CONSOLIDATION CAPITAL

RESTRUCTURING LOANS TO RESOLVE DISTRESSED CONSUMER DEBT

WHO WE ARE

We are a specialty finance company that originates and services consumer debt restructuring loans to consumers who have defaulted on their unsecured debt with multiple creditors. Our unique business model fills a restructuring vacuum. We source from select debt settlement companies, align interests and underwrite using an proprietary process. We are willing to re-underwrite defaulted consumers into simple, long-term installment loans; loan proceeds are for lump-sum creditor settlements. These 3 – 5 year affordable loans are longer than payment plans original creditors are willing to accept in recover mode, resulting in a “win-win” for all stakeholders.

Consumer debt continues grow and defaults are creeping up

$100 BILLION:
CONSERVATIVE ESTIMATE OF CREDIT CARDS BALANCES THAT CONSISTENTLY MAKE MINIMUM PAYMENTS

$90 BILLION:
2016 GROWTH IN NEW CREDIT CARD DEBT; LARGEST INCREASE SINCE 2007
[source: Wallethub]

$17,000:
AVERAGE US HOUSEHOLD CREDIT CARD BALANCE
[source: NerdWallet]

77 MILLION – 35% OF ADULTS WITH A CREDIT FILE HAVE A REPORT OF DEBT IN COLLECTIONS
[source: Money]

$35+ BILLION – ANNUAL PERSONAL BANKRUPTCY FILINGS (Industry Estimate)

$10 BILLION– BALANCES THAT ENROLL IN DEBT SETTLEMENT (Industry Estimate)

Debt settlement is a rapidly growing service that has survived regulatory scrutiny and is an aggressive means to resolve unsustainable consumer debt

- An estimated $10 billion of unsecured debt enroll in formal debt settlement annually
- Settlement company negotiates out-of-bankruptcy settlement and debt discharge with creditors
- Industry generates estimated annual revenues of $1 billion and is fragmented
- Bankruptcy reform of 2005 made filing personal bankruptcy onerous and rigid. Debt settlement is flexible and gives consumers greater control but can be adversarial with original creditors given the strategies employed
- 2010 FTC regulation provided clear rules and mandated success-based fees
- As customer acquisition costs are high, the advance-fee ban created significant cash flow challenges for industry
- Industry fundamentally redefined, with significant shakeout. Surviving companies rationalized, are growing rapidly with new players emerging and aggressively marketing to distressed consumers

<u>History of Debt Settlement Market</u>

1990's & earlier - Law firms → 2003 - debt settlement widely available → 2005 - BAPCPA kicks off rapid growth → 2008 - debt settlement market hits peak

2010 - FTC bans up-front fees → 2011 - Industry is redefined and shrinks → 2015 – record volume → 2016 – 30+% YOY growth

Settlement programs (currently self-funded) are designed to achieve sizeable creditor haircuts to maximize chances for clients to be successful

DAY 0	DAY 1	DAY 1-30	DAY 30	MTHS 3-24	MTHS 10-48	2-5 YRS
Financially stressed consumer is delinquent or near delinquent	Consumer enrolls in Debt Settlement program	In consultation with DSC, establishes monthly Settlement Escrow Payment Plan	Stops payments to creditors and starts funding Settlement Escrow	Settlement Company begins negotiations with creditors (constrained by escrow balance)	Debts are settled sequentially as escrow builds up to meet creditor payment and settlement fees	Once debts are settled and reported to Credit Bureaus, credit rebuilding process begins
Debt Settlement is often more effective than other options - bankruptcy, debt management etc.	Borrower gives POA to Debt Settlement Company (DSC) to facilitate negotiations. Fees paid only upon settlement	Voluntary payment plan established based on analysis to pay and expected creditor settlement	Negative impact on Credit Score, potential for creditor litigation	Creditors have incentive to settle quickly given low recoveries & high loss severities	Lengthy & frustrating process leads to high dropout rates (often 30% by end of first year)	Credit repair begins only after all creditor claims are settled and reported - could take many years

