LendIt 2014

Online Lending Securitization Panel

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History of Securitization

1968

Fair Housing Act of 1968 splits Fannie Mae into two separate corporations:

Fannie Mae, to purchase conventional mortgages and the Governmental National Mortgage Association or "Ginnie Mae" to promote home ownership by expanding affordable housing

1970s

It was nearly impossible for banks to sell individual mortgages on the secondary market so banks customarily had to retain mortgages, significantly limiting the number of new loans that could be originated

Ginnie Mae sold the very first mortgage-backed security (MBS) secured by pools of government home loans, which allowed for many loans to be pooled and used as collateral in a security that could be sold in the secondary market

Investor demand for securitizations grows and "tranching" is developed

1980s

Asset-Backed Commercial Paper develops (short-term investment vehicle with maturity typically between 90 to 180 days)

First Asset-Backed Security is traded and the asset class expands

With the help of Lewis Ranieri, Salomon Brothers transforms the MBS market by purchasing home mortgages from thrifts, securitizing them and selling to national and international markets

Savings and loan crisis – failure of 747 out of 3,234 S&L associations in the US

1989: Resolution Trust Corporation (RTC) established to close the 747 thrifts

1990s

Savings and Loan Crisis from the 1980s continues into the 1990s, giving rise to the modern CMBS market

1992: first rated issuance of CMBS – the RTC used CMBS to pool large numbers of mortgages into a single issue

SEC creates shelf registrations, making it easy for asset-backed issuers to time the markets and issue opportunistically

Securitizations expand across borders to non-US countries

CDO's develop

CMBS market shifts from a tool for managing seasoned loans to a source of financing new mortgages originated specifically for securitization

2000s

Subprime mortgages are securitized

Leverage is applied to securitized products – CDOs

Synthetic securitizations (Credit Derivatives)

2006: ABS issuance is at $4 trillion in the US and EU

2007: Collapse of the US housing bubble

Lending Club and Prosper launch the US P2P market

2009: ABS issuance plummets to $1 trillion and is used exclusively by US agencies and by the ECB

2010s

Securitization markets begin to rebound after the financial crisis of 2007 - 2009

Banks recapitalize and come out of bankruptcy

Eaglewood closes first ever securitization of P2P loans

Sources: www.ginniemae.gov, www.economics.about.com, Wharton research

Overview of Securitization

Asset securitization is the process of pooling homogeneous financial assets and issuing securities backed by the financial assets into the capital markets.

- Securitization relies on the structure of the financing and the characteristics of the collateral to achieve creditworthiness independent of the entity originating the assets.

