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Fintech Roundup

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HEADLINES

HOT TOPICS

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AVERAGE ABS SPREADS

Sector	Rating	WAL (years)	Spread as of 27 March	1Month Change	12 Week Change	52 Week Change
Personal Loans	AA/A	1	500	435	442	447
Personal Loans	BBB	2	800	675	675	682
Personal Loans	BB	3	1100	825	840	845
FFELP SLABS	AAA	3	315	240	248	269
FFELP SLABS	AAA	5	335	235	240	264
Private SLABS	AAA	5	500	390	395	412
Auto Prime	AAA	3	150	110	121	124
Auto Prime	BBB	3	600	490	500	496
Auto Subprime	AAA	2	225	185	193	194
Credit Cards Fixed	BBB	5	700	595	595	595
Equipment	A	3	500	415	430	435
Equipment	BBB	3	700	585	597	590

Source: Wells Fargo Securities

TOP 5 FINTECH FUNDING ROUNDS

Date	Company	Function	Amount	Series	Lead Investor
3/23	iCapital Network	Alt investment marketplace	USD 146m	-	Ping An Global Voyager Fund
3/17	One	Neobank	USD 17m	A	Foundation Capital, Core Innovation Capital and Obvious
3/16	SMBx	SMB bond market-place	-	Seed	-
3/12	SpotOn	Payment tech	USD 50m	B	01 Advisors
3/11	Human Interest	SMB software	USD 40m	C	William Oberndorf

Source: Crunchbase, Debtwire ABS

COVER STORY: MarkitLend to open LendingClub fund for investors

Peer to peer fund operator MarkitLend plans to forge ahead with a plan to raise money from investors for its US Consumer Credit Fund (USCF) in mid-April, according to CEO Fernando Sanchez.

The fund, which has operated as a closed fund since 2017, invests primarily in C and D-grade loans from LendingClub, according to Sanchez. Historically, the fund has generated average returns of about 7%, according to Sanchez and the company's website.

The fund uses proprietary algorithms to acquire the loans and is in the process of developing a blockchain portal for fund management and custodian operations, according to the website.

"We could see that fund grow to up to USD 500m," Sanchez said. "I feel comfortable about LendingClub's balance sheet and … overall business model," he said. The platform is likely to have a steady stream of borrowers during and after the ongoing pandemic, Sanchez said.

LendingClub has been proactive in addressing potential impacts of the coronavirus's spread on its borrowers and investors, he said.

This week, LendingClub announced that it has raised borrower interest rates, as reported. It also warned investors of a temporary impact on cash flows due to borrowers enrolling in various hardship plans developed by LendingClub.

"[I]t's too early to estimate the ultimate effect on investor returns given the uncertain impacts of several factors, such as the total number of Americans who ultimately experience income dislocations as well as the potentially positive impact of the historic government stimulus package," according to a company announcement.

Preliminary loan repayment data suggests that some online lending borrowers have already fallen back on their payments in the back half of March, driving new daily delinquencies to the highest level on record, as reported.

by Diana Asatryan

Headlines

New daily MPL delinquencies spike to highest level on record

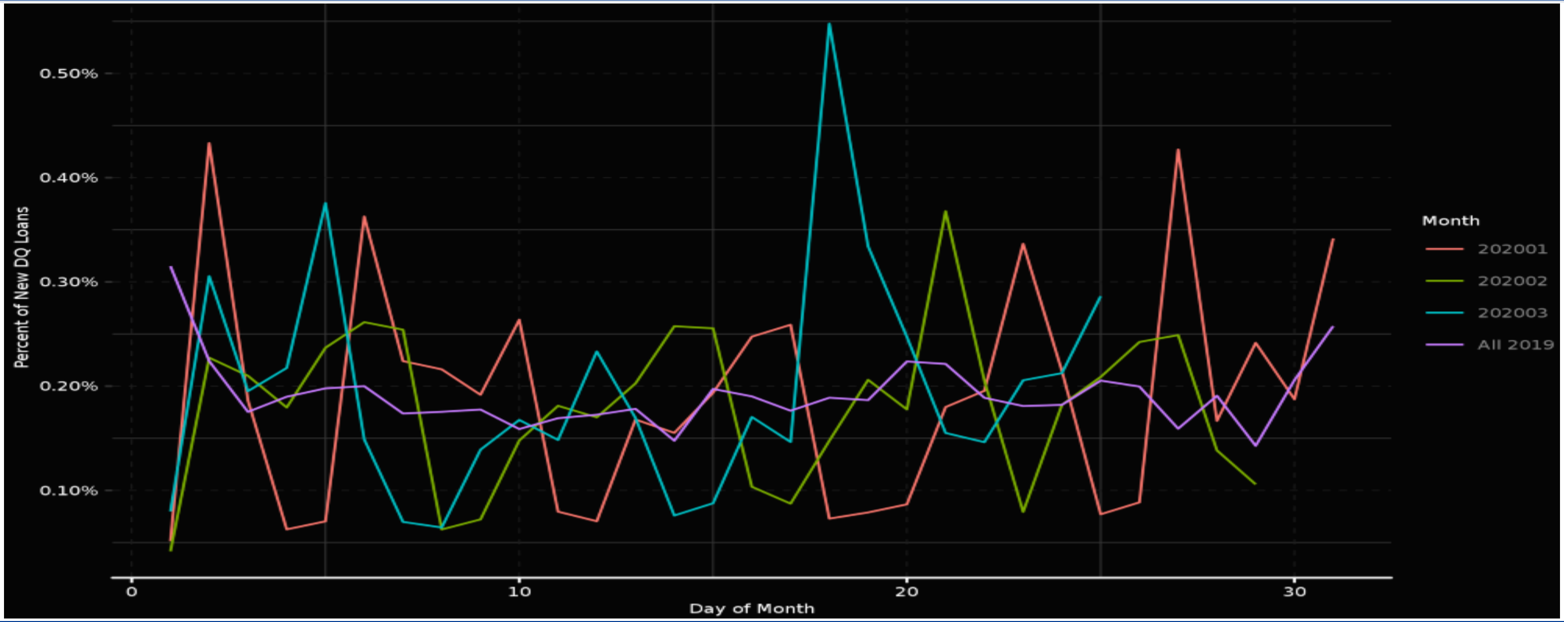
Online lending platforms on 18 March recorded the highest weekly spike of new daily delinquencies in at least the past 15 months as consumers fell behind on loan repayments amid the global pandemic, according to data provided to *Debtwire ABS* by analytics platform dv01. It is too early to assess whether the delinquencies will roll into defaults, according to several sources.