Credit scores are significantly impaired; little-to-no access to credit; risk of lawsuits and creditor pressure rise over time; original creditors accept high haircuts and third party costs and payouts rise

A DEBT RESTRUCTURING LOAN SIGNIFICANTLY ACCELERATES SETTLEMENT, PROVIDES CREDITOR CERTAINTY AND SPEEDS UP CONSUMER CREDIT REPAIR PROCESS

Debt settlement achieves haircuts and resolves multiple accounts over time but has several shortcomings that a restructuring loan can solve

- Debt settlement is "effective" when the borrower suspends all direct payments to creditors
  - Results in immediate "hit" to credit score and significant pain while working through lengthy self-funded settlement process
- Aggressive tactics/strategies are employed by debt settlement companies to induce favorable settlements from creditors
- Borrowers periodically (generally monthly) and voluntarily fund an escrow account that is used to pay off their creditors sequentially (when balances are large enough); the typical debt settlement program is 36-48 months long
- Challenges of self-funded process include length of time to pay off debt, risk of litigation from impatient creditors and difficulty in reestablishing credit; creditors often are forced to sell such accounts for pennies to more aggressive debt buyers
  - A sequential settlement process creates various inefficiencies and inter-creditor issues and disparities in settlements
  - More aggressive and litigious creditors are often able to extract greater payments at the expense of other creditors
  - Settlement programs often fail due to such issues, even if the consumer has intent to repay over time
- Debtors who enroll in debt settlement are largely ignored by creditors and have no access to credit until they successfully settle *all* their obligations
  - Process typically entails accruing sufficient funds within the escrow savings account to settle debts sequentially with the earliest settlements going to creditors that are willing to accept the most favorable terms for the debtor
  - Graduation from program usually takes anywhere between 2 to 5 years; success rates are low (approximately 50%)
  - Lengthy timeline poses challenges for *all* debtors regardless of whether they have already demonstrated the ability and intent to repay their existing obligations

A well designed debt restructuring loan offers significant benefits to the borrower and the creditor, as we are willing to assume re-default risk

- For each loan eligible customer enrolled at a debt settlement company, creditors agrees to a lump sum amount, funded by a single settlement loan, that will simultaneously settle *all* outstanding enrolled debt – a new start with a **manageable loan size and repayment terms**

- New loan is used to resolve existing debt simultaneously instead of sequentially
  - Within days the debt is reported as settled by existing creditors and the credit rebuilding process begins

- Creditors are paid by debt settlement company when the loan is funded – at a discount that gives consideration to the risk assumed by the new creditor and the acceleration of a lump-sum payment; creditors get certainty and quick resolution and limit ongoing costs and risks
  - High discounts are facilitated due to quick resolution via loan proceeds
  - Loans are structured to mirror existing escrow payments with minimal changes (loans are 3-5 year long and potentially high-risk)
  - Consolidation – results in one simple, easy-to-manage obligation for borrower and positive credit implications if they perform

- Relief from harassment from collections agencies and potential legal actions

- Immediate and on-going credit improvement when debt is reported as settled to the bureaus and new loan performance is reported (estimated 80-100 point improvement in credit score)

KEY DIFFERENCE WITH CONSOLIDATION LOANS – PROCEEDS PAID DIRECTLY TO EXTINGUISH OLD DEBT DIRECTLY WITH AFFORDABLE NEW LOAN

And is a “win-win” for all stakeholders

INVESTORS

- High yield
- Social impact
- Diversification
- Superior Risk/Reward

CONSUMER

- Debt relief/ liquidity
- Stop collection calls
- Eliminate litigation risk
- Rebuild credit
- Financial literacy

