levels of the organization, including executive leadership and Boards of Directors. Numerous interviewees stated that, particularly for a CDFI, there must be full commitment at every level of the organization to launch and sustain an endeavor of this scope: this cannot be an ancillary project. The support of organizational leadership was critical,

enabling the partners to make this initiative a priority and to fully trust one another's commitment.

Each partner also brought unique expertise and competencies. LendingClub brought online and technology expertise; Opportunity Fund brought knowledge about lending to the target population and familiarity with small dollar lending; Craft3 brought deep knowledge of the business landscape in the Pacific Northwest.

A few interviewees noted how the level of investment by each organization wasn't equal, but was proportional and reflected the varying level of benefits derived by each organization from the initiative. As noted above, Opportunity Fund invested significantly in new and existing staff, technology, and systems, reflecting the fact that this strategic initiative lays a foundation for a major new segment of lending for Opportunity Fund and the CDFI field. On the other hand, for LendingClub, a large company with multiple lines of business and partnerships, the share of investment may be proportionately more modest. Still, LendingClub's investment of much needed engineering and staff time indicates its level of commitment to responsible small business lending and access to capital for disadvantaged business owners. Craft3 devoted staff time and leadership energy to the partnership even though it didn't incur engineering or technology costs.

SHARED RESOURCES *(continued)*

“I think the problems we’re seeing in the market right now, one of the factors is just people are trying to solve small business access to capital without really understanding small businesses. Instead, relying on marketing funnel, conversion knowledge, data modeling knowledge, and [unfair] pricing.”

Interviewees agreed that Opportunity Fund has invested the most in this partnership, but agreed it is also likely to get the most out of it. While resource investment was not balanced in absolute terms, each partner contributed appropriately according to both their capacity and expected return. Going forward, Opportunity Fund will continue to invest

significant resources, knowing that the project has the potential to generate benefits and efficiencies that could ultimately lower costs across Opportunity Fund’s entire portfolio.





shared risks

What are the risks being borne by each partner?

Is each partner's level of risk appropriate given its investment and potential reward?

SHARED RISKS

Interviewees shared a list of risks encountered in this project. Some of these relate directly to the success of the project: Could we build the systems, make the loans, and secure loan repayment? At an organizational level, risks include whether the initiative is the best use of resources. Even more important: could the project cause mission drift? For a partnership between CDFIs and a publicly traded company, there is a risk of misaligned priorities. Lastly, reputations could be at risk in the event of project failure or significant missteps by a partner.

Early in the partnership, there was an unexpected leadership change at LendingClub, which created the potential to damage reputations for CDFI partners and reduce interest from LendingClub. But those threats never materialized, and the project remained on track, in large part, due to the staff commitment and communication at all three organizations.

Portfolio performance remains the largest potential outstanding risk, given that we are lending to a new borrower segment that is online and loan repayment is a lagging indicator. In any lending initiative, there is a risk of financial loss for a lender in the event that repayment rates do not meet

expectations. The financial support from JPMorgan Chase for this project was instrumental in enabling the partners to mitigate risk in the event that the portfolio experienced higher-than-expected losses. The portfolio is being monitored very closely, and borrower repayment to date has met or exceeded expectations.

“[This work is] very time intensive. I think what we’re giving is really our people’s time in working [on] these [loans]. That’s really the risk that we’re bearing, because the more time that this partnership takes, potentially, that means less time for the rest of our portfolio.”



shared vision



shared values



shared resources

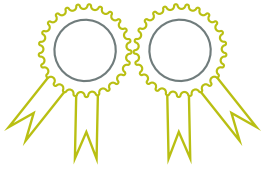


shared risks



shared rewards

FINDINGS



shared rewards

What mutual benefits are the partners gaining?

What are the rewards each partner is gaining, and are the rewards appropriate given the level of resources invested and risk borne?

In light of the original vision, how is the initiative going?

SHARED REWARDS

Nearly two years into the project, the partners have a good sense of how the partnership is going, and to what extent their visions have been realized. Interviewees reflected on what their organizations gained and how their organizations benefitted. Gains included learning and system building, benefits to business owners receiving loans, mission achievement, reputation enhancements and, in some cases, financial benefits.

For Opportunity Fund, results to date make the investments well worth the effort. The number one reward from the partnership thus far has been what it has taught us, which several interviewees said, “cannot be overstated.” This learning included how to create processes and integrate technology; it also related to serving a new type of customer in a new way. This initiative allowed the organization to expand to new markets and try something big in a relatively safe way, thereby enhancing Opportunity Fund’s reputation. Respondents also mentioned that this project has helped answer certain “existential” questions facing Opportunity Fund about whether the 20-plus-year-old CDFI should and could be online.