The number of new daily marketplace loan delinquencies spiked by about 30bps to 0.5% on 18 March from the previous day — the highest daily level since dv01 started tracking daily delinquencies in January 2019, said Vadim Verkhoglyad, senior product specialist.

New daily MPL delinquencies typically are in the 0.2%–0.3% range, only occasionally spiking above 0.4%, according to the data.

The timing of the delinquency spike was unusual, as borrowers typically fall behind on their payments at the beginning of the month when a larger portion of personal loan bills are due, Verkhoglyad said.

NEW DAILY MARKETPLACE LOAN DELINQUENCIES



Source: dv01, Insights: COVID-19 Performance Update, 30 March

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"Just based on how many loans are due in the beginning of the month … the spike [during the reported week] shows more loans as a percentage of those that are due weren't paid," he said.

In its analysis, dv01 looked at more than 1m active loans with a total outstanding balance of over USD 10bn from large US marketplace lenders. The company declined to name the lenders, citing confidentiality issues.

With more loan due dates coming this week, the analytics firm expects more delinquency spikes in the near term. However, fintechs have been proactive in modifying loan repayment structures and terms in order to curb potential borrower delinquencies — which could push or soften delinquency metrics, according to Verkhoglyad and several industry sources.

"We know that certainly there will be new delinquencies and there will be new modifications … but it's hard to say how large the [DQ] wave will be," Verkhoglyad said.

In the personal lending sector, the rise in the unemployment rate due to the global spread of coronavirus will be the driving force behind worsening credit performance, according to an industry consultant and an investor. A record 3.28m Americans filed for unemployment the week of 16 March.

"It seems to me DQs and defaults will only continue to get worse, not better, for the foreseeable future," said an investor. "[This is] subject to, in my opinion, the federal stimulus capital getting into the hands of consumers and [small businesses]."

With a large population of consumers employed by small businesses, the two sectors are interconnected, said the investor and the consultant.

"There will be some variation in impact, with restaurants, bars, entertainment, clothing stores, hurting the most and the quickest," said the consultant. "The consumer impact will come slightly later, as layoffs and hour reductions begin to hit more vulnerable consumers."

Some marketplace lending ABS deals tumbled last week, as a result of a liquidity crunch that hit most ABS sectors, as reported.

by Diana Asatryan

Some marketplace lending ABS tumble amid liquidity crunch; LendingClub bond trades at 22

A liquidity crunch hammered asset-backed securities the week of 23 March and marketplace lending bonds weren't spared. But bids and prices later in the week suggest that liquidity has begun to return, according to three investors and data from Finra's Trace database.

CLUB 2018-P2 Cs from LendingClub traded at a deep discount price of 22 on Tuesday, a whopping drop from prices above par in January, according to two investors and Trace. The sale was likely a liquidation, said the two investors.

"Almost identical LendingClub bonds traded at 55 cents the very next day," said the first investor. "Some market liquidity opened up in the past couple of days, and you can't trade at those levels today."

Bids for some MPL ABS bonds returned to the 80–90 range on 20 March, he said.

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"This isn't surprising, because these assets are very risky," being collateralized by unsecured consumer debt, said the second investor. "But still, the [seller] went out to [a number of] dealers and that's all he could get."

This low price was a one-off transaction and shouldn't represent fair value, according to all three investors.

"This week has seen an incredible amount of activity (and) I think things are starting to find a floor," said a third investor the week of 27 March. "The unsecured ABS market for MPL issuers is relatively small though, so with a limited supply of bonds in secondary and no new issue, prices will eventually stabilize."

It's too early to tell whether marketplace loan borrowers are paying their loans late or not at all, said the first and the third investors. Economists are predicting a significant slowdown in the US economy, with some even declaring that a recession has already occurred. An index of consumer sentiment in March on Friday (27 March) dropped to its lowest level since October 2016.

"Many investors are concerned … and credit issues could be a more long-term issue," compared to the short-term liquidity crunch, said the first investor.

Some of the riskier pass-through transactions, which typically have no credit enhancement, have taken a hit as well, according to the first two investors and Trace data.

A pair of Upstart pass-throughs traded at discounts of 77 and 77.5, according to Trace. Several Upgrade pass-throughs traded in the 64 range on 26 March.

"Bids are coming back [for both issuers]," said the first investor. However, given the inherent lack of liquidity and the "bespoke" nature of the pass-throughs, those bonds could find it harder to recover fully compared to traditional ABS, the first two investors said.

