FIRST ASSOCIATES

Innovation, solid servicing, trusted advisors drive marketplace lending **securitization success**

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Introduction

Marketplace lender securitizations are rapidly becoming widespread. The industry is fueled by strong investor interest in marketplace lending as a fast, competitive and efficient way for consumers to access credit—filling a substantial void left by traditional banks reining in their consumer lending.

What began as a grassroots peer-to-peer investor/borrower movement has transformed into a sophisticated marketplace pairing ever-larger investors, investor groups and institutional financial powerhouses with a large base of under-served consumers.

Central to this movement is securitization, both unrated and rated. Although securitization has been around since the 1970s, and is a widely-known and used process in the financial services industry, it is new to marketplace lending. However, it's becoming more familiar, documented by increasing numbers of marketplace lending securitization deals dotting the landscape.

Notable securitization deals to date include:

Issuer	Bookrunner	Size	Rating Agency
loanDepot/Jeffries	Jeffries	$125 Million	Unrated
Prosper/BlackRock	Credit Suisse	$342 Million	Moody's
CAN Capital	Guggenheim	$250 Million	Standard & Poor's DBRS
Avant	Jeffries	$139 Million	Unrated

Companies must offer a sustainable business model, demonstrate solid servicing that results in low delinquencies and high customer satisfaction, and work with trusted advisors whose reputation and expertise can help negotiate the complicated process. In addition, marketplace lenders must be prepared to spend considerable time and money to get there—and be patient along the way.

Wall Street is ready to facilitate the increasing deal flow as noted in a Bloomberg.com spring 2015 article: *"And now Wall Street is cranking up the volume by running these loans through its securitization machine."*

Why securitize?

For marketplace lenders, securitization creates the opportunity to grow bigger, make substantially more money, and become a formidable force in the marketplace lending space.

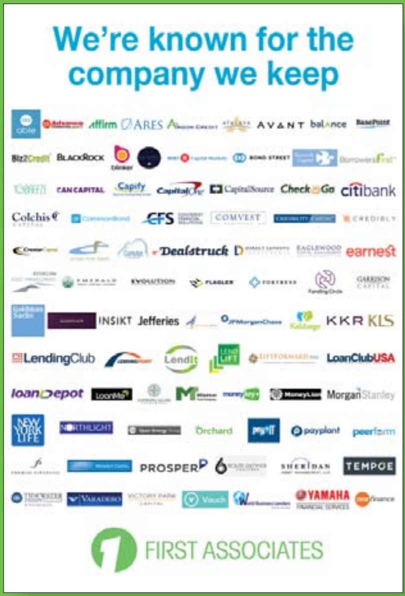
Specifically, it:

- Opens the door to the virtually unlimited financing capacity of the public capital markets
- Increases the enterprise value of the marketplace lender by validating the lender's strength, viability, and performance
- Provides lenders with lower cost financing
- Provides a secondary source of repayment for warehouse lenders and sponsors
- Enables lenders to obtain matched funding for the life of the receivables with no renewal risk

Experience Expedites Rated Securitization

"The first securitization of marketplace loans to carry a rating — a long-hoped for development in the asset class — has won mixed reviews… ***On the plus side, Moody's said it rated the deal in the first place because Prosper had tapped an experienced servicer, First Associates."***

Source:
ASSET-BACKED ALERT
February 6, 2015



Before you start: Six requirements setting the stage for positive securitization outcomes

Getting there, however, requires much more than snapping one's fingers or expecting the seas of red tape and due diligence to magically part. Emerging marketplace lenders would be well advised to think carefully about six requirements central to success:

1. **Build an innovative and sustainable business model.**
   The business model should be differentiated within the marketplace lending industry, and be supported by a significant management team, serious technological smarts, substantial equity capital and superior credit decision-making protocols. Develop and document best business practices to maximize the opportunity.

2. **Establish an effective customer acquisition and retention model.**
   Create a powerful and proprietary customer acquisition program that consistently shows healthy growth. In addition, it's vitally important to keep customers happy, establishing long-term loyalty and a persuasive referral system in the process.

3. **Secure a skilled, industrial-strength servicer.**
   Supported by strong institutional relationships and reputation, applicable asset class experience and leading-edge technology, the servicer should be skilled in providing comprehensive back office support—including onboarding, payment processing, delinquency management and reporting. The servicer should be consumer focused and consistently deliver high quality interactions that help build the brand.

"You must be able to differentiate yourself. Lenders need to find a unique way to acquire customers so they're not shopping for a loan. And retaining that customer for the long-term is key."

