PEER-TO-PEER LENDING

STATE OF THE MARKET

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INTRODUCTION

PEER-TO-PEER LENDING: STATE OF THE UK MARKET

After rapid growth from the ashes of the financial crisis, the alternative finance sector appears to be maturing. However, it faces internal and external challenges that will dictate the industry's long-term viability and success.

The successful listing of Funding Circle is a clear example of what can be achieved, the company's development from a small retail platform to an institutionally backed SME lender illustrates the opportunity for others. With all emerging sectors, especially those dependent on technology, there tend to be clear winners and losers. Hence during a period in which we have seen the IPO of Funding Circle and other major platforms accessing institutional funds, we have also seen platforms close and others fail. This appears to reflect a bifurcation of the industry, with investors (retail and institutional) increasingly focusing on the more established and successful platforms, with less successful operators struggling to access finance and remain competitive.

Closer regulatory oversight, combined with an increasingly competitive environment for retail deposits, has resulted in lenders becoming more dependent on institutional funding. For their part, some institutions are actively seeking exposure to direct lending assets. Their lending parameters and reporting requirements, alongside with the themes articulated in the FCA's consultation paper on crowdfunding, have been important drivers in improving corporate governance and accountability across the sector.

However, the benign credit conditions that have supported the growth of the alternative finance market appear to be changing: global economic uncertainty compounded by the UK's Brexit issues present an increasingly challenging environment for lenders. How some of these platforms will weather an inevitable downturn in the broader economy is really the key question for investors and the industry in general. Perhaps more to the point, investors will need to gauge how net returns from online lending are likely to evolve. That implies a realistic assessment not only of headline returns but also of likely losses from defaults and arrears. Other questions, such as ease of access to invested funds and the secondary liquidity of invested assets will also become increasingly important considerations. This report from AltFi is a deep dive into this new asset class and we think complements RSM's engagement in the space – hopefully both institutional and retail investors will find much to think about in the pages that follow.

Damian Webb
Partner, RSM

PREFACE

WELCOME FROM THE EDITOR

In 2011 investors put £92m to work across the United Kingdom's budding peer-to-peer lending market. By 2018 that had mushroomed to £6.1bn being invested over the course of a year. The seven-year period saw annual volumes swell beyond all belief. Why?

Today the peer-to-peer (P2P) lending industry has been given the go-ahead by the Financial Conduct Authority (FCA), it has official governmental support in the form of its own Individual Savings Account (ISA), one P2P platform is a member of the FTSE 250 (Funding Circle) and a gaggle of investment trusts are specifically and regularly allocating permanent capital to online lending platforms. Has peer-to-peer lending finally arrived?

A bullish analysis is somewhat not quite right for AltFi's first annual State of the Market Report. There is no doubt that peer-to-peer lending has seen explosive growth and some establishment in more mainstream financial circles, but annual increases in volumes are slowing. Some investment trusts have begun to wind down or pivot strategies. Equity investors have been hard convinced, at the time of writing, to back Funding Circle's valuation at its Initial Public Offering (IPO) price and many industry observers are preparing for an anticipated regulatory crackdown.

In the nearly six years since AltFi began covering this market, whose name increasingly jumps around from 'peer-to-peer' to 'online' or 'marketplace lending', the industry has been a definitive UK success story, but still remains in a niche with a long way to go until it's seen as mainstream by many investors. What will drive future growth and adoption?

In this report, you will find the answers to some of these questions as well as at a comprehensive market snapshot, all the key numbers and exclusive interviews with some of the industry's key players and thinkers. Enjoy!

Daniel Lanyon
Editor, AltFi

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THE STATE OF THE ALTERNATIVE LENDING MARKET IN THE UK AND EUROPE

Since its emergence following the Global Financial Crisis, the online alternative lending market, dominated by the big names of peer-to-peer (P2P) lending, has experienced turbo-charged growth in volumes. In the UK, Europe's first and largest P2P market, more than £6bn was advanced to consumers, small businesses and property developers during 2018, and the 'big four' lenders now have around £5bn of loans outstanding.

This report takes the reader behind the headline numbers to analyse the factors that matter to investors in this emerging asset class – what is the pattern of growth across the market? How are returns and loss rates evolving? What level of return can investors reasonably expect to achieve while taking moderate levels of risk? How do professional investors go about assessing these assets? The report analyses the market in a series of snapshots:

David Stevenson
Editor-in-chief, AltFi

UPCOMING EVENTS

ALTFI TORONTO SUMMIT 2019

MaRS Discovery District

9th October 2019

ALTFI BERLIN SUMMIT 2019

Steigenberger Hotel Am Kanzleramt

18th November 2019

ALTFI LONDON SUMMIT 2020

etc.venues 155 Bishopsgate

18th May 2020

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SECTION 1: VOLUMES AND MARKET SHARES

SNAPSHOT OF UK MARKETPLACE LENDING MARKET

The law of big numbers is starting to catch up with the UK's marketplace lenders. Growth in marketplace lending in the UK – by far Europe's largest market – is slowing and loss rates are edging up. Even though returns still look good against other fixed-income options, net yields are falling and most listed funds that target online lending have mostly failed to live up to their promise. Now that the marketplace lending sector is maturing, scrutiny will focus more than ever on lending standards and the platforms' ability to get investors' money back and deliver consistent returns.

Gross new lending topped £6bn for the first time in 2018, reaching £6.055bn according to figures from specialist data provider Brismo. That represents a 20 per cent increase on the 2017 total of £5.034bn in Europe's biggest online lending market – a punchy rate of growth by most standards, but after two years of 40 per cent year-on-year expansion in volumes, 20 per cent represents a sharp slowdown in growth. As recently as January 2018, Brismo was predicting gross lending volumes would grow 43 per cent for the year, hitting £7.5bn. The sector's earlier breakneck expansion – when annual lending quadrupled between 2013 and 2015 – is quickly becoming a distant memory.

Brismo is forecasting another year of 20 per cent growth in originations for 2019, which would lift the annual new lending figure to £7.27bn. But even in announcing this number in early February, it suggested 20 per cent might be a stretch: "Before considering any change to the macro picture, e.g. that thing that starts with a B and ends with

> “Marketplace lenders cannot remain immune to influences from the wider economy, however, and here the picture is one of rapidly cooling demand for credit from consumers and small businesses.”

an EXIT, there is already a warning sign that our extrapolations may prove optimistic. This is because Q4, which has historically been very strong, ended rather meekly in 2018. Our seasonal adjustment will capture that, but only with a diluted impact, as part of the average of a three-year look back.”

NEW RECORD

Although underwhelming by historical standards, the final three months of 2018 nevertheless set a record for quarterly new gross lending, at £1.6bn, up 13.9 per cent on the same quarter in 2017, according to the new biannual Link Asset Services (LAS) Marketplace Lending Index, produced in partnership with Brismo. Among the ‘big four’ UK lenders, Funding Circle, Zopa, RateSetter and MarketInvoice, the LAS report says net new lending (new loans less repayments) totalled £280m in Q4, up from £248m a year earlier for a growth rate of 12.9 per cent.

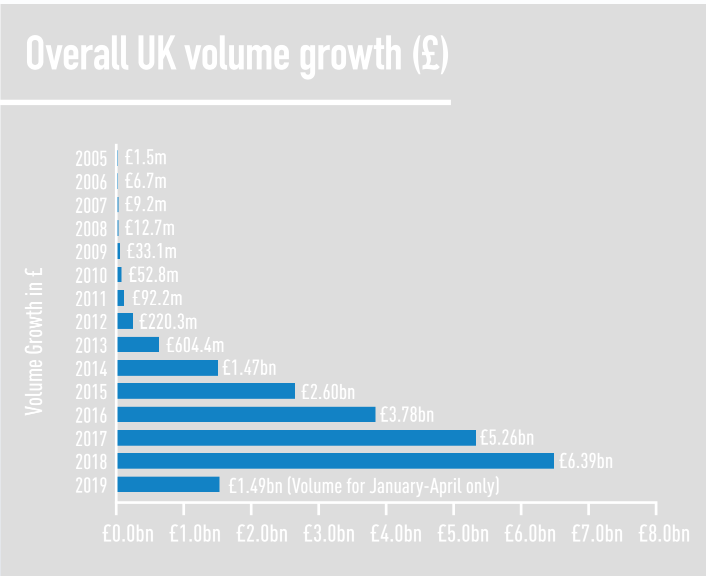
This is impressive but, as the report points out, it illustrates one of the challenges that increasing scale brings with it: as the sector’s stock of existing loans grows so the value of repayments increases rapidly each year making it progressively harder to generate growth in net new lending. A further slowdown in gross lending volumes would exacerbate this problem. The ‘big four’s’ stock of outstanding loans has more than doubled since the start of 2016 and stood at £4.5bn by the end of last year, out of an estimated total of around £6.3bn for the entire marketplace sector in the UK.

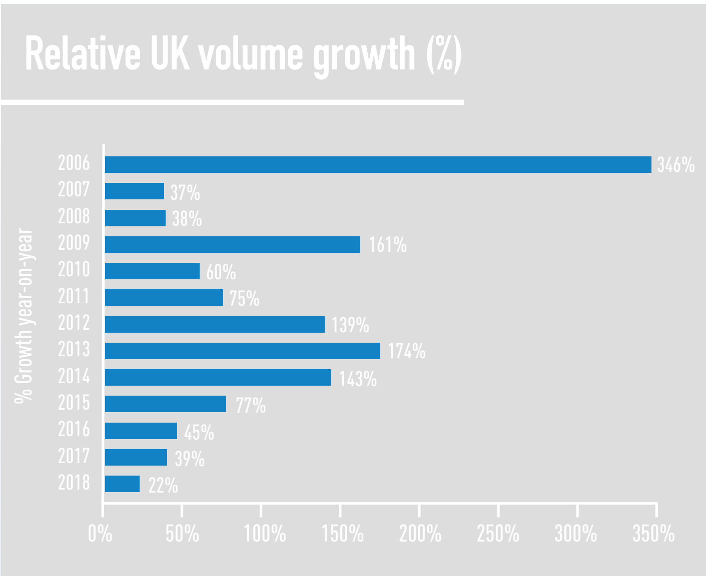
Against the background of uncertainties facing businesses and consumers, another year of 20 per cent growth in originations would, therefore, be a commendable result for the UK’s marketplace lenders. That said, the marketplace sector is still tiny and clearly has ample room to grow: the stock of bank lending to small businesses, which has been shrinking for years, still stands at just over £100bn, according to figures from UK Finance, while the value of outstanding consumer credit is around £216bn, according to the Bank of England.

WIDER ECONOMY

Marketplace lenders cannot remain immune to influences from the wider economy, however, and here the picture is one of rapidly cooling demand for credit from consumers and small businesses. According to the Bank of England’s most recent Money and Credit bulletin, published 1 March borrowing appetite among consumers weakened again in January. “The annual growth rate of consumer credit has continued to slow. It was at 6.5 per cent in January, well below its peak of 10.9 per cent in November 2016.” Within this, the growth rate of credit card lending fell to 6.7 per cent (against 7.1 per cent in December), whilst the rate of other loans and advances was at 6.4 per cent, level month-on-month. This final figure has the clearest read-across to those marketplace lenders that focus on consumer lending since it excludes growth in credit card advances, a market they do not address.