To be sure, trade volume for both MPL ABS and pass-throughs has been very low, as investors prefer to hold the bonds through the volatility unless they are forced to sell, said an investment bank analyst.

For pass-throughs, most investors in the bonds — which are riskier, but also higher-yielding, than standard ABS — bought them under the understanding that they weren't liquid, as reported. As such, many prefer to hold on to the securities for the long term — and certainly don't want to sell during the coronavirus-driven volatility.

by Diana Asatryan

Arena Investors takes over merchant cash advance provider, slashes workforce

Arena Investors, a special situations and credit-focused investment firm, took over the operations of merchant cash advance provider Platinum Rapid Funding after Platinum slashed the majority of its workforce and halted originations, according to a source close to the matter and two industry executives.

Platinum, which was funded by Arena, was hit hard when the coronavirus pandemic sent markets into turmoil, said the source close. The company will likely shut its doors under Arena and only maintain its collections efforts, the source said.

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ABS in Mind Podcast: Billions in RMBS trading causes chaos; M&A crowd preps for dealmaking; Small businesses skeptical on relief timeline

ABS in Mind, a podcast series from *Debtwire ABS*, presents listeners with top-of-mind issues across asset backed securities markets, from real estate to fintech.

In our latest episode:

- Non-agency residential and commercial mortgage bond markets were caught in a vicious cycle during the week of 23 March where waves of selling by funds and REITs were pushing prices to distressed levels, triggering margin calls wreaking havoc with leveraged investors. More than USD 22bn in residential debt alone traded over the past two weeks for a pace about four times average.

- The M&A market is facing its own coronavirus-driven uncertainty as restricted travel paused early-stage deals. But companies are busily trying to identify near-term opportunities. According to virtual data rooms, companies are actively preparing documents in anticipation of potential M&A, asset sale and financing activities.

- All eyes are on Fed's USD 350bn small business loan program, as the sector takes a hit due to nationwide lockdown orders. Small business lending platforms are reporting high demand from borrowers, but originations have slowed or stopped as many institutional investors have pulled back.

CLICK HERE to listen to Episode 14 of ABS in Mind.

Terms of the takeover were not disclosed. Arena and Platinum did not respond to requests for comment.

With widespread business shutdowns across the US, investors expect many small business lenders and MCA providers to suffer, as reported. While larger platforms such as Square, OnDeck and Kabbage potentially have enough cash to weather short-term economic disruptions, smaller platforms may not have the same bandwidth, said the first industry executive.

MCA providers rely heavily on the US court system to complete their collections processes, said an industry lawyer. So, with many courts shutting down temporarily or delaying non-urgent hearings, MCAs are losing their primary collections tool, the lawyer said.

"Borrowers know this too," he said. "The badly run MCAs are just going to die."

Platinum provided merchant cash advances to "thousands of businesses," sized in the USD 5,000–USD 1.5m range, according to the company's website. Platinum reportedly originated USD 180m in advances in 2016.

by Diana Asatryan

Square scales back on new loans, tightens standards

Square Capital, the online lending arm of the payments giant Square Inc., is scaling back on new loan originations to its merchant partners and is temporarily tightening its underwriting standards in response to the market turmoil of the past weeks, company executives said during an investor call on 24 March.

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Adjusting the loan sizes, as well as loan qualification criteria for its merchants, will help limit Square's exposure to the volatile credit environment, the executives said.

"We will continuously assess our model to adjust the eligibility and loan size," said Jacqueline Reses, head of Square Capital. "In times like this ... that will be really important [in order] to keep a healthy seller base."

Funding from the capital markets and institutional investors for small business lenders is expected to become more expensive or even disappear, as small businesses suffer from widespread shutdowns. The trend could potentially boost yields for some of these assets, as reported.

Many Square loans are short term and are repaid in under a year, Reses said. Simultaneously, more than 75% of Square's investor agreements are signed for terms of over a year, she said.

"We don't have any warehouse facilities or market-sensitive securitizations," she said. This will allow the company to maintain "healthy relationships" with its investor base.

The company sells its loans through loan sale agreements, as reported. Square Inc. provides point of sale hardware and software solutions to millions of sellers. The company offers small business and consumer loans through Square Capital. Last week, Square Capital received conditional approval from the FDIC for its Industrial Loan Company (ILC) bank charter application.

by Diana Asatryan

VION looks at small business lending for high-yielding opportunities

VION investments, an Atlanta-based specialty finance provider, is exploring investments in small business lending and merchant cash advance sectors, as the market turmoil of the past weeks has resulted in some juicier yields, according to managing director Ed Wu.

The firm currently has "substantial" dry powder, allowing it to explore new opportunities in a number of areas, Wu said. "Small business lending and the merchant cash advance sector present interesting opportunities right now."

The firm has looked into a number of MCAs in the past, but wasn't comfortable with their risk-return profile.

"The premium you may be able to obtain today is a lot higher than it was before, because, before, capital was being spent as if there was no risk," Wu said. "Today, you are getting paid for that risk."

Some assets in the sector can offer yields from the mid-teens to mid-20s, he said. Compared to opportunities seen pre-coronavirus, investors can potentially get higher yields for better performing paper, especially if some larger investors cut their liquidity, Wu said.