–David Piotrowski
Managing Director of Waterford Capital, Inc., whose Structured Finance Group is a leading arranger of securitization financing for specialty finance companies, investment managers and financial institutions

4. **Get bulletproof backup servicing in place.**
   Hiring a well-known and respected loan servicing company can eliminate the need for backup servicing. But if a marketplace lender is self-servicing or using a lesser-known servicer, the lender will need to prove that it can protect investors in case of problems (e.g., the servicer goes out of business). Rating agencies, along with sponsors, banks, major Wall Street trustees and others, require that backup servicing take over loans within 30 (or fewer) days if a trigger event occurs—and be confident about the processes, compliance and reporting of the backup servicer. Not surprisingly, the most respected servicers are also in great demand as backup servicers.

5. **Hire a trusted advisor with a top-notch track record.**

   This advisor knows the territory, and is well-respected by/connected with, the key industry players—including money center banks, investment banks, sponsors, trustees, rating agencies and other financial market participants. This helps guide marketplace lenders through the processes needed to get the job done in the most efficient way possible. In today's financial world, networks and relationships make all the difference.

6. **Commit to compliance.**

   Be prepared to address compliance every step of the way. For example, on the loan servicing side, compliance is an ongoing process. Such practices as contacting borrowers only as and when legally allowed must hold up under close scrutiny. Even seemingly small infractions may cause big problems for marketplace lenders seeking securitization. In contrast, being buttoned-down completely on all compliance issues will establish greater confidence among those doing the examination, and spur positive momentum.

Steps to securitization

As is obvious to anyone who's gone through the process, this is an abbreviated, birds-eye view of the steps needed to complete a successful securitization. Full and willing, even enthusiastic, cooperation of the marketplace lender throughout the process is critical to success. Anyone who believes that they can skip or gloss over a few steps here and there will discover that it doesn't work in this arena. Similarly, lack of sophistication about the process on the part of the marketplace lender can be a major impediment.

For example, investors, investment banks and rating agencies all will spend substantial time on-site, asking many questions and expecting complete and accurate answers. Representations and warranties will be a primary focus. If the lender fails to provide the right information either because of inability or unwillingness, their chances of success diminish dramatically.

Marketplace lenders must prepare themselves for the process to take longer and be more expensive than initial estimates—especially when going for a rated securitization.

Association with, and the counsel of, well-respected advisors in the marketplace lending securitization arena will go a long way toward achieving success. While the advisors' reputation can be a big boost in itself toward establishing credibility with the right people and agencies, their expertise in knowing the process and helping the lender execute correctly on each step is vital to ultimate success.

Following are key steps that marketplace lenders should be prepared to take and a projected timeline for a non-rated credit facility or securitization. The timeline will differ depending on what type of transaction it is (credit facility or securitization) and whether the deal is rated or non-rated. Additional factors likely will extend this timeline out closer to six months for a sponsor's initial financing transaction.

INITIAL ARRANGEMENTS, DEVELOPMENT, DUE DILIGENCE

WEEK 1

Engage a placement/structuring agent to advise and structure the transaction and a law firm to represent your company

WEEK 2

Placement agent on-site due diligence

WEEK 2-4

Prepare a disclosure book to present to potential investors (background information and history on company, summary of company processes and how it originates funds, services, and manages the receivable portfolio, performance data — both asset level and summary static pool analysis, management biographies, corporate formation information, policies and procedures manuals, financial statements, and a detailed summary of terms for the securitization)

PRESENTATIONS AND DISCUSSIONS-INVESTORS AND OTHER TRANSACTION PARTIES

WEEK 4

Present disclosure book to potential investors

WEEK 5-6

Discuss disclosure book with potential investors

WEEK 7

Engage other transaction parties — trustee, custodian, backup servicer, rating agencies (if applicable)

DUE DILIGENCE AND DOCUMENTATION

WEEK 7-8

Investor due diligence – third-party review of receivables, operations, and compliance

WEEK 9-10

Finalize term sheet and investor due diligence follow-up items

WEEK 11

Begin legal documentation

WEEK 12-16

Negotiate legal documentation

COMPLETING THE TRANSACTION

WEEK 16

Finalize legal documentation and close

Securitization future: Sunny forecast, with a threat of thunderstorms

As securitization of marketplace loans continues to grow, so does the scrutiny from rating agencies, investors, and regulators. Along with it will be marketplace lending consolidation and attrition. Unique origination models will become more prevalent. Capital will flow to superior business models and larger players, which will be good for the industry as a whole, but not for smaller players that don't have a unique origination model. All of this sets the bar higher for marketplace lenders seeking securitization. Developing and documenting strong customer acquisition and origination models will become even more imperative for positive consideration in the securitization arena.