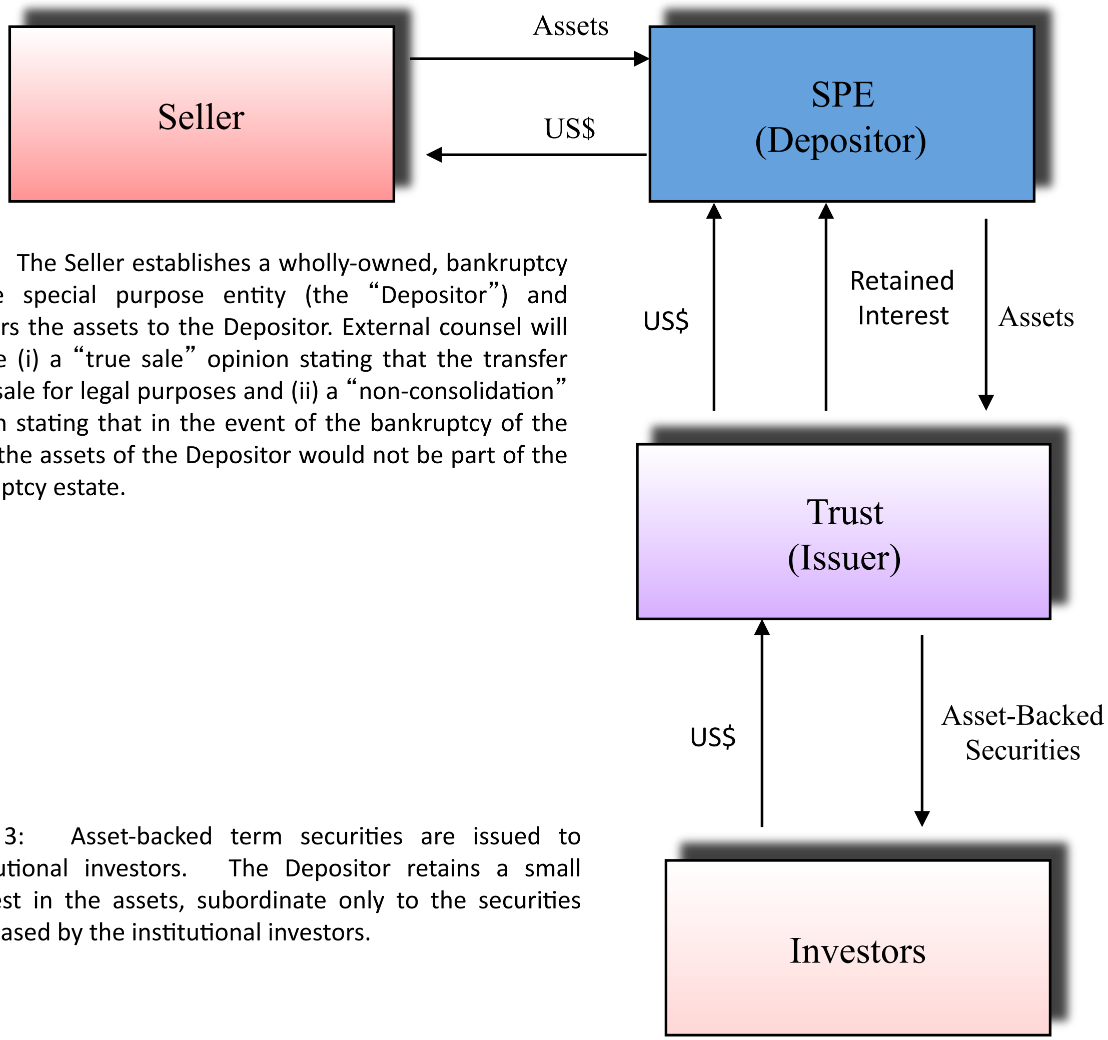
- Pools of assets are transferred by the owner of the assets ("Seller") into a special purpose entity ("SPE"), which is typically a Delaware statutory trust or LLC. The SPE obtains financing through the issuance of either publicly or privately placed term securities. The Seller is typically the originator of the assets and the "sponsor" of the securitization.

- The securities are rated on the strength of the legal structure and level of credit enhancement, which is determined through analysis of the historical performance of the assets to be securitized. The rating is independent of the Seller's corporate rating.

- Credit enhancement includes subordination, over-collateralization, excess spread, and cash reserves.

- Servicing of the assets is typically performed by the Seller pursuant to a servicing agreement that provides for the general responsibilities, duties, fees, and expense reimbursement of the Servicer.

Securitization Transaction Structure



Step 1: The Seller establishes a wholly-owned, bankruptcy remote special purpose entity (the "Depositor") and transfers the assets to the Depositor. External counsel will provide (i) a "true sale" opinion stating that the transfer was a sale for legal purposes and (ii) a "non-consolidation" opinion stating that in the event of the bankruptcy of the Seller, the assets of the Depositor would not be part of the bankruptcy estate.

Step 2: The Depositor then transfers the assets to a trust or other securitization vehicle (the "Issuer") and retains a subordinate interest in the assets.

Step 3: Asset-backed term securities are issued to institutional investors. The Depositor retains a small interest in the assets, subordinate only to the securities purchased by the institutional investors.

ISSUER BENEFITS OF SECURITIZING ASSETS

- Diversifies sources of capital
- Reduces the size of the balance sheet
- Efficient growth – leverage
- Lowers cost of credit
- Increases competition among lenders
- May lower risk through diversification
- Increase liquidity
- Improve economic efficiency

ABS Issuance of Online Lending Platform Loans

To date, four securitizations of loans originated via online lending platforms have been completed.

- Eaglewood Consumer Loan Trust 2013-1 (September 2013)
  - ✧ Prime Unsecured Consumer Loans originated by LendingClub
  - ✧ $40,000,000 Class A Notes (~$53,000,000 pool)
  - ✧ Non-Rated
  - ✧ Serviced by LendingClub Corporation (with First Associates as back-up servicer)

- Insikt Prosper Primary Master Trust (2 transaction – Oct. 2013 and Dec. 2013)
  - ✧ Static pool of Prosper originated loans (3 year; Grades A – E)
  - ✧ ~$5,000,000 per transactions
  - ✧ Capital Structure: ~70% Class A Notes; ~15% Class B Notes; ~15% Class R Notes (equity)
  - ✧ Indicative Pricing: 4 – 5% for Class A; 10 – 12% for Class B
  - ✧ WAL: Class A: 13 months; Class B: 21 months
  - ✧ Serviced by Prosper (with First Associates as back-up servicer)