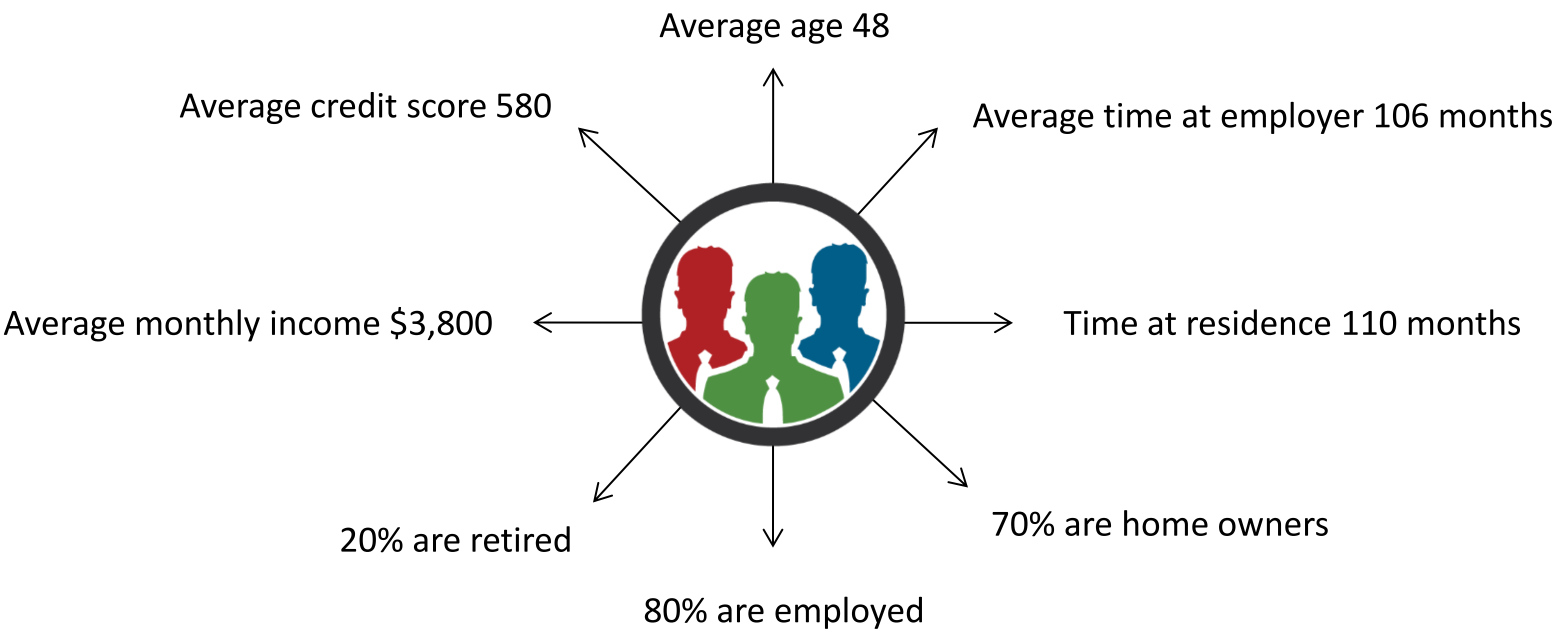
CREDITORS

- Improved recovery
- No need to sell at distressed prices
- Lower collection & legal costs
- Risk management
- Visibility/ certainty

DSC Partners

- Accelerated revenue
- Certainty over revenue
- Lower costs
- New loan product
- Cash Flow Management

Summary statistics of borrower profile



SELECTED BORROWERS HAVE DEMONSTRATED ABILITY AND INTENT BY MAKING AT LEAST SIX CONSECUTIVE ESCROW PAYMENTS PRIOR TO BEING ISSUED A LOAN

Flexible and transparent program features - a compelling value-proposition for the borrower who has little-to-no access to credit

- 1-5 year installment loan
- Interest rate of 18-22%, plus origination fee
- Loan Amounts range from $5,000 to $35,000