By way of comparison, Brismo’s data show that in 2018, marketplace lenders





> **"A key question for marketplace loan investors this year will be how far the divergence in volume growth between banks and online platforms reflects weakening risk appetite among banks on the one hand, and resilient risk appetite among marketplace lenders on the other."**

focused on consumer loans achieved volume growth of 4.01 per cent, with the rate predicted to drop to 3.85 per cent this year. The slightly slower rate of growth among marketplace lenders, compared with the mainstream banking market, may reflect greater concentration on prime borrowers and therefore lower exposure to higher-risk groups where demand for credit may have held up better.

If growth in consumer marketplace lending is set to trail the wider market, the forecasts suggest that growth in online small business lending – dominated by Funding Circle, now listed on the London Stock Exchange – is set to outpace the banking market. The Bank of England's seasonally adjusted data shows that lending to SMEs (defined as companies with a turnover of £25m or less) grew 0.5 per cent year-on-year in January, up from 0.1 per cent in December 2018, having been negative in September, October and November. Marketplace lending to small companies was far stronger in 2018, growing by almost 21 per cent to £2.13bn, the first time the annual total has topped £2bn. Its growth rate, however, cooled significantly from 2017, when gross lending grew just over 50 per cent. Another year of 20 per cent plus growth in business lending is forecast for this year, with total new originations expected to reach £2.57bn.

A key question for marketplace loan investors this year will be how far the divergence in volume growth between banks and online platforms reflects weakening risk appetite among banks on the one hand, and resilient risk appetite among marketplace lenders on the other. In this context, it is worth noting that Funding Circle recently reduced its forecast returns for investors, a move that suggests loan losses are likely to edge up further. This would continue a trend of increasing loss rates that Brismo's data, covering the big four UK platforms (Funding Circle, MarketInvoice, RateSetter and Zopa) show has been running for more than two years.

Volume growth in property lending – comprising bridging loans, longer-term mortgages and development finance – all but ground to a halt in 2018, rising just 2.12 per cent from 2017 to reach £960.8m and registering a year-on-year drop during the first half. However, this sharp apparent slowdown was the result of several special factors, including the disappearance of Wellesley from Brismo's data in 2018 (Wellesley had reported more than £90m of lending in 2017) as well as the widely publicised problems with late payments at Lendy, which again sharply

Originations and forecasted originations by volume and growth rate

Numbers in £	2019 projected	2018	2017	2016	2015	2014
Business	2,569647,918	2,130,092,503	1,762,276,870	1,171,530,683	712,236,338	408,086,854
Property	1,102,038	960,862,925	940,881,699	703,156,790	536,719,712	309,215,540
Consumer	1,939,427,350	1,867,492,343	1,795,557,337	1,443,011,165	1,079,550,210	564,804,061
Invoice	1,657,030,385	1,096,150,461	535,290,537	310,391,616	252,234,044	170,954,172
Total	**7,268,143,866**	**6,054,608,233**	**5,034,006,442**	**3,628,090,253**	**2,580,740,305**	**1,453,060,626**

Growth rates y-o-y	2019 projected	2018	2017	2016	2015	2014
Business	20.64%	20.87%	50.53%	64.49%	74.53%	102.53%
Property	14.69%	2.12%	33.81%	31.01%	73.57%	512.04%
Consumer	3.85%	4.01%	24.43%	33.67%	91.14%	97.79%
Invoice	51.17%	104.78%	72.46%	23.06%	47.54%	205.98%
Total	**20.04%**	**20.27%**	**38.75%**	**40.58%**	**77.61%**	**144.85%**

slowed that platform's originations. Others registered strong growth, with the dominant property platform LendInvest reporting that it set a new monthly origination record, at £83m, in December 2018. Brismo predicts a 14.69 per cent jump in property lending volumes for 2019.

Within invoice finance, MarketInvoice now represents 99.8 per cent of the market, according to Brismo's figures and in 2018 it advanced approximately £1.1bn, roughly double its total for the previous year. During 2018 MarketInvoice announced that Barclays Bank had taken a strategic stake in the business and would be using the MarketInvoice platform to fund invoices for its SME customer base from its own balance sheet. The agreement represents probably the most significant alliance to date between a marketplace lender and a traditional bank.

MARKET SHARES

As you would expect, the market share figures are dominated by the big four platforms – nowhere more so than MarketInvoice's 99.8 per cent share in receivables finance.

In small business lending, Funding Circle claimed 71.6 per cent of the market in 2018, with Assetz Capital on 13.7 per cent and ThinCats on 5.2 per cent. These top three lenders were the only platforms to originate more than £100m of gross new lending over the 12 months. Add in the fourth-placed operator, Folk2Folk, with a 3.5 per cent market share and you have accounted for 94 per cent of the small business lending market.

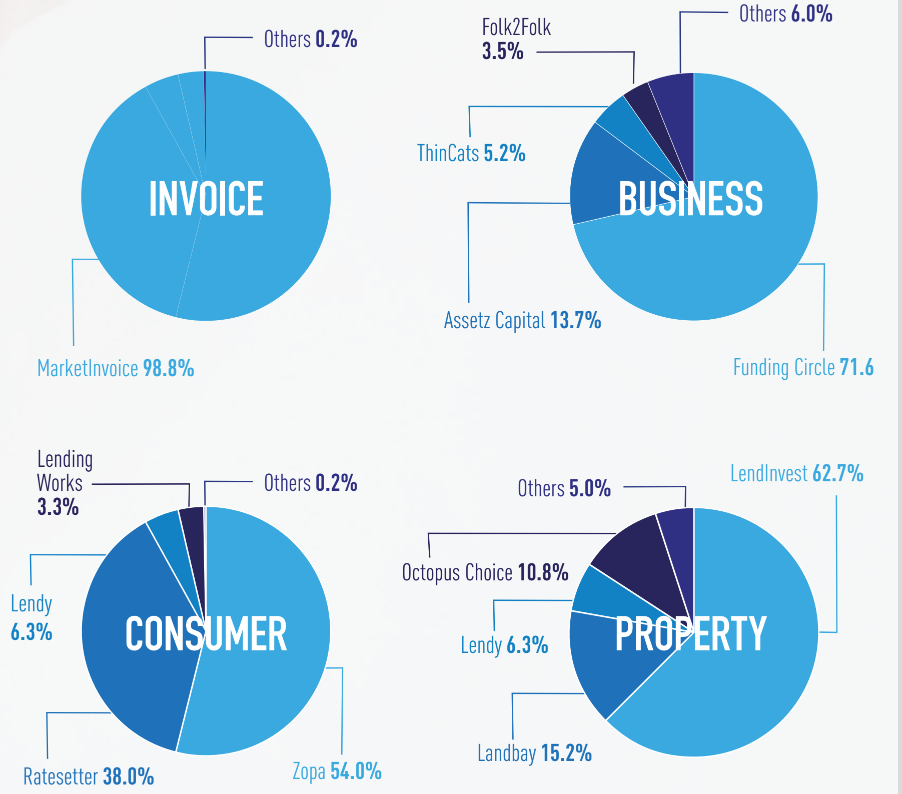
There has been no change in their respective places since 2017 when Funding Circle's share was 72.1 per cent, Assetz was on 12 per cent, ThinCats was on 3.5 per cent with Folk2Folk just behind on 3.45 per cent. The one notable change is the sizeable jump in ThinCats' origination volumes, which enabled it to increase its share by 1.7 percentage points between 2017 and 2018. In effect, ThinCats expanded its market share by 50 per cent year-on-year, in an overall market that grew by 20 per cent. Among the smaller plays, Lending Crowd stands out for its trend of rapidly increasing gross originations, although in absolute terms they remain modest.

In consumer lending, the big two, Zopa and RateSetter, continue to claim more than 90 per cent of the market between them. Zopa's 2018 share is 54 per cent vs 55 per cent in 2017, while RateSetter was on 38 per cent in 2018, up 2 percentage points on its 2017 level. Third-placed Funding Secure is seeing its market share shrink rapidly, from 6.6 per cent in 2017 to 4.5 per cent a year later, while Lending Works climbed from 2.4 per cent in 2017 to 3.3 per cent last year.

Property lending, consisting mainly of bridging and development loans, is a more complex picture. LendInvest is the clear leader in this space and lifted its market share between 2017 and 2018 from 57.3 per cent to 62.7 per cent. In second place, buy-to-let mortgage specialist Landbay is growing quickly and claimed 15.2 per cent of volumes in 2018 – a huge jump from its 4.4 per cent share in 2017 – as regulations on lending to portfolio landlords reduced bank activity in this market. Wellesley, which had 9.9 per cent of the market in 2017 is absent from the 2018 total, while following widely publicised problems with overdue loans in the second half of 2018, Lendy's share halved from 12.5 per cent in 2017 to 6.3 per cent last year. Finally, Octopus Choice, an offshoot of the leading retail-focused alternative asset manager, took 10.8 per cent of the market in 2018, a slight dip from its 12.3 per cent share the year before. Again, one of the smaller platforms, CrowdProperty, is reporting rapid growth in gross originations, but across all main marketplace lending categories, a small number of major platforms are well entrenched and look increasingly difficult to dislodge.

Finally, Octopus Choice, an offshoot of the leading retail-focused alternative asset manager, took 10.8 per cent of the market in 2018, a slight dip from its 12.3 per cent share the year before. Again, one of the smaller platforms, CrowdProperty, is reporting rapid growth in gross originations, but across all main marketplace lending categories, a small number of major platforms are well entrenched and look increasingly difficult to dislodge. ◆

Market shares by sector 2019



SECTION 2: ONLINE LENDING IN EUROPE – A MARKET OVERVIEW

KEY THEMES IN EUROPEAN PEER-TO-PEER LENDING

It is difficult to easily understand the investor experience across European peer-to-peer lending. The types of investment opportunities offered by platforms across the continent are diverse, and always the onus seems to be on the platforms themselves to reflect the performance of their loan books. The interest rates advertised by platforms are rarely helpful. How can investors be expected to trust that platforms will deliver on their promises, or that they have in the past? What is sorely missing from most of the market is an independent, standardised view of performance. There are of course certain companies seeking to address this problem – one is Brismo. Such analytics specialists have made encouraging progress in the UK market. The majority of the UK market's biggest beasts are now allowing their track records to be scrutinised by third-party verification specialists. There remains significant progress to be made in continental Europe.

It is possible that the adoption of independent verification will increase the pace of a consolidation process that is clearly already underway. Europe's very largest platforms continue to grow apace, pushing into the billions lent territory, rather than millions. Yet many of the platforms at the smaller end of the spectrum appear to be struggling to scale their operations; it is striking how many of these firms have made a slow start (if they can be said to have started at all) in 2019, according to Brismo's volume metrics.

That slow start may well have contributed to a general slowdown in growth in continental Europe. Brismo projects that growth in continental Europe's marketplace lending industry will almost half in the coming year, from 90.2 per cent in 2018 to 47.49 per cent in 2019, keyed by slower growth in the consumer lending sector – which represents the largest proportion of the online lending market as a whole. Continental Europe's online lenders disbursed roughly €3.32bn in 2018; Brismo projects them lending €4.9bn this year.

Finally, there is the promise of pan-European passporting for 'crowdfunders' – a prospect that could further quicken the pace of consolidation as larger platforms spread into smaller markets. We already have examples (October, Fellow Finance and Spotcap, to name a few) of platforms growing beyond their country of origin, but these are few and far between. The proposed pan-European licence – part of the European Commission's 23-step Fintech Action Plan – will allow a platform licenced in one country to operate across the EU.