For LendingClub, the project has “exceeded everyone’s expectations,” expanding loan volume, adding service to applicants who don’t fit its core loan and line-of-credit products, and modeling to the alternative lending industry how to responsibly serve higher-risk small businesses. As mentioned previously, LendingClub earns a fee for each CDFI loan, offsetting the cost of acquiring leads it is unable to serve. Lastly, partnership activities have boosted staff morale and culture, building pride and a deepened focus on social impact, innovation, and customer service.

For Craft3, the benefits of the project have not yet fully materialized, as loan volume remains low. Among the reasons for this is the delayed entry of Craft3 to the initiative; lending in Oregon and Washington only began in March 2017. In addition, Oregon’s strict usury law restricts the partnership’s ability to make loans of less than \$50,000 in the state, reducing the potential market. However, interviewees said that the partnership allowed Craft3 to gain actionable knowledge about both online lending and small-dollar loans with minimal risk, and its personnel hope to see greater portfolio diversification as a result of converting LendingClub-referred borrowers into Craft3 clients.



shared vision



shared values



shared resources



shared risks



shared rewards

LESSONS LEARNED

Because this initiative is the first of its kind, it was designed to be iterative, adaptive, and experimental. Consolidating the lessons learned from a multi-dimensional, dynamic partnership is challenging, especially given that the project continues to evolve daily. But four key takeaways emerge:

LESSON #1: PARTNERSHIPS ARE ORGANIC

No two partnerships are built on the same foundation. The ability of Opportunity Fund, LendingClub, and Craft3 to roll out this ambitious initiative was enhanced by our prior interactions, as well as by synergies that are unique to these partners. A main takeaway from our interviews was that the partners' alignment around values and vision formed the foundation that enabled the three organizations to find balance in committing resources, sharing risks, and sharing the rewards of the partnership.

HAVING A PRIOR RELATIONSHIP CREATED A BASIS FOR SUCCESS

As founding members of the Responsible Business Lending Coalition, which created the Small Business Borrower's Bill of Rights, Opportunity Fund and LendingClub were connected before the PRO Neighborhoods partnership by the shared value of responsible small business finance. Shared experiences also helped create synergy: Key LendingClub staff members have worked at CDFIs and were familiar with mission-based lending, while several Opportunity Fund senior and program staff members know fintech lending.

The proximity of the two companies' offices—only a few blocks apart in downtown San Francisco—while not critical, proved helpful, allowing face-to-face meetings and collaboration throughout planning and development phases.

Opportunity Fund and Craft3 are both well-established West Coast CDFIs, and each recognized the other as a respected and trusted lender to small businesses. Recognizing an opportunity to share knowledge and leverage each other's strengths, the two CDFIs forged a partnership through PRO Neighborhoods to expand access to capital for small business owners throughout our service areas.

EXTERNAL AND PUBLIC SUPPORT CREATED AN URGENCY TO ACT

LendingClub and Opportunity Fund took advantage of the unique opportunity to publically announce our partnership on stage at the Clinton Global Initiative in 2015. This high-profile announcement garnered national attention and created an urgency to meet commitments and deadlines.

FINANCIAL SUPPORT FROM JPMORGAN CHASE ENABLED THE PARTNERS TO DREAM BIG

Generous seed funding from JPMorgan Chase provided both the resources and the confidence the partners needed to embark on this ambitious initiative. The PRO Neighborhoods grant enabled Opportunity Fund to make the substantial investments in staff and technology necessary to bring the project to fruition. A more modest level of financial support may have limited our ability to make the needed investments, gravely hamstringing the initiative.

LESSON #2: LEARNING IS HARD, BUT ESSENTIAL

Opportunity Fund, LendingClub, and Craft3 embarked on an ambitious, long-term effort to improve access to responsible loans for small businesses, disrupting the traditional CDFI lending model in the process. While the potential rewards to all parties (fintechs, CDFIs, and small business owners) are great, the process presented a steep learning curve for all three partners. As one interviewee put it: “We had to learn to crawl before we could walk, and we had to learn to walk before we could run, and only then can we train for a marathon.” Each step presented both challenges and rewards in the short term, but the long-term goal was always in sight. Each of the partners experienced “growing pains” as part of the process of learning and improving the work we do through this initiative.