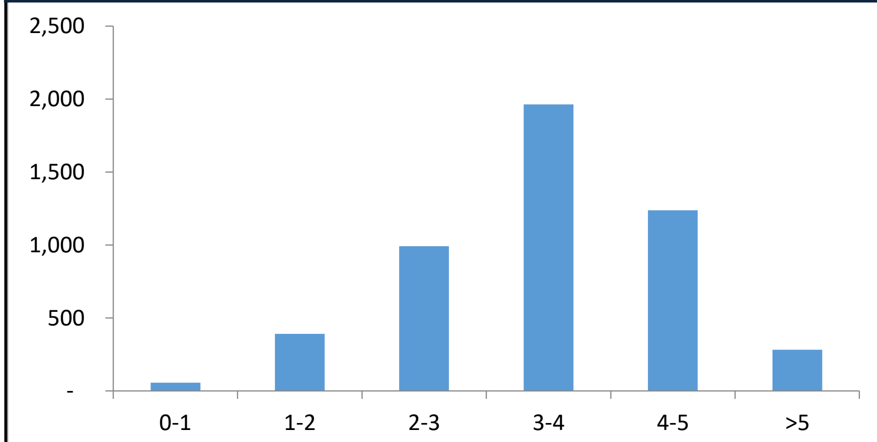
  - ✓ Know before you borrow disclosures
  - ✓ Flexible rates and terms
  - ✓ Credit bureau reporting
  - ✓ Grace periods and hardship handling
  - ✓ No hidden or punitive fees

WE ARE COMMITTED TO REWARDING BORROWER'S GOOD FINANCIAL BEHAVIOR WITH INCENTIVES – INTEREST RATES THAT CAN GO DOWN OVER TIME, FREE FINANCIAL TRAINING AND FREE CREDIT MONITORING

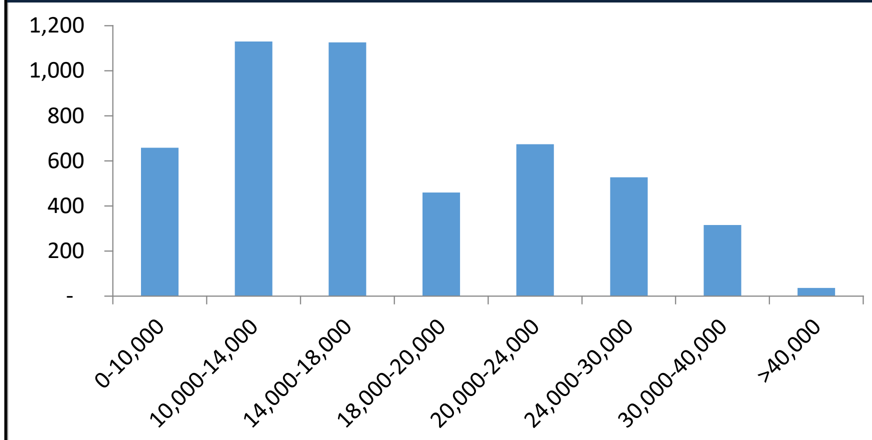
Typical portfolio characteristics (simulated vintage)

REPRESENTATIVE LOAN PORTFOLIO (BASED ON 2015 VINTAGE)	
# Loans	4,923
Average Life (in months)	42.8
$ Loan Portfolio	$86,223,458
Average Loan Size	$17,514

LOAN PORTFOLIO DISTRIBUTION BY TERM



LOAN PORTFOLIO DISTRIBUTION BY SIZE



High level illustrative view of loan & debt settlement solution for a given customer

CONSUMER
owes $30,000

CONSOLIDATION CAPITAL
issues a new $22,105 loan to cover settlement plus fees

$15,000	$6,000	$1,105
NEGOTIATED SETTLEMENT TO CREDITORS	SETTLEMENT FEE TO SETTLEMENT PARTNER	ORIGINATION FEE TO CONSOLIDATION CAPITAL

CONSUMER
Repays loan back to Consolidation Capital

RESTRUCTURING GENERALLY TAKES 4-6 WEEKS INSTEAD OF MULTIPLE YEARS

There are important differences between a typical debt settlement and a debt settlement w/loan solution

Creditor Breakdown of Enrolled/Settled Balances with Fees, Interest & Penalties

Creditor	Enrolled (Beginning) Balance	Estimated Settlement Balance @50%	Settlement Fees @20%	Accrued Interest & Penalties @14%	Settled Balance Including Fees & Accrued Interest and Penalties
Amex	$8,000	$4,000	$1,600	$1,120	$6,720
Citibank Visa	$10,000	$5,000	$2,000	$1,400	$8,400
Sears Private Label Mastercard	$12,000	$6,000	$2,400	$1,680	$10,080
Totals	*$30,000*	*$15,000*	*$6,000*	*$4,200*	***$25,200***