The Commission acknowledged when unveiling the plan that it is, at present, difficult for European platforms to expand into neighbouring countries, and pointed to this as a key reason that the European market is 'underdeveloped' and 'fragmented' compared to other major world economies. Founders were overwhelmingly positive about the Action Plan when it was announced in March of 2018, but little has happened since. Will we see the first pan-European licences handed out this year?

UK

KEY PLATFORMS: ZOPA, RATESETTER, FUNDING CIRCLE, MARKETINVOICE, LENDINVEST

The UK is the best known of Europe's online lending markets. It is home to Zopa, the firm that pioneered the concept of peer-to-peer lending in 2005, as well as being home to Europe's biggest business lending, property lending and invoice finance platforms by volume. The UK's prized peer-to-peer lending sector is spearheaded by a trio of platforms that are often called 'the big three'. These are Zopa, RateSetter and Funding Circle.

Zopa is a consumer loan specialist that has lent a little shy of £4bn to UK consumers cumulatively, all funded by a mix of retail and institutional investor capital. Together with Funding Circle, Zopa was instrumental in lobbying for a dedicated regulatory framework for peer-to-peer lenders in the UK, presided over by the Financial Conduct Authority (FCA). That framework came into existence in 2014, initially as an interim regime, with most major platforms being fully authorised in 2017. The rules are currently under review by the FCA, which is considering, among other things, limiting retail investors to attributing just 10 per cent of their net investable assets to peer-to-peer platforms. This proposal has proven controversial within the industry, and the regulator has yet to reveal the final outcomes of its review. Brismo puts Zopa's 1-year net return at 4.2 per cent.

Funding Circle is the biggest online lender in Europe and one of the largest globally by most measures. It is also the only major UK platform to have gone public, successfully raising around £300m at a valuation of £1.5bn in September 2018 by floating on the London Stock Exchange. Solely focused on arranging loans for small businesses, Funding Circle has to-date originated £6.3bn globally. It is active across the UK, US, The Netherlands and Germany. Like Zopa, Funding Circle funds loans using a mix of retail and institutional capital. It also cur-

> **"It is possible that the adoption of independent verification will increase the pace of a consolidation process that is clearly already underway. Europe's very largest platforms continue to grow apace, pushing into the billions lent territory rather than millions."**

rently operates an independently-managed investment trust – again listed on the London Stock Exchange – named the Funding Circle SME Income Fund, offering investors a passive allocation to its loans. This closed-ended portfolio is currently being wound down after investors agreed that it was the best way forward after a fall in return expectations.

The third member of the 'big three', RateSetter, has originated approximately £3.1bn in loans to UK consumers, small businesses and property developers to date. Unlike its rivals, RateSetter has funded almost all its loans using retail money, with only limited flirtations with institutional capital.

A key weapon for RateSetter and others in the market is the ability to offer ISA-eligible investments, courtesy of the Innovative Finance ISA, which came into existence in 2016 but which in reality took some time to make an impact on the market, as platforms had to achieve full authorisation prior to launching a tax-wrapped version of their investment products. According to Brismo, RateSetter offers investors a 1-year net return of 4.2 per cent.

Generally speaking, the UK peer-to-peer industry has seen a shift over time from active loan selection to passive exposure, with Funding Circle the last big domino to fall when it withdrew its manual bidding process in the Summer of 2017. It is now only small and mid-sized platforms that allow retail investors to handpick their loans.

Behind the 'big three' are a number of mid-sized players looking to close the gap on the market leaders. The business-focused P2P sector, in particular, boasts some larger mid-sized platforms. These include Assetz Capital, ThinCats and Folk2Folk, which to date have lent £729m, £385.7m and £275.3m respectively. All three platforms are differentiated from Funding Circle in that they focus on secured business loans, and Folk2Folk is unique among peer-to-peer lenders for operating a branch-based network.

Outside of peer-to-peer lending, the UK boasts a number of well-known online lenders. LendInvest, which has lent roughly £2.1bn to date, specialises in loans to property developers and buy-to-let landlords. It no longer operates a peer-to-peer platform. Instead, it funds loans using a mix of sources, including a private investment portal for sophisticated investors, retail bonds listed on the London Stock Exchange, credit lines from institutional investors, and its own Luxembourg-based funds. MarketInvoice, a short-term business funding specialist which has lent almost £2.6bn cumulatively, takes its funding from sophisticated and institutional investors.

Beyond these firms there are a number of significantly-sized direct lending platforms, specialising in a range of funding types. These include Liberis, a merchant cash advance provider; Iwoca and Spotcap, which offer credit facilities; and Growth Street with its business overdraft.

Brismo puts the UK's cumulative lending total at £15.74bn. With the sector's major players now well beyond the start-up phase, three intriguing new sources of competition have emerged. The first comes from incumbent banks, which have launched a number of 'flanker brands': standalone platforms that are optimised to deliver services digitally. Several of these have been launched into the business loans sector, the best-known being Esme (owned by NatWest). The second emerging source of competition is the digital-only banks, or 'neo-banks', such as Monzo, Revolut and Starling Bank. These fintech darlings have been able to attract UK customers in their millions with mobile-

An emerging source of competition are digital-only banks, or 'neo-banks', such as Monzo, Revolut and Starling Bank whose attempts to win customers from peer-to-peer and other types of online lending platforms could become a key battleground in the UK market over the next few years.

optimised current account offerings and alternatives, and while they were originally viewed as a potential source of origination for existing online lenders, they are increasingly moving into lending themselves (both in the consumer and business loan markets). Their attempts to win customers from peer-to-peer and other types of online lending platforms could become a key battleground in the UK market over the next few years.

A third fast-growing but still nascent area in online lending involves tech giants, most prominently Amazon and PayPal. The latter launched PayPal Working Capital in 2014 and saw eye-catching rapid growth last year of 60 per cent with total financing to SMEs reaching £1bn. Amazon's own foray into financial services has been similarly stealthy but the firm has been less forthcoming on volumes. Joining the scene soon in the consumer lending market, Apple recently revealed its tie-up with Goldman Sachs in the form of a credit card.

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FRANCE

KEY PLATFORMS: OCTOBER, YOUNITED CREDIT, FINEXKAP

France is among the largest online lending markets in continental Europe by lending volume and is dominated by three key players.

Younited Credit is a consumer lending platform that has lent €874.2m to date. Younited operates what it calls a hybrid funding model; it allows individuals to lend money to other individuals via Special Purpose Vehicles (SPVs), and it raises lending capital in the form of deposits, both from institutions and individuals. Younited is perhaps the only 'marketplace lender' in Europe to have access to this latter source of capital. It is licensed as a European credit institution, meaning it must hold a minimum of €5m in regulatory capital. This licence can be passported to all EU countries, including the UK, subject to the approval of the European Central Bank. Younited is also noteworthy for its strategy of teaming up with banks (both digital and incumbent) to offer its loans as a service to their customers.

October (the artist formerly known as Lendix) is one of the largest small business lenders in Europe. It has lent €264.5m to date, with a 90-day market share in continental Europe's online business lending market of approximately 28 per cent. A French platform, October is also active in Spain, Italy and The Netherlands. Since 2017, the European Investment Bank (EIB) has partnered with October to channel funds to European SMEs, most recently committing to lend another €200m via the platform at the start of 2018. October effectively took over from Funding Circle as the EIB's distribution partner of choice following the result of the Brexit vote in 2016.

In early 2018, the European Commission set out its Fintech Action Plan, which among other things sought to help 'crowdfunding' platforms (primarily marketplace lenders) operate across the Single Market. October's COO Patrick de Nonneville, while generally optimistic about the proposals, warned that the proposed pan-EU licences must not conform "to the lowest common denominator of what each country thinks is appropriate".

Finexkap is an invoice finance platform that has disbursed a cumulative total of €258.1m in funding to French businesses, with €13.9m coming in the past 90 days (between 9 December 2018 to 8 March 2019).

GERMANY

KEY PLATFORMS: AUXMONEY, FUNDING CIRCLE, CREDITSHELF, SMAVA, IWOCA

Germany is home to continental Europe's largest peer-to-peer/marketplace lender by cumulative output: Auxmoney. Since its 2007 launch, Auxmoney has lent more than €1.2bn to German consumers to date. Like Younited Credit in France, it hitched its wagon to a digital bank (N26) in 2017 in an effort to boost originations. The firm announced in early 2018 that it had hit profitability for the first time in the previous year. Its boss Raffael Johnen has previously told AltFi that he sees pan-European licensing for online lenders as a "very positive development".

A key feature of the German market is that its online lenders cannot originate loans on their own – they must do so via an authorised partner bank. North America's online lenders face a similar situation.

Creditshelf recently announced that it had fielded €1bn in loan requests (demand having doubled in 2018) since launching in 2014. The lender has carved out an interesting niche in the market serving the German Mittelstand (SMEs). Creditshelf tends to target larger loans than the average online lender, with ticket sizes ranging from €100k to €5m. These loans are funded using institutional capital. It has lent over €100m to date. The platform took the unusual step of going public at a fairly early stage in its development, raising €16.5m in July 2018 by listing on the Prime Standard of the Frankfurt Stock Exchange. Creditshelf was in fact the first of a number of small to mid-sized European platforms to opt for an early listing, with Finnish firm Fellow Finance and Portuguese lender RAIZE subsequently following suit.

Funding Circle's Registration Document, published shortly before its IPO in September 2018, revealed that the firm sees Germany as its largest European market in terms of addressable originations. The lender calculated €55bn of addressable origination in Germany, versus £35bn in the UK, and €10bn in The Netherlands.

Smava is a rather unusual player in the German market. There is some debate around whether it should be viewed as an online lender or credit brokerage platform – some would say it's a case of splitting hairs.

> "Major online lenders from Germany (Spotcap), France (October) and the UK (Funding Circle) have expanded into the Dutch market – suggesting also that it is a particularly attractive destination for small business lenders."

Either way, the company raised $34m in an equity investment round led by Runa Capital in 2016 and is a force within the market. Its focus is on connecting consumer borrowers with a broad base of investors, spanning from banks to private investors. The Berlin-based outfit has been around since 2007 and in late 2016 claimed to have facilitated over $1.75bn in lending. Compeon is a similar platform but one focused on business financing solutions; in late 2017 it claimed to have facilitated over €100m in funding since launching in 2013.

THE NETHERLANDS

KEY PLATFORMS: GELDVOORELKAAR, SPOTCAP, OCTOBER, FUNDING CIRCLE, LENDAHAND

Geldvoorelkaar is one of the oldest peer-to-peer lenders in the Dutch market, and one of its biggest by volume. The firm, which arranges loans for businesses and against property, has lent a cumulative total of €162.4m, with €12.4m coming in the last 90 days (between 9 December 2018 to 8 March 2019).

The Dutch market has proven a major lure for foreign entrants. Major online lenders from Germany (Spotcap), France (October) and the UK (Funding Circle) have expanded into the market – suggesting also that it is a particularly attractive destination for small business lenders. Further boosting the nation's attractiveness is Amsterdam's status as an emerging 'fintech hub', one that will no doubt be vying for any UK businesses seeking to diversify their operations in the shadow of Brexit.

Moreover, the Dutch government seems to be giving strong backing to its online lenders. In September 2018, news broke that the government would guarantee up to 75 per cent of certain loans originated by Funding Circle Netherlands, as part of its Guarantee SME Credit (BKMB) scheme. This scheme has traditionally targeted banks, but Funding Circle Netherlands' managing director Jeroen Broekema told AltFi, in an interview at the time, that he hopes the inclusion of online lenders will boost lending to smaller businesses. Funding Circle Netherlands had lent a cumulative total of around €75m to Dutch businesses at the time.