For Opportunity Fund, the concept of going to market with a “minimally viable product,” which was sufficient to launch in the marketplace but not fully developed, was new territory. While this approach is common for technology companies, it is unconventional in the CDFI world. This approach required stepping out of our comfort zone and having the agility to adapt and develop the product even as it was being offered to customers.

While the vision was to create a “seamless customer experience,” it took significant time to get there. The first versions of the customer experience were clunky: customers received an email offer from Opportunity Fund rather than an immediate offer via LendingClub’s platform. Some small business owners did not see the email or opted for a loan through another alternative lender with a faster approval (and most likely with less favorable terms). It also took time to develop the API to make the experience smoother. Interviewees reflected that the slower start was ultimately a blessing, however, because it gave Opportunity Fund the time it needed to get internal

systems and processes ready for increased deal flow once the API went live. It also allowed Opportunity Fund sales staff time to better understand the online borrower segment and to test and improve strategies to close loans more efficiently.

Before investing the engineering resources to fully integrate processes, LendingClub needed assurance that Opportunity Fund’s team could perform as expected. One Opportunity Fund staff member commented, “A ‘can-do’ attitude is important, but equally important is knowing, ‘What are we capable of?’ You need to really answer that question before embarking on something like this.” LendingClub needed to learn more about Opportunity Fund’s true capacity and its capability to execute—not just rely on optimistic predictions about those capabilities. In strategic partnerships such as this one, some of the most important learning is not information sharing, but a deep understanding about how to best work together.

Craft3 had ambitious goals to learn about both best practices in small-dollar lending (Opportunity Fund’s core competency) and the potential of online lending (through the CDFI-fintech partnership). Craft3 and Opportunity Fund staff met several times to share tools, processes, and strategy relating to credit policies, procedures, staff roles, and other topics. Staff reflected in interviews that what Craft3 learned from Opportunity Fund, while valuable, didn’t fully meet their expectations. In retrospect, it became clear that regular training meetings and information sharing weren’t sufficient to meet Craft3’s primary goal of learning. Instead, baseline knowledge, expected outcomes, and learning processes should have been established at the outset. Learning and information sharing deserves as much thoughtful planning as the more tangible aspects of the project.

LESSON #3: ALL IN TO WIN

In order for a partnership of this kind to succeed, all partners must be fully committed, across all levels of the organization, including leadership, board members, and team members. A “lead” partner (in this case, Opportunity Fund) must be willing to invest heavily in the project and drive the initiative forward. A CDFI-fintech collaboration must be at the core of the business, not ancillary for either partner; this is especially true for the “lead” partner.

For Opportunity Fund, the last two years have been truly transformative, rippling through every level of the organization. Early in the design phase, we decided that whatever process changes or improvements were required to accommodate the LendingClub partnership would be rolled into our traditional lending as well, benefiting all of our work. Thus, the project has not developed in a silo, but has touched all teams: marketing and sales, loan underwriting, and operations and collections, as well as our newly created product team and significantly expanded IT team. Board input, leadership planning, and consultation with lawyers and compliance experts were also essential. Interviewees consistently noted that this deep level of investment was indispensable in reaching the growth phase the partnership has recently entered.

In addition, LendingClub’s expectation that the partnership would be expanded beyond the state of California played a significant role in driving Opportunity Fund to prepare for lending in an

additional 12 (and soon to be more) states. In order for all partners to reap the benefits of the integration, it is essential that lending be as geographically broad as possible. This represents another way in which Opportunity Fund was transformed as part of the project: from serving primarily urban areas in California, it is scaling to serve a much larger footprint. Had Opportunity Fund not been willing to undergo significant transformation, and chosen instead to pursue the project as a side effort, it may have been much less disruptive, but almost certainly less effective.

Recognizing the potential of this cross-sector collaboration, Craft3 took a leap of faith by committing to purchase all loans made in Oregon and Washington through this partnership. Several interviewees reflected on Craft3’s willingness to play a secondary role in the partnership, with very little control over the development of the credit model and limited visibility into how the product would ultimately be delivered to customers.

LendingClub invested significant engineering and staff resources to this partnership, a clear indication of its commitment to responsible and innovative small business lending solutions. Even though the partnership represents a relatively small portion of LendingClub’s overall business, the endeavor expanded LendingClub’s ability to provide the best possible loan product to the greatest number of small businesses.