Funding from the capital markets and institutional investors for small business lenders is expected to become more expensive or even disappear, as small businesses suffer from widespread shutdowns, as reported. Some smaller small business lending platforms have already approached investors for expensive emergency funding, as reported. On 24 March, dozens of fintechs submitted a letter to Congress asking for the approval of more than USD 500bn in funding to small businesses during

Headlines

the coronavirus pandemic, saying they "stand ready" to assist in deploying the financing via their networks.

VION explores deals in the USD 20m–USD 200m range. The company partners with other investors for larger co-investment opportunities, Wu said.

"Of course, the performance of the sector in the medium term will depend on the length of the [market turmoil caused by the coronavirus spread], so it's too early to tell," Wu said. "We haven't transacted yet, but are actively looking at several MCAs."

VION "can help any business owner, turnaround manager, or lending institution facing issues of liquidity, covenant restrictions, and compliance," states the company's website. The firm has been able to capitalize on distressed assets in the past.

"Our best successes in the past, particularly coming out of 2008–2009, were in consumer credit card charge-off portfolios, where we deployed meaningful amounts of capital, and generated a significant cash-on-cash multiple for our investors," Wu said.

by Diana Asatryan

Marketplace lending 'left out' of Fed's TALF; industry calls for modifications

The Fed's Term Asset-Backed Securities Loan Facility (TALF) program, announced on 23 March, is expected to provide some relief to ABS issuers and investors. But a newer participant in the ABS markets — the marketplace lending sector — is notably absent from the program, resulting in an industry-wide initiative to modify the TALF.

In the meantime, spreads in the sector may continue widening, according to two investors and an executive from a marketplace lending platform.

"[MPL] is just not going to get as much interest [from investors]," said the first investor. "There is the potential that if the industry gets what they want and gets more assets added to what is eligible, then I think you will see more support."

In line with most other ABS asset classes, secondary market personal loan ABS spreads widened exponentially in March, according to a 30 March Wells Fargo Securities report. Average spreads for one-year AA/A rated notes widened by 435bps over the four weeks ending 30 March, to 500bps. Two-year BBB rated bonds widened by 675bps over the same period to 800bps, on average. And average spreads of three-year BB rated notes widened by 825bps to 1,100bps. However, all three types of bonds have tightened by 100bps over the past week.

Under TALF, the Federal Reserve will lend on a non-recourse basis to holders of AAA rated ABS backed by consumer and small business loans. Eligible collateral would need to be rated by two nationally recognized rating agencies.

But TALF didn't include asset classes "that are going to be strained for a long period of time [including non-SBA guaranteed] small business lending, off-the-run consumer lending and we'll call it general corporate lending that depend on funding through the asset backed markets," said the second investor.

Unsecured consumer and non-SBA guaranteed small business ABS were virtually left out of the TALF under the current guidelines, since the vast majority of the bonds are not typically AAA rated — and the few that are are not rated by two ratings agencies, according to the executive, an industry consultant and two investors.

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Several consumer lending platforms, as well as the Marketplace Lending Association (MLA) and the American Financial Services Association (AFSA), joined the Structured Finance Association's [call to the Fed on 22 March]() to expand the asset classes qualifying under the Fed's TALF program, according to an executive from a marketplace lending firm and a letter reviewed by *Debtwire ABS*.

"The provision of a standardized rating category, i.e. AAA, is going to mean that a lot of [sectors] that really need financing are not going to be eligible under this program," said the second investor. "So, if your whole intent was to get primary back, you hit a very large part of the market. But they didn't necessarily hit the parts of the market that need liquidity; smaller finance companies, smaller issuing banks, all those guys who do more of the funky stuff."

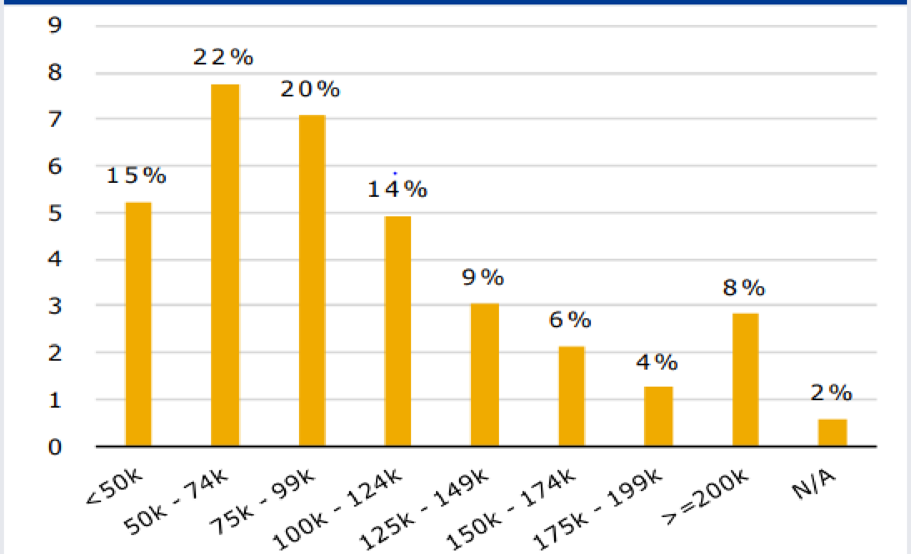
TALF modification proposal

A proposal to the Fed on 22 March, co-drafted by two of the established consumer lending platforms and endorsed by the SFA, MLA and AFSA, states that TALF should be expanded to include all "all investment grade" collateral down to BBB- rated paper.