Funding Circle's IPO Registration Document, published September 2018, highlighted projected annualised investor returns for loans originated in 2017 across all four of its markets ranging between 4.6 and 7.6 per cent, with returns a little higher in the US and Netherlands. Those higher returns are driven by commensurately higher risk. Projected bad debt for loans originated in the same period are 4.1-6.1 per cent in the US and 2.3-4.2 per cent in the Netherlands. This compares to projected bad debt rates of 2.4-3.3 per cent in the UK and 1.9-3.9 per cent in Germany.

ITALY

KEY PLATFORMS: BORSA DEL CREDITO, CREDIMI, WORKINVOICE, OCTOBER, SMARTIKA

The Italian online lending market is dominated by a pair of large invoice finance specialists, Credimi and Workinvoice. The former has lent a cumulative total of €338.2m to Italian SMEs since launching in late 2015, making it the largest invoice finance platform in continental Europe by volume. It is authorised by the Bank of Italy as a financial intermediary.

Credimi recently scooped €10m in a fundraise supported by the European Investment Fund, through InnovFin Equity, with the support of European Union (EU) programmes Horizon 2020 and the European Fund for Strategic Investments (EFSI). The supranational entity has recently been increasing its activities supporting equity investments in Europe's online lenders.

Workinvoice has lent €180.6m cumulatively, with over €10.4m coming in the last 90 days (between 9 December 2018 to 8 March 2019). Unlike Credimi, Workinvoice funds unpaid invoices using qualified investor money, via a peer-to-peer platform.

Borsa del Credito is a more straightforward SME loan-focused peer-to-peer lender. It has lent €56m to date with €7m coming in the last 90 days (between 9 December 2018 to 8 March 2019).

In March 2018, a new working group named ItaliaFintech was founded with a view to transforming the Italian market's potential for growth into tangible development. In announcing its launch, the group admitted that the growth of fintech in Italy had been taking place "with a slight delay compared to other European countries".

The companies involved in the group span a wide range of fintech niches. They are: BorsadelCredito.it, Conio, Credimi, Epic, Fifty, Housers, Lendix, Modefinance, MoneyFarm, N26, Oval Money, Let's Lose, Raisin, Satispay, Soldo, Virtualb, Workinvoice and Younited Credit. At the time of ItaliaFintech's launch, these firms collectively accounted for 920,000 European customers, of which some 425,000 were located in Italy.

LATVIA

KEY PLATFORMS: MINTOS, TWINO, VIVENTOR, SWAPER,

Latvia is best-known for pioneering a version of the peer-to-peer/marketplace lending model that involves one platform channelling investor funds into loans sourced by a wide range of originators. This has allowed several platforms to scale their operations at a rapid rate. Mintos has met with more success than any other platform operating this model. The firm has now facilitated approximately €1.83bn in loans for businesses, consumers and even against property, with advertised returns of 11.70 per cent. It has matched €460.7m in the last 90 days alone (between 9 December 2018 to 8 March 2019).

The platform has over 100,000 registered investors, hailing from 70 countries. Mintos operates a 'buyback guarantee' (commonplace among these sorts of platforms) which operates a little like the provision fund model

Further boosting The Netherlands' attractiveness is Amsterdam's status as an emerging 'fintech hub', one that will no doubt be vying for any UK businesses seeking to diversify their operations in the shadow of Brexit

that was pioneered by RateSetter in the UK – except that it is not always clear how much runway the buyback guarantee has. Mintos' origination partners span 28 countries, ranging from the UK, to Mexico, to Zambia.

TWINO, Viventor and Swaper operate similar models and have to date facilitated €455.7m, €71.4m and €54.4m respectively.

ESTONIA

KEY PLATFORMS: BONDORA, ESTATEGURU, IUVO

Tallinn in Estonia is a well-known fintech hub and is home to one of continental Europe's best-known P2P platforms, Bondora. The peer-to-peer platform has facilitated €189.7m in consumer loans to date, with around €24.5m in loans matched over the past 90 days (between 9 December 2018 to 8 March 2019). Bondora was among the first European online lenders to push towards 'pan-European' status – allowing investors from multiple countries to invest in its loans. EstateGuru is the other big fish in the market. It arranges peer-to-peer loans backed by property, advertising historical returns since its launch in 2014 of 12.23 per cent per annum. The platform has lent a little more than €100m to date, lending €12.6m in the last 90 days (between 9 December 2018 to 8 March 2019).

SPAIN

KEY PLATFORMS: COMUNITAE, MYTRIPLEA, LOANBOOK, KREDITECH

The Spanish market has not been one to which Europe's big beasts have expanded so readily, with a number citing concerns over credit quality. Indeed, Funding Circle ended up pulling out of the market after initially entering it (alongside The Netherlands and Germany) through the acquisition of Zencap. Local peer-to-peer lending pioneer Comunitae suspended its activities indefinitely in late 2017 after discovering a case of fraud involving false promissory notes. It had lent a cumulative total of €44.8m by the time it closed. Active business lending platforms include LoanBook and MytripleA, which to date have lent €53.6m and €51.8m respectively. By the broader context of the European market, these may be described as small to medium-sized lenders. Both are peer-to-peer platforms. LoanBook operates an auction-based investment system, with headline rates ranging from approximately 4 to 9.5 per cent depending on the risk grade of a loan. MytripleA advertises returns of 7.0 per cent.

FINLAND

KEY PLATFORMS: FIXURA, FELLOW FINANCE

Finland boasts a pair of sizeable consumer lending platforms in Fellow Finance and Fixura. The former has lent a cumulative total of €400.3m, lending €54.8m over the past 90 days (between 9 December 2018 to 8 March 2019). Fixura has lent a cumulative total of €99.8m, and €5.4m in the last 90 days (between 9 December 2018 to 8 March 2019). Also active in Sweden and Denmark, Fellow Finance is one of a small number of mid-sized online lenders in Europe to go public in 2018. The platform raised €10m at a valuation of €55m in October. Both firms are peer-to-peer lenders. Fellow Finance advertises an 'average interest income' of 10 per cent. Fixura puts its average annual rate of return at 7.9 per cent.

POLAND

KEY PLATFORMS: KOKOS, FINANSOWO, ZLTY MELON, IWOCA, KREDITECH

Poland is a busy online lending market characterised by small (in the broader context of Europe) consumer lending peer-to-peer platforms. Finansowo, Zlty Melon and Kokos are the best-known local peer-to-peer lenders, having cumulatively lent €25.8m, €12m and €38.1m respectively. However, all three firms have thus far lent less than €1m in 2019. Kokos, in fact, is yet to lend any money at all this year. Finansowo advertises returns of 'over' 10 per cent per annum, while Zlty Melon offers a 'yield' of 7.9 per cent.

Other noteworthy platforms: Linked Finance (Ireland), Lendify (Sweden), 4Finance (multiple), ID Finance (multiple). ◆

SECTION 3: INVESTOR RETURNS

WHAT HAVE RETURNS ACTUALLY BEEN LIKE?

An investor with a perfectly diversified portfolio of loans originated by the UK's big-four P2P lending platforms – Zopa, RateSetter, Funding Circle and MarketInvoice – is earning a net return of about 4.1 per cent, according to the first Link Asset Services (LAS) Marketplace Lending Index published in March. This net figure, calculated after losses and fees, has been falling steadily for three years, from a recent high of 6.4 per cent in the second quarter of 2016. The twice-yearly LAS Marketplace Lending Index, which uses data from Brismo, reports that it stood at 5.4 per cent in the third quarter of 2017 and 4.5 per cent in the second quarter of last year.

Despite its steady decline, the net return from P2P loans as a broad asset class still looks healthy compared with readily available alternatives. For a start, 4.1 per cent is significantly positive in real terms – taking

into account consumer price inflation, which stood at 1.8 per cent in March. A 2.2 per cent real return with modest volatility is attractive in the current interest rate environment.

Assuming the average duration of the index's basket of P2P loans is about 3.5 years it's also possible to compare the P2P asset class' returns with more conventional fixed-income investments. Not surprisingly, in the aftermath of massive Quantitative Easing by the Bank of England, P2P returns are also well above the risk-free rate on three-year UK government bonds, which stands at about 0.7 per cent. P2P loans also provide a higher return than baskets of investment grade sterling corporate bonds and high yield bonds of similar tenor.

The main reason for the decline we have witnessed in P2P's net returns over the past three years is clear. While the asset class's gross yield has been remarkably stable over that period, hovering at just over 7 per cent and climbing slightly to 7.2 per cent currently as platforms nudge up credit risk, the loss rate has increased much more rapidly. At the end of 2016, net losses after recoveries cut investor returns by just 90 basis points (bps). In the latest figures, they wipe out 290bps of returns, or 2.9 percentage points.

The short message is: yields are up a little, losses are up a lot. Stephan Findlay, CEO of BondMason, recently announced his company would wind down its marketplace lending activities due to concerns about declining returns. Findlay suggest net returns have shrunk by about 100bps a year over the past couple of years for a mix of reasons including competitive pressure on headline rates for some types of lending, platforms' margin requirements and rising loan losses.

> **"Net returns have declined by about 100bps a year over the past couple of years for a mix of reasons including competitive pressure on headline rates for some types of lending, platforms' margin requirements and rising loan losses."**

He argues that a maturing of loan books across the sector is a major part of the reason for the increase in loss rates rise and decline in net returns. Given that the loan books now reaching maturity were originated in 2016 and 2017 – a period of very strong P2P volume growth accompanied by somewhat higher credit risk appetite – it is not altogether surprising that a couple of years down the line, loss rates start to edge up.

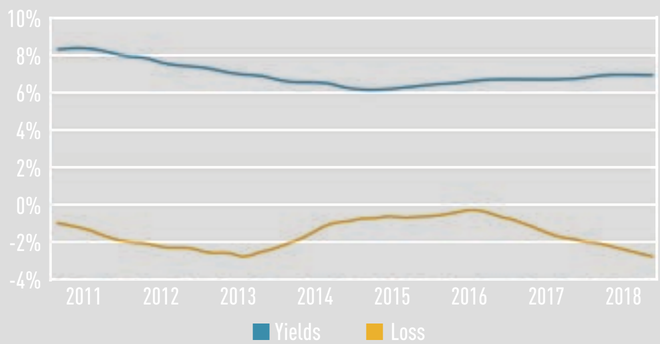
"Platforms are generally going through a full term-cycle of their loan book," says Findlay. "Funding Circle's average loan is about 3.5 years so we're now getting to a position where we're coming through those loan book cycles – which is not the same as an economic cycle – and we're getting a feel for what impairments look like across the life of a loan book. There's no hiding place at that point because if the loan's gone bad and the borrower's gone bust, you have to recognise it." He points to the disclosure late last year by Funding Circle's listed investment trust that it expected to recognise more losses over the next year or two as an example of this process. "I'd suggest that's a Funding Circle loan book situation, not an economic cycle situation, and I think the market has perceived that too: their investment trust share price has dropped around 10 per cent, pricing in some of those concerns."