LESSON #4: EVALUATING A MOVING TARGET

The partners set ambitious goals at the outset to build and integrate our systems and lend \$10 million to small businesses in 6-12 months. But with a slow start at the outset, it became clear fairly quickly that we wouldn't meet this deadline. In addition, the unexpected leadership change at LendingClub early in the partnership created a brief period of uncertainty. However, as mentioned above, this slower-than-expected launch enabled the partners to adjust; one interviewee compared this period to "training wheels." For such a dynamic experiment, it was and is critical that the partners allow the goals and other aspects of the project to evolve, even as they remain committed to the shared vision, and stay honest about whether the investment is paying off. It is often tempting to set easily measured quantitative goals, but clearly identifying anticipated learning or projected longer-term organizational growth implications can create larger community impact in the long run. CDFI evaluators, leadership and funders should continue to explore how to bring more iterative thinking into their assessment of strategic projects of this kind.

By many measures, this project has been a tremendous success. It is meeting its fundamental objective of helping business owners access affordable capital and avoid predatory lenders. All three partners have learned a great deal about each other and about how to serve these customers better. A well-established CDFI, Opportunity Fund, has developed strong systems and processes to enable it to grow its lending in new regions with other fintech and CDFI partners. On the fintech side, LendingClub has been able to reach a market it could not otherwise serve by partnering with a responsible lender to connect subprime small business owners with an affordable financing option that meets their needs. The broader alternative small business lending field stands to be influenced by the successes of this model.

At the same time, the project has faced understandable setbacks and fallen short by some measures. For instance, although Opportunity Fund online loan consultants are able to close many more loans than offline teams, overall, online lending still represents a significant outlay of resources per loan closed. And Craft3 hopes that in the coming months the partnership will yield more than the handful of loans achieved to date.

While Opportunity Fund is committed to serving low-income and minority business owners, a higher proportion of the business owners served online are middle- to upper-income and non-minority, but with the same inability to access capital from traditional sources faced by our full portfolio of borrowers. The demographics of online borrowers presents a potential conflict between our mission to serve the most vulnerable populations and the reality of who borrows online. We believe that, as we gain further experience with the online lending process, we will be able to test modifications to our lending criteria and/or bring on new partners to reach more diverse business owners.

“Success metrics evolve. Early on, [it’s] the question of making sure the two organizations can work together. Middle stage, making sure that this is happening in an efficient way. Then, a little bit longer-term, making sure that impact metrics are within the boundaries that we expected.”

WHAT IT TAKES: LESSONS IN STRATEGIC PARTNERSHIP SUCCESS

For CDFIs:

- A willingness to invest significant resources in non-program staff to build systems and technology infrastructure, troubleshoot, and project-manage
- An ability to make the business case to potential fintech and other CDFI partners to invest in the endeavor
- A belief in the value and potential of online lending's fast and simple process for small business borrowers. In the CDFI world, online lending is sometimes, understandably, viewed as unsavory. It is vital for a CDFI to buy into the validity of online lending as a way meet customers "where they're at," while maintaining our mission focus
- A recognition of private sector businesses as potential partners, not simply funders

For both CDFIs and Fintechs:

- Deep mutual respect and trust between partners: Having shared values and other commonalities is incredibly helpful, especially when things don't go as planned or in the case of miscommunication
- Flexibility, agility, and adaptability: Expect that things will not to go as planned, and be ready to adjust when circumstances change
- Willingness to share and a desire to help each other grow: For the partnership to be successful, the partners must have an interest in each other's success

For Fintechs:

- A genuine mission-oriented goal, plus a compelling business case for pursuing a CDFI partnership
- An ongoing, demonstrated commitment to responsible lending, transparency, and pursuit of the customer's best interest

WHAT'S NEXT

This fall, the partnership will expand into additional states; at that time, small business owners in at least two dozen states who would not qualify for a traditional loan will be able to access affordable, efficient financing through our online process.



IMPROVED PROCESS AND EFFICIENCY

Small business owners, like other consumers, demand financial services that are responsive, quick, and easy to understand. When a business owner must wait weeks for the financing approval to meet a short-term cash flow need, he or she may seek a less favorable loan from another lender with faster approval process and a loan product that may cause harm in the long run. Through the seamless integration achieved through our API, our customers can see an Opportunity Fund loan offer instantly, reducing the likelihood that they will hunt for another offer from a different lender and receive less favorable terms. This responsive and efficient process means higher conversion rates for Opportunity Fund and more happy customers and thriving businesses in the long run.

In addition, through ongoing learning and adjustments, the partners have continued to refine the credit model and underwriting process to make more accurate loan decisions more quickly. The continuous improvement in our model will lead to greater efficiencies, better service to our clients, and better portfolio performance over time.