"Non-bank lenders focused on personal loans did not exist in as large a number in 2008 as they do today, nor did unsecured personal loans exist as an asset class in the securitization market," according to the proposal. "For this reason, it is important that any new TALF program specifically include these loans as eligible collateral in order to ensure the supply of new loans to creditworthy borrowers."

The proposal also addressed the liquidity crunch on the secondary markets for existing ABS, "where pricing spreads have widened exponentially over the last week or so, it would be helpful if investors in existing ABS, including personal loan ABS, could access a new TALF program as quickly as possible."

OUTSTANDING MARKETPLACE CONSUMER LOANS BY INCOME LEVEL ($BN)



Source: KBRA, [Coronavirus (COVID-19): Impact of Federal Stimulus on Securitizations Backed by Consumer Receivables]() , 31 March

Other proposals included requests that the Fed:

- Expedite the operational start of TALF 2020 by eliminating burdensome requirements
- Allow private ABS and structured finance securities to be eligible for TALF 2020
- Allow ABS investors to borrow under the TALF after the closing date of the ABS issuance

As the TALF stands now, some AAA rated bonds from personal lenders and credit cards could still be "squeezed in," according to the executive and the consultant.

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Furthermore, "there were no major performance concerns [for most personal loan ABS] and this is a liquidity lifeline," the executive said.

The sources said they don't foresee the government completely ignoring any single asset class in the medium term.

"I think some of the guys who are playing clearly within the ranks and what does not constitute usurious loans, are probably going to get some money," said an industry lawyer. "I think the lenders who are engaging in aggressive lending practices — I'd be surprised if the government stepped in to help those guys out."

The speed with which the Fed announced the implementation of its emergency tools, including TALF, is impressive, according to the letter and an investor. However, solely basing the program on the way the previous TALF was implemented during the 2008 crisis won't be possible in the long term, said the second investor.
"Dusting off the old book and saying, 'this still works,' means that if they can get this implemented first, then we can get to where the challenges are second," he said. "Because there are material parts of the capital markets that just didn't exist back then."

by Diana Asatryan and Larissa Padden

Groundfloor betting retail investors will keep its doors open

Online real estate lending platform Groundfloor is betting that its large retail investor base will keep funding fix & flip loans amidst news that many of its competitors have halted production, according to CEO Brian Dally.

The platform, which has historically been primarily funded through retail capital, has seen a record spike in application volume over the past couple of weeks, Dally said. So far, its retail investors have kept pace, he said.

The fix & flip sector and the non-QM space overall have suffered a liquidity crunch caused by the rapid spread of the coronavirus pandemic, prompting institutional investors and some lenders to pull back production, as reported. Real estate platform PeerStreet halted purchases of fix & flip, multifamily and long-term rental property loans, while Blackstone's Finance of America Commercial tightened up its underwriting guidelines, as reported.

About 80% of Groundfloor's volume is funded through retail capital. The company originated about USD 130m in loans last year, Dally said. While Groundfloor expects some slowdown of production, the company said it's working with institutional partners on hybrid investment structures, Dally said.

"In the absence of counterparty risk ... retail capital tolerates [volatility] better in the short term," he said. "We plan to put the retail capital alongside the institutional, and creatively combine" the two capital sources to satisfy institutional investors' changing risk profiles, he said.

Groundfloor loans yield approximate 10% returns to investors on average, according to Dally.

"[Our] loan applications reached an all-time record for weekly loan application volume [partly due to] several fix and flip lenders pausing originations," in mid-March he said. "We are still lending ... even if some of our institutional partners pull back."

by Diana Asatryan

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PeerStreet halts fix & flip, single-family rental loan purchases

Residential investment platform PeerStreet is pausing all loan purchases on expectations that the spread of coronavirus could make lasting changes to real estate markets, according to a 19 March note to business counterparties that was reviewed by *Debtwire ABS*.

The note, from the "The PeerStreet Team," said the stoppage applied to fix & flip, multifamily and long-term rental property loans.

"Due to extreme volatility in the credit markets and uncertainty regarding the ability to value properties, close loans, and record documents resulting from COVID-19, PeerStreet is temporarily pausing all purchases," the company wrote.

The move came one day after Blackstone's Finance of America Commercial tightened up its underwriting guidelines for residential business purpose loans, as reported. Lenders specializing in non-QM residential loans have also made significant changes to guidelines and raised interest rates amid signs that investors have stopped buying anything but the highest-quality loans that can be held on balance sheet instead of securitizing them.

PeerStreet was anticipating a big year for growth. In October, it raised USD 60m in Series C funding from investors including venture capital firm Andreesen Horowitz and Colchis Capital. It also said it secured USD 4.25bn in new capital commitments from institutions to purchase loans through its platform.

PeerStreet appeared most concerned about how the economic slowdown would affect fix & flips — where in 2019, activity hit a 13-year high but average profits declined to their lowest level since 2011. The cost of buying properties rose faster than the gains on resale, according to data provider Attom Data Solutions.

While the impact of coronavirus on residential properties isn't yet known, it's likely that it will affect values, PeerStreet said in the note.

"The demand for houses and apartments will likely remain strong, but the terms, conditions, and pricing of loans secured by houses and apartments are changing," the company wrote. PeerStreet is working on new loan terms and pricing, it said.

As for single-family rental loans, PeerStreet said fundamentals of holding the loans are strong as renters need housing under any market conditions.

PeerStreet said it would be providing frequent market updates.

by Al Yoon and Diana Asatryan

Theorem's first ABS 'ready to go' once cap markets unfreeze

Marketplace lending investment fund Theorem is pushing its first ABS backed by LendingClub loans likely into the next quarter in a bid to avoid the volatility associated with the coronavirus pandemic, according to a source close to the matter.