There are various more technical factors that can also affect the headline rate of net return that the Brismo data produces. For example, the figures include returns from various discontinued products, mostly

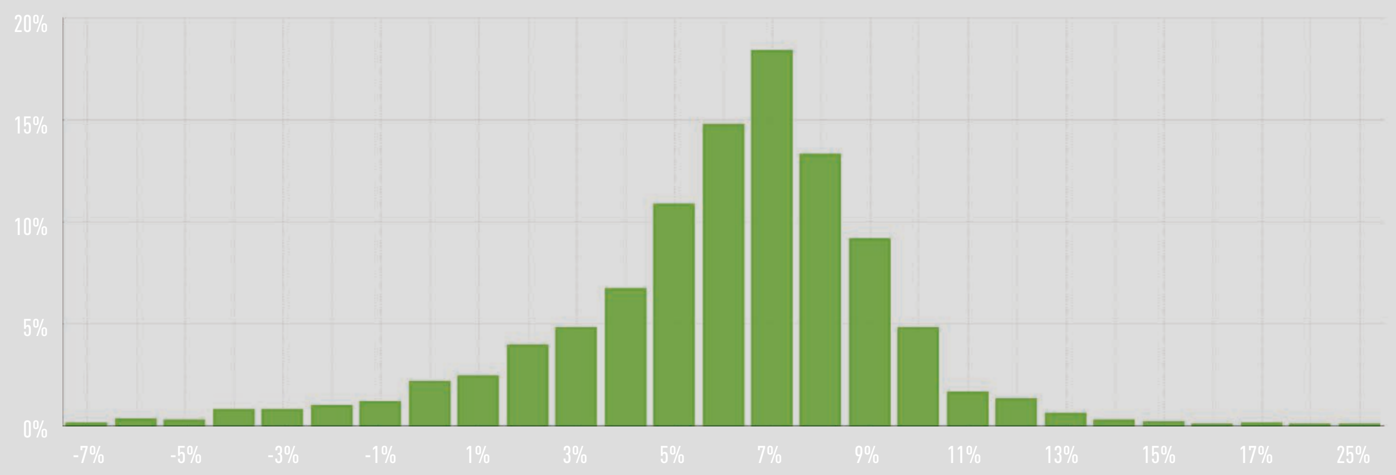
Net annual returns

Source:Link Asset Services Marketplace Lending Index: Issue 1 2019

Net Loss vs Yield (Graph 3.2)



Range of Outcomes – Distribution of Annual Returns to Investors Using Fellow Finance



> "I still think there are some good opportunities to earn attractive risk-adjusted returns but probably at the more conservative end of the market."
>
> STEPHEN FINDLAY, CEO OF BONDMASON

aimed at institutional investors, that proved unsuccessful due to their disappointing net returns. These will tend to depress the overall net return figure slightly. Also, some platforms, notably Zopa, used to run a provision fund to cover investor losses that has since been withdrawn. As a result, some of the platform's loans are covered by the provision fund while more recent cohorts are not. The effect of the provision fund is to flatter the overall loss rate on Zopa's book.

More generally, the headline net return rate published in the LAS report does not reflect the market-wide return available in reality to retail investors because it includes platforms, notably MarketInvoice, that accept funding only from very wealthy individuals or institutions. Similarly, it offers no indication of the dispersion of returns achieved by individual investors.

All that said, the net return figure of 4.1 per cent provided by the LAS report does provide a useful yardstick to compare with other indicators of likely P2P returns.

Stephen Findlay suggests that net returns in the 3 per cent to 6 per cent range are achievable today at acceptable levels of risk. "That's arguably where the market is maturing to – that's a low to medium-risk spectrum. I still think there are some good opportunities to earn attractive risk-adjusted returns but probably at the more conservative end of the market.

"You can't chase higher returns when you're getting towards the end of the cycle – high gross yields are all very well, but people forget that you haven't got your return until you've got your money back."

He argues that one of the key indicators investors should watch for in a good quality lending operation is its willingness to recognise problem loans and manage them actively. "If you're trying to do the right thing and write good loans, and you've got good credit expertise, the speed to recognise impairments is important because you can pull levers quickly to try and get a recovery. If you leave it too long and let it fester, that's where you can lose value because you're not acting quickly enough."

As loan books mature, he says, the actual rate of impairments – and how effectively they have been managed – will start to emerge. "Platforms at the margin can massage that by extending loans and providing refinancing – and I'm sure that goes on – but you're beginning to get a clearer view of platform performance." ◆

LENDING PLATFORMS' ADVERTISED RETURNS

UK PLATFORMS ADVERTISED RETURNS:		
PLATFORM	**SECTOR**	**ADVERTISED RETURN**
LendInvest	Property	4%-7% gross
FundingSecure	Property/Valuables	Up to 16% gross
Zopa	Consumer	4.5%-5.2% net pre-tax
Octopus Choice	Property	4% gross
Landbay	BTL mortgages	3.25%
MarketInvoice	Invoice Finance	4%-6%
Funding Circle	Business loans	Conservative – 4.9%-5.2% net, pre-tax Balanced – 5.5%-6.5% net, pre-tax
RateSetter	Consumer/business	3%-6%
Assetz Capital	Property/Business	4.1%-15.15%
Folk2Folk	Property/Business	Up to 9%
Relendex	Property	Up to 10% gross
CrowdProperty	Property	Up to 8%
Proplend	Property	5%-12%

CONTINENTAL EUROPEAN PLATFORM ADVERTISED RETURNS:		
PLATFORM	**SECTOR**	**ADVERTISED RETURN**
Fellow Finance (Fin)	Consumer/business	7%-10% net, pre-tax
WorkInvoice (It)	Receivables	Not advertised
Younited Credit (Fr)	Consumer	2%-11%
October (Fr)	Business	4.64% net, pre-tax since inception, 6.7% for 2019 to date
Mintos (Lat)	Consumer/business	11.7% net, pre-tax
Auxmoney (Ger)	Consumer	2.5%-8%
Finexkap (Fr)	Receivables	Not advertised
Credimi (It)	Receivables	Not advertised
Lendify (Swe)	Consumer	3.5%-4.8% net, pre-tax
Twinio (Lat etc)	Consumer	8.8%-10.4%

*All advertised figures as of May 2019

SECTION 5: THE FINTEX WAY

PORTFOLIO CONSTRUCTION AND RISK MANAGEMENT

Fintex Capital is a specialist alternative credit investor based in London and active across multiple asset classes within alternative credit, including German and US consumer loans, as well as UK real estate loans and other forms of secured finance in the UK. Having launched in 2016, the firm now manages assets of c.$150m for institutional investors and large family offices, operating several segregated capital pools (managed accounts) as program manager, and other capital pools (discretionary mandates) as investment manager. Here Fintex explains its 'Four Cubes' template for portfolio construction and risk management of P2P loan assets.

A recent BNY Mellon survey among institutional investors showed that for 96 per cent of respondents, private credit performed better than their expectations or in line with it. As an asset class, private debt is a rising star for institutions, having experienced remarkable growth since the financial crisis. According to Preqin, private debt assets totalled $147bn in 2006; today, this is believed to be well in excess of $800bn. This is not surprising: the long-term decline in global interest rates led investors to search for yield. Performing private debt assets deliver yield. They can also offer a consistent income with low expected volatility and short durations. And they tend to protect against the risks of rising interest rates, either by producing high enough returns or by being structured with a floating rate. Within private credit, asset allocations have grown particularly in four subsectors: real estate debt, direct lending, syndicated corporate loans and infrastructure debt. Over the past five years, marketplace lending, an integral part of direct lending, produced attractive returns for a variety of investors. And yet, the number of institutions who have embraced marketplace lending remains relatively small, particularly in Europe.

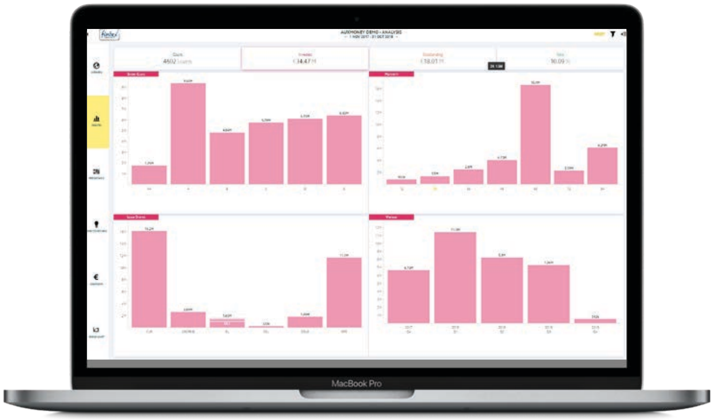
The question is why. Meanwhile, many institutions thus far remained on the sidelines. Most likely, this has to do with the fact that marketplace lending is very different from other fixed-income strategies. Having invested in this space for well over a decade – a lifetime in this relatively young industry – our team experienced first-hand all the unique challenges that confront institutional investors in marketplace loans. We experienced several key hurdles when entering the marketplace lending arena. One of them is the fact that, by and large, marketplaces do not grant investors much choice as to which loans to buy and which to reject. Many institutions wish it were possible to pick loans, to generate alpha and outperform the 'index', the platform's overall origination.

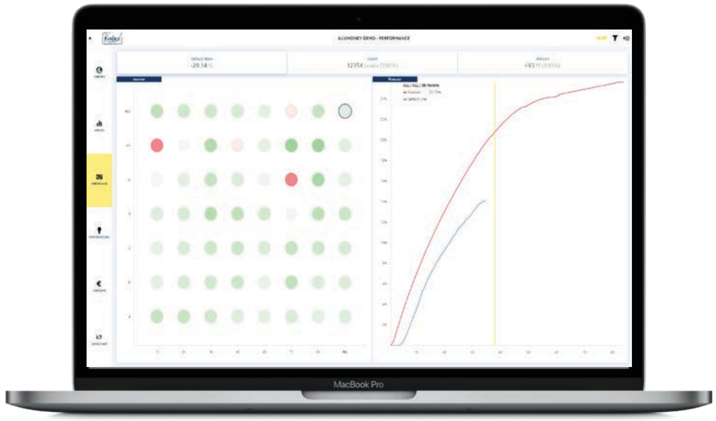
We felt the same when we first started. Today, we consider this to be significantly less important than we did at the outset. Interestingly, in the nascent days of marketplace lending, platforms like Lending Club and Prosper did offer their investors the ability to pick loans. Having discussed this topic at length with other veteran investors in the industry – and having analysed several loan books from investors who had the privilege of picking loans – it became apparent that investors who tried their best at outperforming the index often picked less well than the marketplace itself, thus ending up underperforming against the index.

As the industry matured, most lending platforms also (in our view, correctly) concluded that offering choice was not as attractive as it seemed – and nowadays most sophisticated marketplaces around the world offer investors limited choice in allocations. A mature approach to investing in this asset class, therefore, begins by recognising that marketplaces are the most viable, i.e. the most stable for the long term when the process of loan allocations is relatively passive for its investors.

This, however, does not mean that the best way to invest via marketplaces is to be passive. In our experience, the contrary is true. Separately, the absence of data standardisation among marketplace lenders, in particular in Europe, creates another important hurdle. Ask two platforms to provide you with loan level data and you will receive very different datasets. To operate with clear analytics requires clear data to be provided. And this means the investor must know exactly what it requires and in what format. Fine-tuning data provi-

> **"Our approach to portfolio risk management begins with the recognition that, aside from costs and fees, only four factors (Four Drivers) ultimately determine the investment returns of any marketplace lending portfolio."**





sion with a marketplace is crucial, and knowing what data one needs, and what data is merely a nice-to have, requires thorough marketplace lending experience.