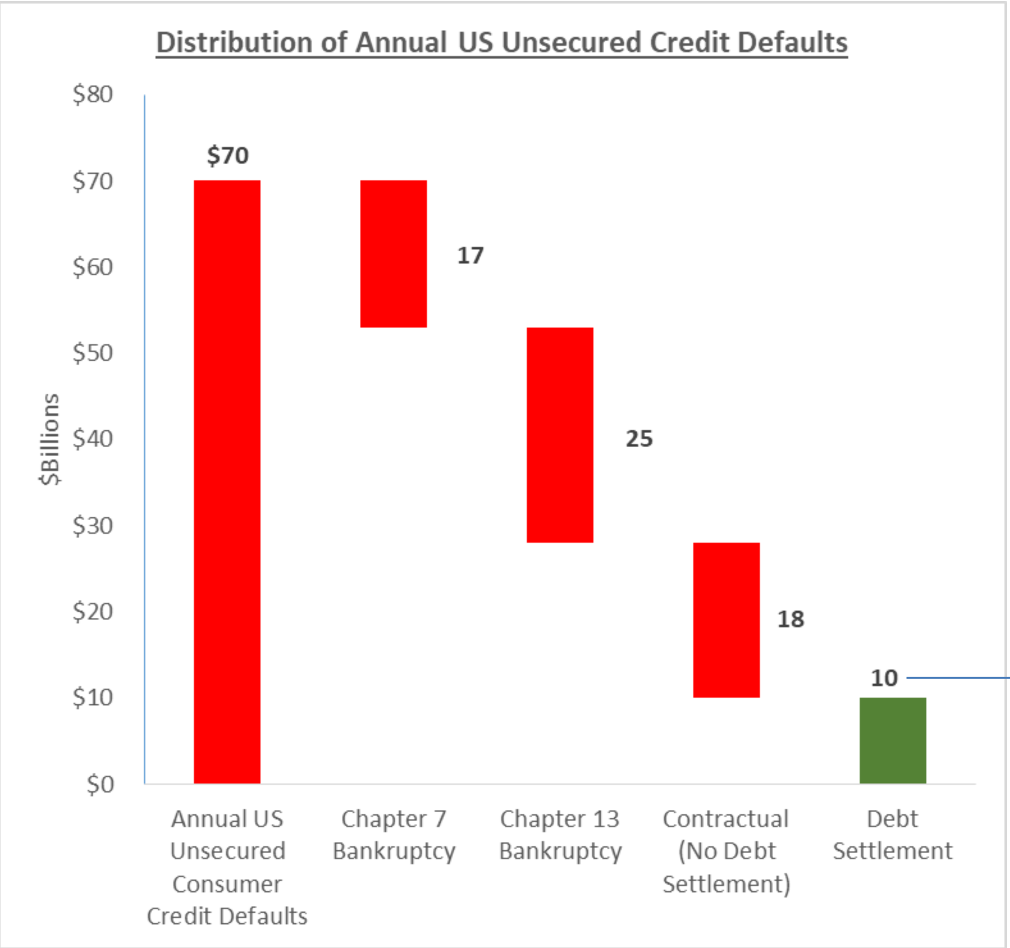
Typical Debt Settlement Solution w/3 year life

Enrolled Balance	$30,000
Estimated Settlement Amount	$15,000
Settlement Fees	$6,000
Interest and Penalties	$4,200
Escrow Target	**$25,200**
3 Year Program	
Settlement Duration (months)	36
Monthly escrow set-aside	$700
Cash Flows	
Month #10 Escrow Balance	$7,000
Amex Debt Settled (incl. fees)	($6,720)
Remaining Balance	$280
Month #22 Escrow Balance	$8,680
Citibank Debt Settled (incl. fees)	($8,400)
Remaining Balance	$280
Month #36 Escrow Balance	$10,080
Sears Debt Settled (incl. fees)	($10,080)
Ending Balance (after 36 months)	**$0**