ABS Issuance of Online Lending Platform Loans

- SoFi Professional Loan Program 2013-A LLC (December 2013)
  - Student Loans originated by SoFi Lending Corp
  - 3.75% $151,800,000 Class A Notes (~$168.2M pool)
  - Rated A by DBRS
  - WAL (CPR%): 6.06 (0%) | 5.09 (4%) | 4.35 (8%) | 3.76 (12%)
  - Serviced by Tru Student Inc. (with PHEAA as back-up servicer)

- OnDeck Asset Securitization Trust LLC 2014-1 (April 2014)
  - Small Business Loans originated by OnDeck Capital, Inc.
  - $156,680,000 Class A Notes and $18,320,000 Class B Notes
  - Class A Notes rated BBB and Class B Notes rated BB (DBRS)
  - Initial two year revolving period
  - Serviced by OnDeck (with PFSC as warm/hot back-up servicer)

Several other securitizations of online lending platform loans are rumored to be in the works for 2014.

Key Considerations to Securitizing Online Lending Platform Loans

Issuers of asset-backed securities have several key factors to consider when undertaking a securitization of online lending platform loans, including:

- Size of loan portfolio
- Adequate historical performance data
- Reporting capabilities of servicer
- Cash management capabilities of servicer
- Involvement of originator and servicer in investor and rating agency due diligence
- Permanent capital to fund the retained interest (or over-collateralization)
- Pricing of ABS relative to other funding sources
- Relationships with key parties – backup servicer, trustee, attorneys
- Support from warehouse lender
- Ratability of loans to be securitized (or whether demand exists for non-rated securities)

Key Considerations to Securitizing Online Lending Platform Loans

Servicing encompasses a wide range of activities

Boarding
- Integrated to origination
- Integrated to partners
- Fully automated or manual
- Document review
- Purchase verification
- Welcome calls and packages
- Pre and Post Purchase Verification

Asset Management
- Electronic or physical custodian
- Insurance tracking
- Title tracking
- UCC and PUC Filings

Payment Processing
- Configurable lockbox and account options
- Automated lockbox feeds
- Auto debit payments (ACH)
- Multiple payment options:
  - Credit cards
  - Western Union
  - Money Gram
  - Check by phone
- Online payment portal

Sales Tax
- Compliance review
- Address based tax rates
- Automated updates
- Multi level tax return filing

Customer Service
- Private Label
  - Dedicated 800#
  - Interactive voice response
  - Agent scripting
  - Statement customization
- Integration with outside service providers
- Single point of contact protocol
- Experienced customer service advisors
- Extensive QA process

Investor Reporting
- Data analysis and reporting
- Securitization and waterfall reporting
- Flexible, customizable report formats
- Data warehousing
- System reconciliations

Backup
- Secure, third party data warehousing
- Certificate analysis and validation
- Portfolio and equipment monitoring
- Due diligence visits

Back-up Servicing

Cold

- Review monthly services certificate
- Verify outstanding balances, principal and defaults for each servicing period

Warm

- Cold services plus:
  - Upfront due diligence of servicer functions, cash and asset management
  - Map information from servicer to First Associates
  - Archive monthly master files on secure FTP site
  - Notify client of discrepancies

Hot

- Warm services plus:
  - Run parallel to servicer
  - Receive, review, validate and store all reports
  - Run full conversion of month end files
  - Perform semi annual due diligence at servicer site

Rating Agency Criteria for Securitizations of Online Lending Platform Loans

Criteria for rating securitizations backed by online originated assets are primarily influenced by the following factors:

- **The consistency of the underwriting criteria of the assets (including fraud prevention),**
- **Ongoing servicing capabilities of the Servicer and the Backup Servicing arrangement (financial strength, systems capabilities, loss mitigation controls and performance history)**
- **Potential disclosure issues related to the originator of the assets, and**
- **The financial strength of the sponsor to repurchase assets due to breaches of representations and warranties.**

Other factors include:

- The characteristics of the underlying collateral and obligors,
- The historical delinquency and default experience,
- Obligor, industry and geographic concentrations, and
- The transaction structure (establishing a special purpose entity to isolate the assets)

Levels of credit enhancement for a specific rating are primarily determined by analyzing many factors including static pool net losses, historical delinquencies, obligor, geographic, and other asset characteristic concentrations.