Over years of successful investing in marketplace lending, Fintex Capital has developed its own investment philosophy for this asset class, one that is specifically adapted to these peculiarities. The Fintex Way is passive, but only in as far as initial loan allocations are concerned. With the many other aspects involved in investing in marketplace lending portfolios, we are anything but passive. We no longer believe that long-term investment success within marketplace lending requires an ability to select loans.

Rather, the creation of stable investment portfolios requires the ability to constantly monitor and manage the risk inherent in the loan portfolio and all its sub-cohorts over time. To achieve strong and lasting credit integrity at a portfolio level, our investment approach involves a very active approach in all aspects other than initial loan selection. Our experience shows that the key to ensuring proper investment stability for the long term is the following combination:

- A granular, active and methodical approach towards risk management;
- Clarity of data and communication; and
- The ability to foster strong long-term relationships with the marketplace operator.

With this in mind, our investment philosophy for marketplace lending, rests on 3 pillars – methodology, technology and team. Our approach to portfolio risk management begins with the recognition that, aside from costs and fees, only four factors (Four Drivers) ultimately determine the investment returns of any marketplace lending portfolio.

These Four Drivers are:

- Defaults and delinquencies
- Recoveries
- Prepayments
- Portfolio mix

A portfolio's cash flows, and its investment returns, are a direct function of the Four Drivers and we discuss each of the Four Drivers in more detail below. Fintex developed a clear and detailed methodology of how to analyse each of the Four Drivers. We apply this methodology consistently to each of the loan portfolios we manage. Moreover, we have concluded that analysing the Four Drivers of a portfolio as a whole is insufficient; the key is to break down each portfolio into its component parts and to then methodically analyse each cohort and sub-cohort against each of the Four Drivers. In our view, this is the only way to obtain an accurate picture of the credit health of the relevant portfolio at any given time. To achieve this, we segment the portfolio into cohorts and sub-cohorts, according to three parameters:

- By loan maturity;
- By credit score; and
- By vintage.

Every loan has one of each, hence this segmentation produces a 'cube', a three-dimensional matrix, where every loan sits in one of the sub-cohorts. In other words, we slice and dice the portfolio into sub-cohorts according to these three parameters. We then analyse each of these many sub-cohorts for each of our Four Drivers. Essentially, we look at what we call 'Four Cubes'. Imagine one invests $100m in unsecured consumer loans for 3 consecutive years. With an average loan amount of, say, $7,500 and assuming one invests in whole loans only, as we do, this $100m portfolio would comprise more than 13,000 loans originated over a 36-month period. Assuming the marketplace operator assigned five different score classes to its borrowers (e.g. A – E) and that loan maturities range from 1 to 5 years, this cube would result in a segmentation of 900 sub-cohorts, comprising: 36 vintages, Five score classes and Five maturities.

To understand how healthy the overall portfolio is, we look at how each of these sub-cohorts perform in comparison to our predetermined forecast for those sub-cohorts, and we do so for each of the Four Drivers. This means we analyse four 'cubes' of 900 sub-cohorts each, thus performing 3,600 individual comparisons of actual to benchmarks.

This is, of course, an enormous task, transcending – by a multiple – the capabilities of humans equipped with ordinary Excel sheets. For this reason, we created LISA. LISA is a proprietary Fintex technology capable of analysing and visualising large loan pools, resulting in a clear and granular analysis for each loan portfolio. Fintex developed LISA in-house, in response to the absence of any existing software that met our needs for deep, versatile data analytics and credit monitoring infrastructure. LISA performs a difficult and diverse set of tasks: digesting and visualising enormous data pools; highlighting the most relevant data subsets; forecasting portfolio cashflows; conducting sensitivity analysis and predicting future returns. Notably, it provides an instant diagnosis of the portfolio's credit health – with accuracy and efficiency. This enables our trained credit analysts to identify which cohorts or sub-cohorts deserve further scrutiny at any one time. And if parts of the portfolio need special attention, our task is then to perform, as best we can and in close co-operation with the marketplace, 'credit micro-surgery'.

A crucial aspect of LISA is its nuanced capabilities of risk and data visualisation. LISA's dynamic visualisation output delivers heatmaps and clear infographics that provide deep but easy-to-read insights into the credit health of each loan portfolio. LISA performs a critical role in helping our team to quickly spot any worrying areas of the portfolio that more traditional methods would fail to identify. If and when this happens, the value of our strong relationship with the marketplace operator becomes more relevant than ever.

Fintex was created by marketplace lending veterans who understand the dynamics of marketplaces not only from the investors' perspective, but also from the perspective of the marketplace. Having been involved for years on both sides of the table, our team knows first-hand how important it is to foster strong and lasting relationships with the marketplace operator. Our team spends time to understand their strategy, requirements and constraints. Our mantra, 'the platform is your friend', has many practical ramifications:

- For a marketplace, it is critical to know capital supply remains reliable when investments go to plan; and that if the going gets a bit tough, the capital tap won't be switched off abruptly.
- Marketplaces also need to work with partners who can be onboarded quickly. Many institutions fail this test as a result of their cumbersome internal investment procedures.
- As investment managers, we need to remain comfortable that the going won't get tough. Hence, we remain constantly vigilant using our unique analytics to provide us with genuine comfort that we will see the warning signs early on.

Set against all of that, we need to have all relevant rights and tools in our kit to actually manage the risk in the event we do start seeing a deterioration in portfolio performance. Striking this balance in a mutually beneficial way requires a strong and transparent relationship between investor and marketplace, and one that is, to the extent possible, mindful of the platform's requirements. When the problem areas can be isolated and if the correct measures are taken, the portfolio will quickly be brought back on track. As further set out below, underperformance almost always arises at a sub-cohort level and does not initially affect wide parts of the portfolio. As such, constructive, targeted action is often the best remedy.

Separately, working with Fintex to invest via platforms on which our firm is already live comes with immense advantages for all participants, including institutional investors, especially with regards to onboarding and time to market. It also materially reduces legal and operating costs, not only for smaller institutions but also for the larger ones.

So what then happens when investor action is required? The answer depends, of course, how grave the situation is and where exactly the problem(s) lie(s). Naturally, capital providers like to know that there is a 'nuclear' button, an ability to stop investing with immediate effect if meaningful underperformance is encountered. Of course, this last resort forms part of the Fintex arsenal, but in most cases other tools are more relevant at addressing the actual problem. The first thing to remember is that strong and proven platforms with years of experience in credit will not suddenly become bad at credit underwriting.

Conversely, it can happen that – for example, due to its desire to grow – a platform over-extends itself into what may be unchartered territory. This can adversely affect a subset of the portfolio. However, this will normally only affect a subset of its origination.

Furthermore, prudent portfolio construction results in portfolios that are comprised of loans from many different vintages, meaning that a relatively recent change in underwriting policy will only affect some of the younger loans. Accordingly, in most cases credit issues that are spotted early will only have affected certain vintages, and normally only subsets thereof.

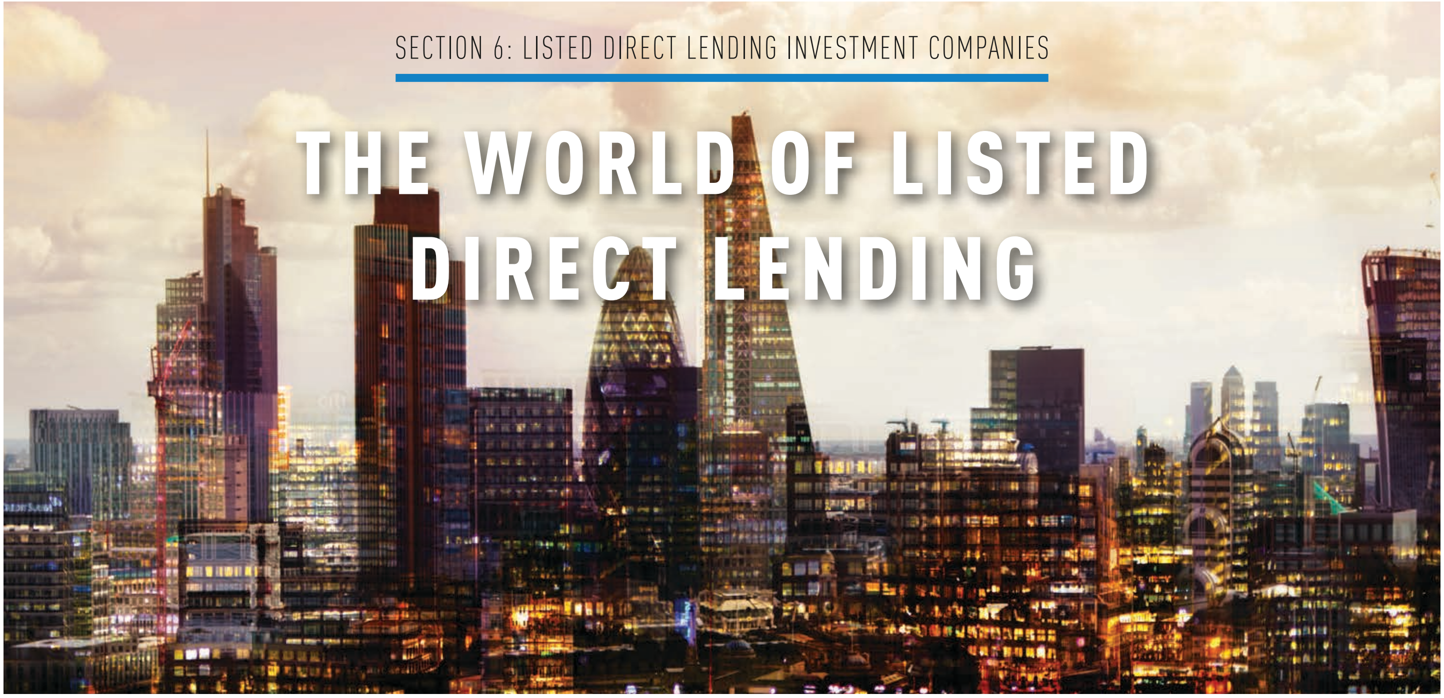
The key is, therefore, to be highly vigilant, to develop the tools required to detect early warning signs in advance, and as soon as the data starts showing, in a reliable manner, the beginning of adverse trends, to take sensible action with an appropriate sense of urgency. We work closely with the marketplace to identify and undo those underwriting changes that seemingly have not worked as planned, or to change the way this segment is underwritten or classified.

We stay close to emerging data over time to ensure the portfolio starts moving in the right direction. This requires attention to detail and clear judgment as to what is and what isn't statistically significant. In an age where restaurant customers like to know every ingredient in their salad, we apply the same scrutiny to our loan portfolios. Not less important is prevention. With this in mind, we constantly run a series of scenarios and stress tests, and actively challenge a platform's proposed changes to scorecards and underwriting policies.

In doing so, we provide constructive input into what changes would be met with our support, where we feel too much risk is involved, or where risk/reward metrics seem mismatched. The mutual success of the partnership between capital and platform requires the reliable, timely supply of capital to the marketplace. In return, it requires transparency and solid, ongoing data supply to the investor. Knowing which data is needed (and which isn't), and how best to segment data to draw pertinent conclusions requires thorough market experience. Marketplaces operators understand how crucial a role data plays.