The transaction — Theorem's first — was originally targeted for March, after the firm held investor roadshows in February, said the source. The market volatility, caused by fears that the coronavirus will push global economies into recession, drove a number of other issuers across asset classes to pause on securitization issuance, as reported.

The company will likely wait for issuers in ABS-heavy sectors — such as prime autos and credit cards — to test the markets first, before issuing

Headlines

its transaction. After the first deal, the company plans to come to market regularly.

Credit Suisse is running the books on the approximately USD 300m deal. San Francisco-based Theorem, which was founded in 2014, has more than USD 1bn in assets under management and it uses machine learning technology and big data to invest in online lending assets.

by Diana Asatryan

Hot Topics

Kabbage furloughs staff; ABS put on watch

Online small business lender Kabbage has furloughed a "significant" number of its US employees, according to a 30 March report by *TechCrunch*, citing an internal memo by the company CEO Rob Frohwein.

TechCrunch also noted that the lender is closing its Bangalore office.

The news comes on the heels of Kroll Bond Rating agency placing 10 US small business ABS deals on watch for downgrade, including all classes of Kabbage's **KABB 2019-1** transaction, as reported.

LendingClub raises borrower rates; warns investors of cash flow interruptions

The following is a 30 March LendingClub announcement:

Over the past several weeks we've updated our platform investors on what we've done and what we're continuing to do to combat the effects of the coronavirus (COVID-19) pandemic on our investors' portfolios. We continue to take immediate, proactive and temporary action and may continue to adjust as needed while we navigate the rapidly changing environment.

The environment remains fluid: The federal government enacted a USD 2.2trn stimulus plan on 27 March that is unprecedented in size and speed. It includes expanded unemployment benefits, a cash infusion to most individuals, aid for small businesses, and Tax Day deferral (among other things).

The scope of the government's response appears to reflect the market's expectation that the spike in unemployment will be unprecedented and the recovery will be unique as well. Like other fintech and financial services companies, we are assessing the impact to our platform and the market, including the potential impact of aid on affected borrowers, but it is difficult to estimate with any precision. For example, the government's relief in 2020 is larger than during the Great Recession of 2008, but perhaps more important, it appears intended to provide aid more quickly: it took more than 6 months for consumers to experience the benefits of the 2008 relief, while the government is anticipating that consumers in this case should experience benefits in the next 2-4 weeks.

We're committed to our members' financial success and are doing everything we can to help them stay on track throughout this period. We are waiving late fees starting 1 April through 31 May. We've rapidly added new collections and servicing capabilities, ranging from remote-work kits for our customer service teams, to tripling the number of people available to help over the phone, to adding new hardship plans (which enable eligible borrowers flexibility to make interest-only payments for a few months). Consistent with best practices and regulatory guidance, we have

Hot Topics

also designed a hardship plan specifically for this situation that allows eligible borrowers to easily skip up to two monthly payments and launched a self-service tool last week to allow people to apply for a hardship plan online. To date, as a percentage of our portfolio, the number of borrowers requesting hardship plans has been relatively small at less than 2% of total loans outstanding. The majority of those calling in are in current status (meaning they haven't missed any payments to date and are proactively calling to let us know they think they'll be impacted). We expect to continue to develop plans to help our borrowers during this difficult time.

There will be a temporary impact on investors' cash flow due to borrowers enrolling in these programs, but it's too early to estimate the ultimate effect on investor returns given the uncertain impacts of several factors, such as the total number of Americans who ultimately experience income dislocations as well as the potentially positive impact of the historic government stimulus package.

In the meantime, we have taken fast and aggressive action with the aim of protecting our investors' returns on new issuance. We reduced approval rates for certain higher-risk borrower populations and increased income and employment verification requirements. Today, we announced increased interest rates for new borrowers ranging from 2% to 4% depending on loan grade. As a reminder, as we focus on borrowers with higher credit quality, investors may see fewer grade C and D loans available on the platform. Individual investors who are overweight those grades should consider the effects of cash drag on their portfolio and whether or not to reallocate now in line with their investment objectives.

Big banks, fintechs to tighten credit; cards, personal loans bear the brunt — report

Lenders are tightening their credit standards in the face of rising unemployment and deteriorating economic conditions, the *Wall Street Journal* reported on 28 March.

JPMorgan Chase, Bank of America, Capital One and Santander consumer USA are weighing their options, including increased documentation for

MARKETPLACE ABS TRADES

Trade Date	Bond	KBRA/S&P/MNSDBRS/Fitch	Trade Quantity (USD)	CPN (%)	Color
3/31/2020	PMIT 2019-1 A	A/-/-/-	6,980,000	3.54	Traded: USD 98.94
3/31/2020	CLUB 2018-P2 A	A-/-/-/-	9,350,000	3.47	Traded: USD 98.63
3/27/2020	PMIT 2017-1 C	B+/-/-/NR	10,000,000+	5.8	Traded: USD 97.25
3/27/2020	CVNA 2020-NP1 E	BB/-/-/-	10,000,000+	5.2	Traded: USD 70.00
3/27/2020	CVNA 2019-1 E	BB/-/-/-	4,084,000	5.64	Traded: USD 73.00
3/26/2020	CLUB 2018-P3 A	A-/-/-/-	10,000,000	3.82	Traded: USD 95.25

Source: Finra's TRACE system

Hot Topics

loans and lowered spending limits for cards, according to the Journal citing sources familiar.