In a LendIt presentation held spring 2015 in New York, William Black from Moody's emphasized that even though marketplace lending is currently viewed as wearing the white hats in the industry, there's the omnipresent specter of violating regulations. Pointing out that Moody's concentrates on worst-case scenarios, he identified loan servicing and backup servicing as two key areas to scrutinize to ensure an effective and efficient response if an originator goes out of business.

Bloomberg.com addresses the present, past—and transparency—in a May 2015 marketplace lending securitization article that notes, "…Wall Street is cranking up the volume by running these loans through its securitization machine…In February, BlackRock unveiled the first investment-grade-rated package of P2P consumer loans with a $281 million offering of notes from Prosper Marketplace, a site that lets users apply for loans as well as back them…Such deals will help P2P platforms spread risk and multiply loan volume, which isn't necessarily a bad thing. Growth is good, right? Still, the specter of the subprime-mortgage bust looms over this nascent market…Peer-to-peer stalwarts counter that their industry doesn't look like the toxic mortgage market of the 2000s. Many platforms in the U.S. and the U.K. post their loan books online so investors can analyze the quality and performance of their debt on a loan-by-loan basis."

These kinds of concerns are precisely why it's so critical to ensure that all bases are covered when pursuing securitization—to safeguard all stakeholders, heighten positive industry reputation, and solidify confidence in the investing community.

Armed with a distinctive business model, the right connections and advisors, top-notch loan servicing, and bulletproof data and documentation, marketplace lenders can achieve securitization success—sidestepping the rocky trek that awaits others.

A summer 2015 article in paymentlawadvisor.com, which addresses legal commentary and resources for the payment industry, made it clear that more regulation is squarely in the federal government's sights.

The article notes in part, "The Treasury Department recently issued a request for information to explore various aspects of 'online marketplace lending'…When considering the RFI in connection with other recent regulatory activity, including the Consumer Financial Protection Bureau's forthcoming rules to collect small business loan data, momentum for additional policies and regulations governing small business loans is undoubtedly growing…The RFI is intended to facilitate the Treasury Department's 'study [of] the potential for online marketplace lending to expand access to credit and how the financial regulatory framework should evolve to support the safe growth of this industry.' Creditors subject to the RFI include balance sheet lenders, peer-to-peer lending platforms, bank-affiliated online lenders, and bank-partnered arrangements."

About First Associates Loan Servicing, LLC

Founded in 1986, San Diego-based First Associates Loan Servicing is the fastest growing and largest third-party consumer loan/lease and backup servicer in the United States. First Associates Loan Servicing leads the marketplace lending industry in providing customized technology and customer service solutions, and is an active advisor in helping marketplace lending companies pursue securitization.

The company offers a wide range of solutions for many consumer asset classes and consistently receives industry recognition for exceeding high performance standards and providing superior levels of support. First Associates has experienced management and staff, full SSAE 16 II audit, best-in-class IT infrastructure, as well as strong institutional relationships with commercial and investment banks, finance companies, investment funds and credit unions.

First Associates' role in marketplace lender securitizations

First Associates has advised on 15 marketplace lender securitizations in 2015 as of September, both rated and unrated, involving such firms as Prosper, BlackRock and Avant. As a bridge between originators and capital markets, First Associates is a trusted intermediary for, and advisor to, the diverse participants in the securitization process from sponsors to rating agencies. First Associates helps marketplace lenders chart a path to securitization, including making sure that they're ready to partner, have everything in place, and that they are introduced and connected to the appropriate sources and resources.

Acknowledgment
Special thanks to David Piotrowski, Managing Director of Waterford Capital, Inc., for his assistance on this whitepaper. His company's Structured Finance Group is a leading arranger of securitization financing for specialty finance companies, investment managers and financial institutions- dpiotrowski@waterfordcapital.com; http://www.waterfordcapital.com/structured-finance/

About David Johnson, Chief Executive Officer

David Johnson is First Associates' CEO. He is a charismatic leader with a well-earned reputation for innovative ideas and leading-edge approaches to technology and processes. His 25 years of experience across industries including finance, technology and energy gives him unique insight into today's lending landscape, as well as a keen eye to future trends and opportunities. Prior to First Associates, Johnson was a Founder and Principal at Clearpath Advisors, a San Diego-based private equity firm. Prior to that, he was the Senior Vice President of Corporate Development for Memec LLC, a private equity owned global semiconductor company where he was part of a management team that increased revenues from $1.6B to $2.5B over three years. Johnson worked at McKinsey & Company and Bain & Company, where his clients were Global 500 companies and Private Equity Firms in Asia, Europe, Africa and North America. Johnson received his MBA from Stanford University School of Business and a Bachelor's of Science in Business Administration from the University of California at Berkeley. He is a Partner in Social Venture Partners and a member of YPO.