MODERNIZE ACROSS FUNCTIONS

Through this partnership, we have learned and adopted many new tools and technologies that impact all functions of our lending, from marketing to underwriting to operations. Opportunity Fund will continue to apply what we have learned to improve and modernize all aspects of our lending—across our entire portfolio. Our borrowers are already seeing improvements, including online loan application and DocuSign, and in the future

will benefit from other benefits including online account access and automatic funds transfers. On the operations side, Opportunity Fund is benefiting from more robust fraud detection tools and more integrated cross-functionality in our work as a result of what we have learned.

PARTNER PORTAL

In the next phase of Opportunity Fund's work to scale this effort, we will build, test, and launch a partner portal to facilitate referrals with other CDFIs, community organizations, and other partners. These partners will be able to automatically refer clients to Opportunity Fund through a fast, simple, and transparent process, or help them apply for a loan online—a necessary hands-on approach for entrepreneurs who are less tech-savvy or need additional support. Our partners will also be able to access loan-related data for these shared clients, providing seamless customer service and greater value.

NEXT PHASE OF RESEARCH

Our interviews with staff of the three partner organizations revealed many relevant lessons for us and for other CDFIs and fintechs considering a similar endeavor. In our next phase of research, we will interview borrowers who have received a loan through the LendingClub partnership to better understand their experience, their preferences, their needs, and how we can continue to nurture online relationships. These interviews are expected to be completed in the fall of 2017, with findings to be released in the spring of 2018.

APPENDIX

INTERVIEW QUESTIONS

Ice-Breaker

To get us started, can you tell me about your role in the partnership? How long have you been involved? How has your role changed over time (if applicable)?

Shared Vision and Values

- Thinking back, what did you see as the driving motivation for launching this partnership? How did it come to be?
- Do you think LC and C3 shared that vision? Expand.
- What do you see are shared values between the organizations coming into this partnership?
- What did success look like at the beginning? Has your vision of success changed over time? How and why?
- In your mind, how has the project been going? (With each of the partners and overall)

Shared Risk, Resources, and Rewards

- What do you see as the key strengths and resources that each partner brought to the table?
- In what ways does the partnership seem balanced to you in terms of the resources each party has committed? Are there areas of imbalance?
- What are the risks being borne by Opportunity Fund? Does our level of risk seem appropriate given the risk taken on by the other partners?
- How would you know if the project was not successful? What would cause you to end the partnership?
- In your view, what is the biggest benefit to Opportunity Fund to launching this partnership? How are the other partners benefiting?
- Why is this partnership important for small businesses?

Wrap Up

- If you were to talk to borrowers who got a loan through this initiative, what would you want to learn from them?
- Is there anything else you'd like to share? Anything other CDFIs should know as they consider a fintech partnership?

LIST OF INTERVIEWEES

Opportunity Fund:

Miguel Cerda, *Inside Sales Representative*
Crystal Cheng, *Product Manager*
Mayra Contreras, *Inside Sales Representative*
Alex Dang, *Director of Products and Partnerships*
Otxin Echaide, *Director of Small Business Development*
Marlene Feil, *Product Manager*
Gwyneth Galbraith, *Chief Development Officer*
Marco Lucioni, *Executive Vice President, Small Business Program*
Libby Morris, *Director, Small Business Operations (former)*
Joe Powaga, *Director of Underwriting*
Zuri Ruiz, *Chief Operations Officer (former)*
Anna Suarez, *Director, Small Business Marketing*
Eric Weaver, *Founder and Senior Advisor*

LendingClub:

Louis Caditz-Peck, *Director, Public Policy and Regulatory Affairs*
John Spottiswood, *Vice President, Business Development*

Craft3:

Andrew Mattingly, *Commercial Loan Intake Specialist*
David Oser, *Chief Financial Officer*
Adam Zimmerman, *President and Chief Executive Officer*

ENDNOTES

¹CDFIs are mission-based, private financial institutions that provide loans and services to low-income and disadvantaged people and markets to promote greater economic inclusion. There are four types of CDFIs; Opportunity Fund and Craft3 are Community Development Loan Funds.

²A Fintech, or financial technology company, is an online provider of consumer and/or business loans which uses technology to make loan decisions.

³For more on the risks and costs of many alternative business loans, please see Opportunity Fund's publication "[Unaffordable and Unsustainable: The New Business Lending.](#)"

⁴For more information about this partnership assessment framework, visit www.excellenc.com/Partnerships.htm



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