Having taken a close look at many credit marketplaces, but having chosen to invest only on a few, we learned that the willingness to provide this transparency varies widely between platforms. With all of the above in mind, we could not emphasise more the value and importance of fostering strong long-term relationships for mutual benefit. This is another reason why, as a matter of principle, platform selection is so much more important to us than loan selection. The Fintex Way recognises that, aside from costs and fees, it is the Four Drivers that determine the investment returns of any marketplace lending portfolio.

By utilising the 'Four Cubes' methodology, our finger is constantly on the pulse of all our portfolios. Having devised this methodology and built the technology that systematically applies it, we are uniquely positioned to offer a comprehensive and deep understanding of each loan portfolio, enabling us to perform credit microsurgery where necessary. Marketplace loans are a complex asset class, but our unique approach – combining methodology, technology and team – provides accurate visibility and confidence with regards to originations, allocations, performance and risk. This synthesis of traditional financial analysis and modern technology adds tremendous value to ensure strong credit integrity prevails throughout the investment's life. ◆



SECTION 6: LISTED DIRECT LENDING INVESTMENT COMPANIES

THE WORLD OF LISTED DIRECT LENDING

The top-rated fund's research team at nomad Numis, dig into recent listed fund returns to analyze asset class returns. By Ewan Lovett Turner

The London-listed Direct Lending Investment Companies (ICs) sector consists of ten funds with a combined market cap of £2.84bn. The sector has its origins in 2014 with the IPO of P2P Global Investments which raised £200m to purchase loans originated via peer-to-peer platforms. The sector grew rapidly through further IPOs of new funds and secondary issuance by existing funds, fuelled by investor appetite for yield and returns uncorrelated to traditional equity and bond markets, with targeted returns of c.10% pa via amortising loans with a short duration. The opportunity set was created by the withdrawal of banks from the direct lending sector following more restrictive capital requirements following the global financial crisis.

WHAT ASSET CLASS EXPOSURE?

The Listed ICs offer a range of exposure by geography and asset class. Most funds now have a significant bias towards UK assets, reflecting their objective to generate a Sterling dividend yield. Historically, there was a greater focus on the US, which had a more mature direct lending market, but performance disappointed and the cost of hedging returns into Sterling became an increasing drag (as US interest rates moved significantly above Sterling rates). For instance, P2P GI, Funding Circle SME Income and SQN Asset Finance Income have all reduced US exposure in favour of the UK.

The drivers of returns for the Listed ICs vary depending on the underlying credit exposure. A number of funds solely focus on corporate credit, particularly SME lending, including Funding Circle SME Income, Hadrian's Wall Secured and RM Secured Direct Lending. Corporate credit exposure also dominates the portfolios of SQN Asset Finance Income and GCP Asset Backed, but they also have substantial exposures to other asset classes such as Renewable Energy and Property. In contrast, VPC Speciality Lending is focused on consumer lending, while P2P Global Investments and Honeycomb IT are largely consumer lending, along with property development finance.

LOAN SIZE AND DURATION

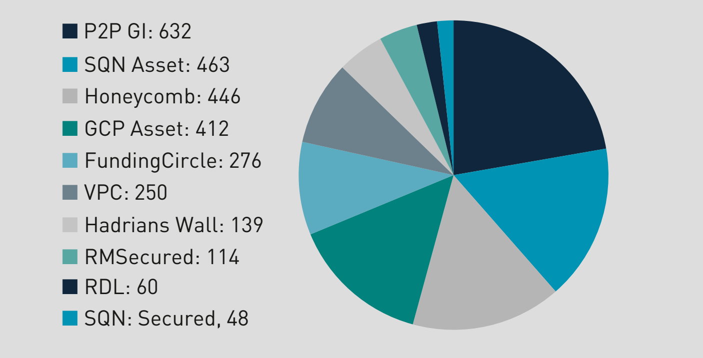
The average size of loans in the portfolio highlights the different nature of lending strategies. Loans originated by fintech platforms to consumer or micro-SMEs have very low average loan sizes. For example: Honeycomb, VPC, P2P, RDL Realisation (formerly Ranger Direct Lending) and Funding Circle SME Income have portfolios that are diversified by lender with exposure to 1,000s of individual loans, with underwriting that relies on technology-enabled statistical analysis to inform the credit process.

These loans are typically fixed rate, short duration, amortising loans which naturally de-risk over time as the balance is repaid. In comparison, lenders to larger corporate entities have more concentrated portfolios, and use bespoke, manual underwriting processes to inform credit decisions, such as Hadrian's Wall, GCP Asset Backed Income and SQN Asset Finance Income. These are a mixture of amortising loans and bullet repayment. Bullet repayment leads to higher refinancing risk, but also potentially benefiting from prepayment fees if loans are repaid early.

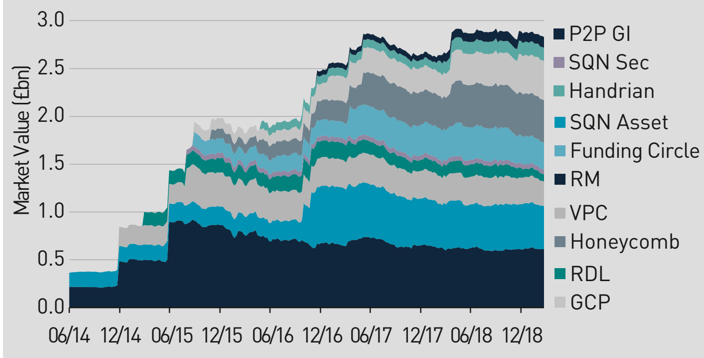
SECURITY/LOSS PROTECTION

The focus of the sector was initially on unsecured consumer lending through P2P GI and VPC Speciality Lending. In addition, Funding Circle SME Income loans are unsecured, although, where possible, it does obtain personal guarantees from directors. Over time there has been an increasing focus on secured lending

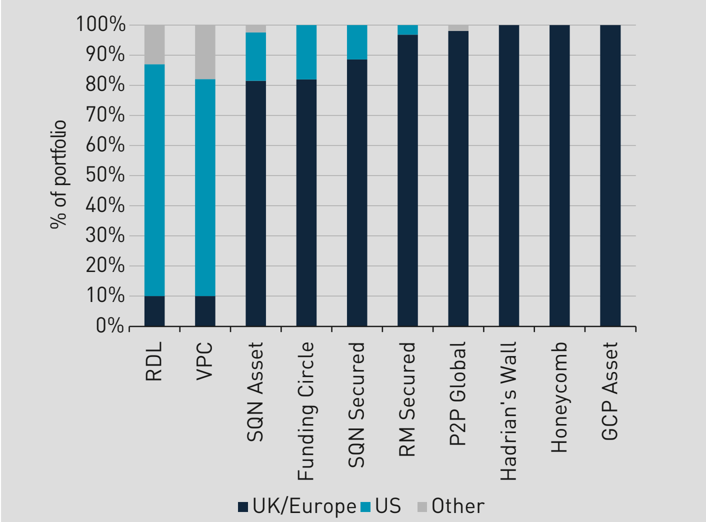
Listed Direct Lending ICs by Market Cap (£m)



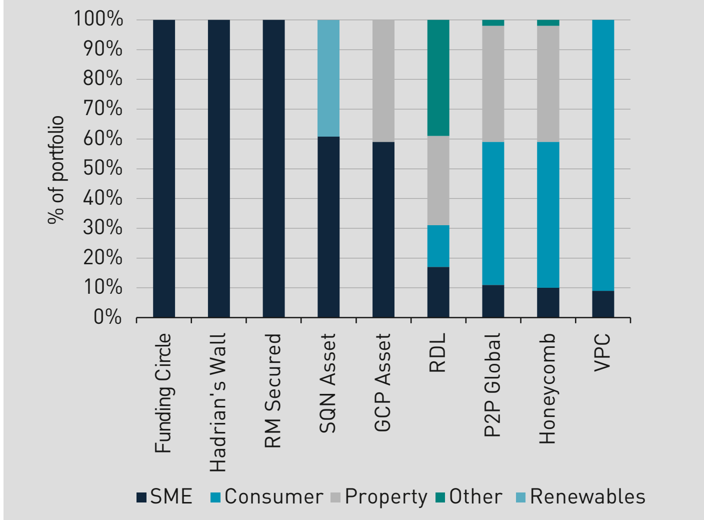
Growth of Listed Direct Lending ICs



Direct Lending ICs – Geographic Exposure



Direct Lending ICs - Portfolios by Asset Class



with through loans backed by property, physical assets and/or contracted cash flows. In addition, numerous ICs have focused on structured lending facilities where the originator incurs the first loss, providing some insulation for the Listed ICs against higher loss rates in unsecured lending. What returns have been delivered?

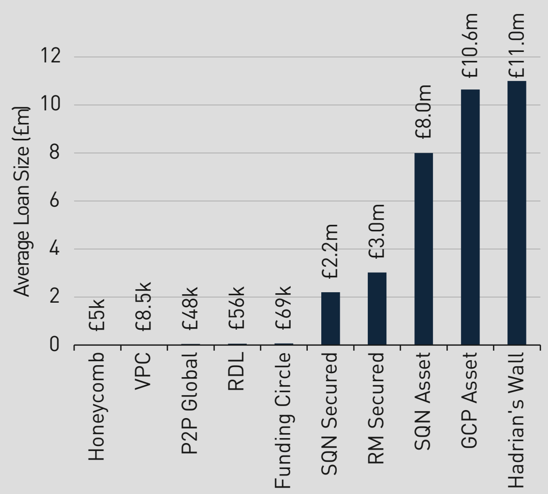
Most Listed Direct Lending ICs have delivered solid, but unspectacular NAV total returns since launch. However, shareholders have been hit by a derating of share prices, given returns disappointed versus inflated expectations, and most Direct Lending ICs are trading on discounts. To date, the strongest performer has been Honeycomb IT which has delivered NAV total returns of 7.7% pa since launch (including the deployment period) in December 2015, benefiting from an experienced credit team at Pollen Street which has established origination relationships with specialist lenders and made attractively priced portfolio acquisitions. In 2018, Honeycomb's portfolio generated a gross yield of 11.6% with relatively low bad debt rate of 1.6%. SQN Asset Finance Income has delivered NAV total returns of 6.5% pa since March 2015, despite some high profile issues in the portfolio the level of impairments has been relatively low, reflecting the secured nature of lending. The manager has been clear that given the return target of 8-10% pa it requires an active approach to taking risk and there will always be a portion of the portfolio, currently c.30%, working through issues.

The worst performer has been RDL Realisation (previously Ranger Direct Lending) which is now in realisation mode after write downs across the portfolio. In particular, it had significant exposure to Argon Credit, a platform that went bankrupt in December 2016, and RDL is now in a protracted litigation to seek to recover value. Initially, P2P Global Investments had a focus on US unsecured consumer lending, which proved to be a drag on returns, but the Board moved the management to Pollen Street and the fund is now refocusing on more specialist lending assets with greater exposure to the UK. The Board of Funding Circle SME Income is proposing a managed wind-down after investors considered the lowered return outlook of c.4% in 2019 too low.