American Express has already throttled back on its small business lending, joining fintechs Square Capital and OnDeck.

Square Capital, the online lending arm of the payments giant Square Inc., last week announced plans to curtail new loan originations and temporarily tighten underwriting standards, as reported.

OnDeck has stopped lending to hotels, movie theaters and nightclubs, and has moved to tighten its underwriting standards, according to the *Journal*.

Unsecured borrowers will feel the brunt of the tightening, according to the Journal. JPM, BofA and AmEx have stopped sending out solicitations for new loans, and online lender LendingClub announced that it will require more robust documentation for consumer loan applications and reduce lending to first-time borrowers and those with lower credit scores, as reported.

Fintechs will be authorized to make small business relief loans — Mnuchin

Relief for small business owners under the Federal Government's USD 2trn coronavirus stimulus bill will become available this week, and Fintechs will be among the corps of lenders tasked with getting the loans out to those who need them as quickly as possible, *Bloomberg* reported on 30 March.

Treasury Secretary Steven Mnuchin told Fox News Sunday (29 March) that "Any FDIC bank, any credit union, any fintech lender will be authorized to make these loans," subject to certain approvals, according to *Bloomberg*.

The loans, which will be distributed via the existing SBA 7(a) framework, should provide relief for small businesses for eight to ten weeks, Mnuchin told CBS News.

Ten small business ABS put on watch for downgrades from COVID-19 impact — KBRA

The following is a 30 March KBRA report:

Kroll Bond Rating Agency is placing all its outstanding ratings from 10 US Small Business ABS transactions on Watch Downgrade owing to the economic effects of the coronavirus disease (COVID-19).

In total, 29 securities totaling USD 2.1bn are being placed on Watch.

Small businesses in the United States are directly impacted by COVID-19 containment measures and their hardship is contributing to a broader economic slowdown. Businesses have responded to the slower economic activity and reduced revenue by cutting costs, laying off staff, or closing their doors temporarily.

Because of these recent and ongoing events and from information gathered from frequent calls with originators and servicers of small business lending products, KBRA expects these US Small Business ABS transactions to be negatively impacted.

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Online used car marketplace Carvana boosts Ally loan repo line to USD 2bn

The following is excerpted from a Carvana Co. 8-K filing with the SEC on 24 March:

On March 24, 2020, a subsidiary of Carvana Co. (the "Company"), Ally Bank, and Ally Financial (together "Ally") amended the Amended and Restated Master Purchase and Sale Agreement (the "MPSA") to provide for the sale of up to $2.0 billion of principal balance of finance receivables to Ally.

The amended agreement upsizes Ally's purchase commitment by approximately $1.6 billion, extends it to March 23, 2021, and broadens the set of customers covered by the agreement.

"This commitment from Ally puts Carvana in a strong position to provide our customers fair, simple financing in this time when so many need it," said Ernie Garcia, Carvana founder and CEO.

"As we work through the current business challenges facing the auto industry, the Ally team remains unwavering in its focus on finding the best solutions to help our dealer customers," said Doug Timmerman, president of Auto Finance for Ally.
"We're pleased to have the expertise and agility to deliver a financing agreement that supports Carvana's innovative, digital consumer experience."

Fintechs ask Congress to approve more than USD 500bn in SMB funding

The following is a 24 March OnDeck announcement:

OnDeck today joined other companies across the country to send the following letter to leaders in Congress calling for swift action to support small businesses:

Dear Majority Leader McConnell, Minority Leader Schumer, Speaker Pelosi and Minority Leader McCarthy:

We thank you for your leadership in the Congress and your tireless efforts to address the unprecedented global COVID-19 pandemic. Passage of the Families First Coronavirus Response Act last week was a major step in supporting the millions of Americans impacted by COVID-19.

We believe there is more to be done and it is essential that Congress acts immediately to stabilize the economy and support America's small businesses and workers, who are facing a grave threat to their survival. This crisis is urgent, and a swift solution is crucial. Layoffs are already affecting vast numbers of American workers. Hourly workers worked 59% fewer hours last Saturday than they did on the same day last year (per Homebase). Every hour, more people will be laid off and more companies will face closure or bankruptcy.

It is imperative for the continued success of our nation's small businesses and economy that Congress comes together and acts as a united force. The stimulus bill must be passed immediately, and we strongly support the text released this past weekend that would allow small business non-bank lenders to quickly advance capital to struggling businesses within hours rather than weeks.

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The private sector is ready to help including with data, expertise, and engineering resources. We seek no gain from this crisis. Our only aim is to protect the millions of small businesses that we are proud to call our customers.

We ask that you act decisively, with one united voice, by supporting legislation that provides the Treasury Department with the flexibility needed to inject upwards of USD 500bn in discretionary funding into small businesses. This will allow financial institutions, credit unions, online lenders, payroll processors, and other financial services and technology companies to provide a critical lifeline to businesses nationwide.

Our companies stand ready to support you and the American economy. We ask that you provide a path forward to help mitigate this national crisis in small businesses hour of need.

Coronavirus disruptions could trigger rapid amortization events for small business ABS — KBRA

The following is a 18 March KBRA report:

The spread of the coronavirus disease (COVID-19) is a rapidly evolving situation in the US and is having a meaningful impact on many aspects of small businesses that are financed through the ABS markets. As federal and local governments have taken action to slow the spread of the virus, it is common to see establishments including restaurants, bars, coffee shops, and gyms shuttered, while many colleges and universities have converted to online instruction. Some cities, such as San Francisco, took more drastic action and issued a regional shelter-in -place order, and New York City is considering similar measures.