Debt Settlement + Loan Solution (3 year tenor)

Enrolled Balance	$30,000
Estimated Settlement Amount	$15,000
Settlement Fees	$6,000
Interest and Penalties	$0
Origination Fee	$1,105
Total Loan Amount	**$22,105**
3 Year Loan Term	
Loan term (months)	36
Interest Rate	22.90%
Monthly Loan Payment	$855
Breakdown of Loan Proceeds @Month #0	
Origination Fee	$1,105
Amex Debt Settled	$4,000
Sears Debt Dettled	$6,000
Citibank Debt Settled	$5,000
Settlement Fees Paid	$6,000
Total	*$22,105*
Ending Loan Balance (after 36 months)	**$0**

Distressed consumer lending market opportunity



US Debt Settlement Market *($Millions)*

Annual face-value of debt settlement enrollment	$10,000
Top 3 DSCs w/ captive lending program (50%)	$5,000
Debt enrolled outside top 3 DCSs	$5,000
CC in discussions w/ 5+ DSCs with 25% market share	$2,500
35% of enrolled debt at 5+ DSCs eligible for loan offering	$880
Est. restructured loan offering (50% settlement, 25% fees)	$650
50% of loan offers are accepted	**$325**

Line of sight to $325mm of loan originations with potential to expand to more DSCs within a rapidly growing industry

Current environment makes distressed consumer lending an attractive secular opportunity

- Total annual unsecured consumer distressed debt supply is estimated at $70 billion
- After a major contraction during the financial crisis, credit card and unsecured debt is expanding steadily
- Approximately $1 trillion of unsecured credit card debt outstanding, increasing by $300 billion since post-crisis low
- Credit underwriting is eroding – 10.6 mm subprime cards issued in 2016, up 25% from 2014 and highest since 2007
- Total annual credit card charge off rate of 4-5% ($40 billion), which reached 10% in 2009, is creeping up in recent months
- Personal savings rates are declining – savings increased from 4.4% in early 2008 to 11% in Dec 2012 and has declined to 5% recently
- Marketplace lenders are issuing significant loans experiencing elevated default rates, with limited recovery resources
- Debt settlement industry is its nascence and growing rapidly as an effective solution for distressed borrowers
- Debt settlement is counter cyclical; during economic slowdown, our lending program should benefit from increased files that will enable us to tighten lending criteria and we should extract greater concessions from original lenders

STEADY EXPANSION IN UNSECURED CREDIT AND LOOSENING OF UNDERWRITING STANDARDS WILL CREATE SIGNIFICANT OPPORTUNITIES FOR RESTUCTURING LENDING

Regulatory changes have made debt settlement viable and a settlement loan compelling value proposition for the original creditor and debtor

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005

- ✓ Harder and more expensive to file for personal bankruptcy
- ✓ Limits who can file Chapter 7 (where most debts are discharged)
- ✓ Uses restrictive means test to determine who qualifies
- ✓ Limits ability of debtors to avoid liens through bankruptcy
- ✓ Provides more creditor protection due to expanded exceptions to discharge
- ✓ Increases amount of paperwork involved in filing and raises filing fees
- ✓ Increases attorney liability and costs
- ✓ Increases amount of debt repayment under Chapter 13

CARD Act of 2009

- ✓ Aimed at limiting how credit card companies charge customers but does not include price controls, rate caps or fees

FTC's 2009 Amendments to Telemarketing Sales Rule

- ✓ Specifies that debt relief service fees may not be collected until:
  - The debt relief service successfully settles at least one of the consumer's debt
  - There is a written agreement between consumer and creditor
  - Consumer has made at least one payment to the creditor according to the agreement
- ✓ Specifies how fees can be collected on multiple debts in one program
- ✓ Allows settlement companies to require consumers set aside fees and savings towards payment to creditors in "dedicated account"

State Debt Settlement and Consumer Lending Regulations

- ✓ State regulations and rules, if any, are not uniform and often inconsistent
- ✓ Regulators are taking a hardline on aggressive collections practices