While these measures are intended to slow the number of new cases and reduce strain on the healthcare system, it has caused an unprecedented slowdown, or even cessation, of business activity owing to the disruption in consumption patterns and reduced operational activity for many small businesses. This will likely have an immediate, steep, and prolonged consequences on business revenue in a manner no one could have predicted. As a result, many strong and well-established small businesses may not be able make their rent or debt service payments.

Kroll Bond Rating Agency (KBRA) is closely monitoring these changes and analyzing the effect on each of our rated small business ABS transactions to determine if watch status placements are needed. This report provides high-level views regarding COVID-19's effect on small business ABS after speaking to various servicers and issuers this week. There are a number of consistent trends from our conversations with issuers including immediate credit concern for certain industries, such as restaurants and eateries, requests for short-term repayment flexibility as well as tighter underwriting standards for new originations. Furthermore, as the payment frequency on most of the lending products is daily or weekly, these assets experience greater risk relative to other asset classes that may pay monthly or quarterly.

Origination volumes are generally expected to decline across small business lenders, as both underwriting standards are tightened and the credit quality of merchants deteriorates. Average terms and the size of loans or advances are expected to go down as longer-term options and larger loans are being limited. Additionally, a greater level of due diligence is occurring in real time to make sure businesses are still operating as expected.

Many transactions are subject to rapid amortization trigger events based on delinquency levels, excess spread, weighted average yield, and concentration limits (for transactions with a revolving period). If concentration limits are exceeded, they would be excluded from the

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eligible asset base, requiring the issuer to add more eligible collateral per the transaction documents to maintain the required credit enhancement on the notes in order to avoid an asset deficiency and rapid amortization. Recent trends in consumption and business activity suggest that lower-than-expected payments will be collected. This will affect yield, delinquency, and excess spread triggers and as a result, KBRA anticipates several transactions may trigger a rapid amortization event. In that instance, the current revolving pools would become static and begin to pay down notes sequentially. While beneficial to the noteholder, this would reduce the lender's access to capital and their ability to originate new loans.

Square's industrial bank charter gets conditional approval from FDIC

The following is an 18 March Square announcement:

The Federal Deposit Insurance Corporation (FDIC) Board has voted to conditionally approve Square's application for deposit insurance related to its Industrial Loan Company (ILC) bank charter. Square has also received charter approval from the Utah Department of Financial Institutions.

The bank, Square Financial Services, is expected to launch in 2021. It will operate independently, as a direct subsidiary of Square, Inc. Its primary purpose will be to offer small business loans for Square Capital's commercial lending business, and to offer deposit products.

"We appreciate the FDIC's thoughtful approach to our application, and their recognition that Square Capital is uniquely positioned to build a bridge between the financial system and the underserved," said Jacqueline Reses, Square Capital lead and executive chairwoman of the board of directors for Square Financial Services. "We're now focused on the work ahead to build out Square Financial Services and open our bank to small business customers."

Square Financial Services CEO Lewis Goodwin and CFO Brandon Soto will lead the bank's executive team; both bring decades of banking leadership experience to Square and have managed multiple ILCs over their banking careers. As the ILC prepares to open, Square Financial Services will make additional hires for its bank headquarters in Salt Lake City, Utah.

Square Financial Services expects to continue to sell loans to third-party investors and limit balance sheet exposure. As a result, we do not expect the bank to have a material impact on Square's consolidated balance sheet in 2020. We also do not expect the bank to have a material impact on our consolidated total net revenues, gross profit, or Adjusted EBITDA in 2020.

Consumer credit weathering outbreak ... so far — KBRA

The coronavirus outbreak is throwing a wrench into US consumer activity, and the negative effects on personal incomes could disrupt consumer credit and spell higher losses for consumer loans down the road, according to a 18 March KBRA report.

For now, however, consumer lender portfolio performance has been unaffected — most consumers were on solid financial ground before the outbreak, and the situation is still in its early stages in the US, according to KBRA. Government consumer aid is rapidly taking shape, and servicers are generally willing to work with borrowers who might have trouble with payments.

For now, however, consumer lender portfolio performance has been unaffected — most consumers were on solid financial ground before the

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outbreak, and the situation is still in its early stages in the US, according to KBRA. Government consumer aid is rapidly taking shape, and servicers are generally willing to work with borrowers who might have trouble with payments.

Consumer lenders on the whole are generally well equipped to weather the effects of the outbreak, according to the report. Several lenders — particularly in the subprime realm — have anticipated some form of downturn for months, and have already adjusted their underwriting standards and taken other preventative measures accordingly, KBRA analysts wrote.

LendingClub announced earlier this week that while no change has yet been observed in application trends, investor demand or deterioration in loan performance, it is taking steps to enhance the resiliency of its portfolio — including tightening credit standards, bolstering its servicing operations, working with borrowers to modify payment plans and closely monitoring credit trends, as reported.

Marketplace lending platforms, which rely heavily on uncommitted capital from whole loan programs, could pivot to fundraising from structured pass-throughs, traditional ABS and committed warehouse lines if institutional whole loan demand begins to wane, according to KBRA. So far, that demand has seen no ill effects from the outbreak, according to the report.

While loan originations — especially in the auto sector — are expected to fall, unsecured credit applications are expected to rise, according to the report.

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