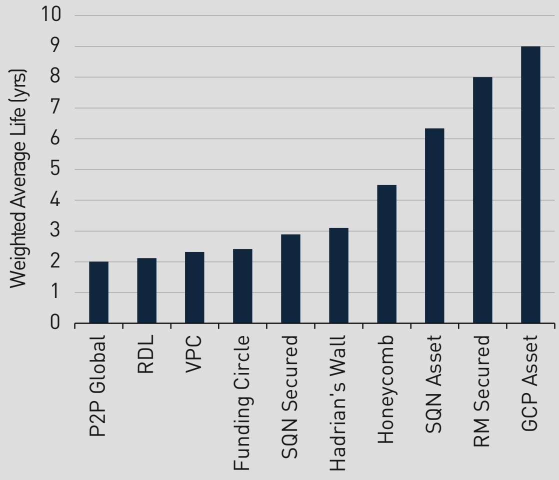
WHAT HAS IMPACTED RETURNS?

There are a number of key issues that have led to lower than expected returns across the sector.

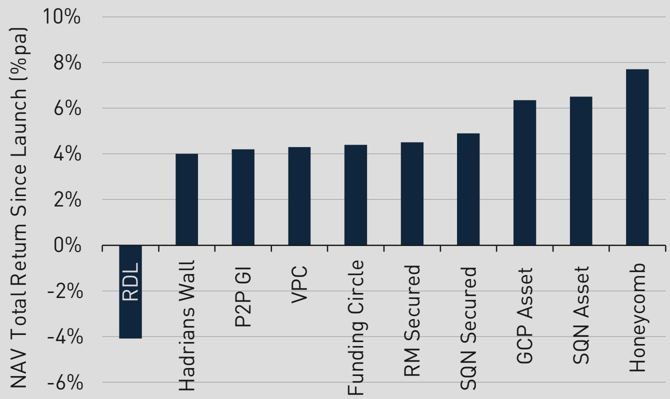
Direct Lending ICs - Average Loan Size



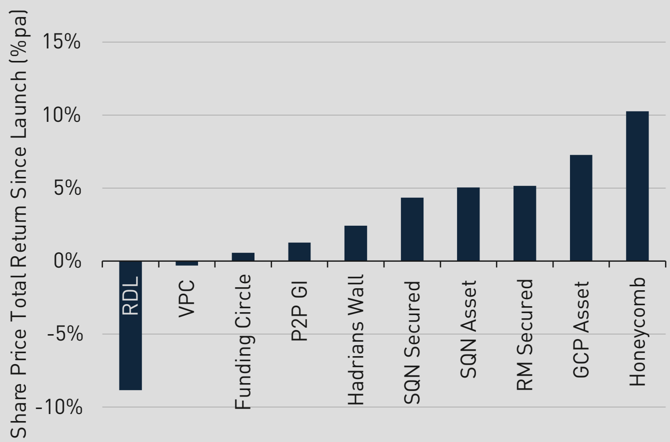
Direct Lending ICs – Weighted Ave. Loan Life



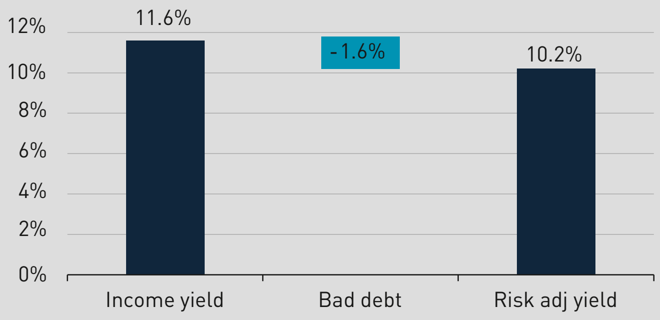
NAV Total Returns Since Launch



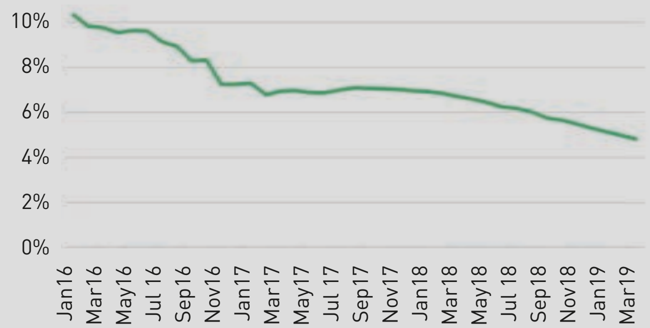
Share Price Total Returns Since Launch

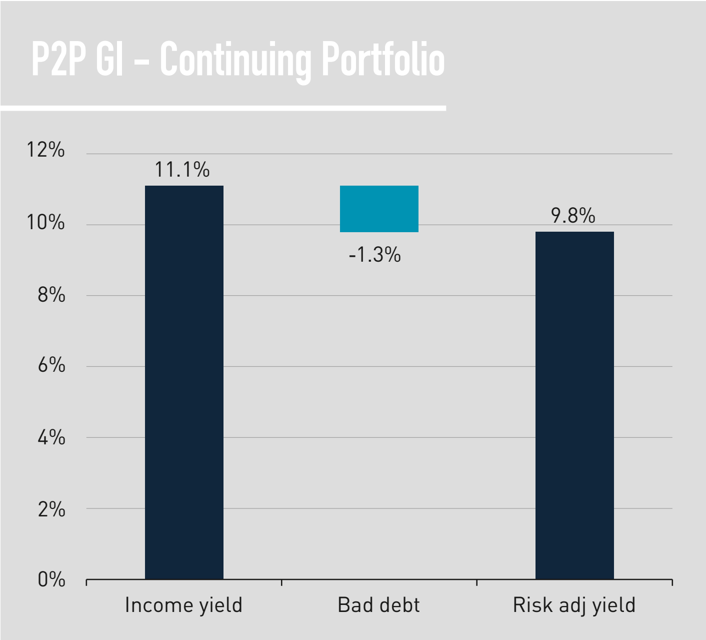


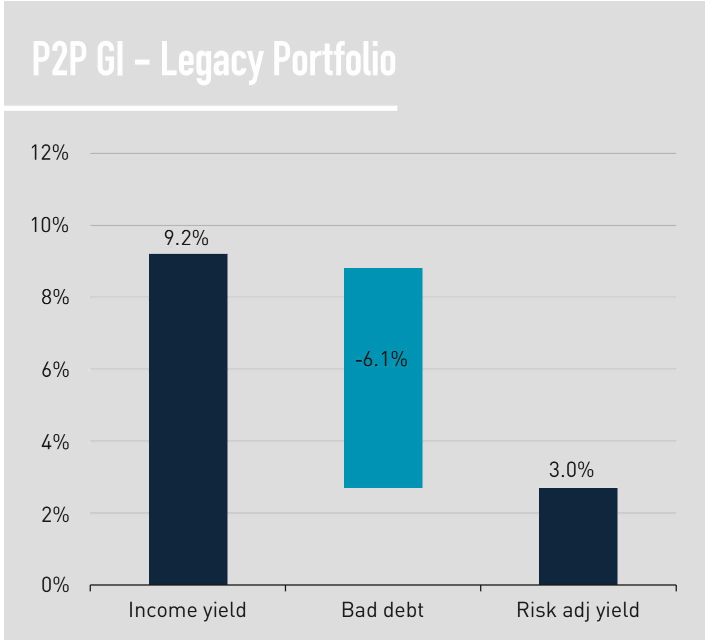
Honycomb – Portfolio Yield and Bad Debt



FCIF – Return on Assets (cashflow, unlevered)







- **CURRENCY HEDGING COSTS:** ICs investing in overseas assets committed to hedge the return profile into Sterling. This particularly impacted ICs investing in the US. From late 2015, interest rates in the US rose, whilst they remained low in the UK/Europe. As a result, the cost of hedging increased and the Sterling-hedged yield on US assets reduced. In addition, ICs experienced some cash drag from holding cash to cover margin calls on hedging contracts.
- **HIGH COSTS:** A number of funds were launched with high management fee structures that proved unsustainable given the nature of the assets class. Some funds had base management fees based on gross (leveraged) assets and performance fees with no hurdle rate. Over time these have been reduced, with VPC Speciality Lending and P2P GI introducing 5% pa hurdles before performance fees are earned. In addition, numerous funds experienced high operational costs, including legal costs of arranging leverage facilities in an asset class that is underserved by traditional lenders.
- **SEASONING:** Few loans tend to default early in their life, given borrowers have received a cash injection from the lender. Over time defaults increase, as some lenders experience difficulties. The peak of defaults tends to be after around 18 months, which impacted listed ICs at a time when they were already experiencing issues with lower returns.
- **IFRS 9 IMPLEMENTATION:** Accounting rule changes for financial years beginning on and after 1 January 2018 meant that ICs have recognised a provision for the expected credit losses over the next twelve months. This was up to c.2% for unsecured lenders, but was lower or had no impact for secured lenders.

> "It is difficult to assess the underlying loan performance of individual platforms and portfolios due to a combination of limited disclosure and the factors above which have also impacted NAV performance."

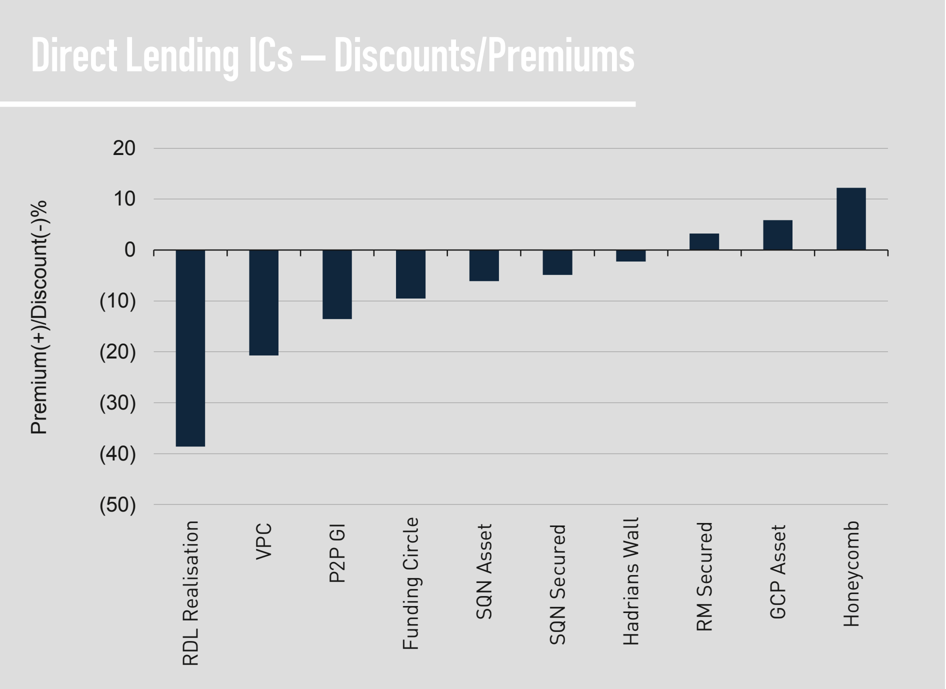
LOAN PERFORMANCE

It is difficult to assess the underlying loan performance of individual platforms and portfolios due to a combination of limited disclosure and the factors above which have also impacted NAV performance. A few funds give an indication of underlying portfolio returns and we have highlighted some of these opposite. Honeycomb has experienced relatively low bad debt expense, which has supported a portfolio yield over 10%. Funding Circle SME Income has seen its cashflow return on assets, net of defaults, decreasing to c.5% due to seasoning and underperformance of loans the fund is exposed to.

The charts above highlight the significant difference in the return profile of the continuing portfolio of P2P GI, which to date is performing relatively well, and its legacy portfolio, which experienced relatively high levels of defaults. Funds investing in the US have particularly struggled to hit return targets due the currency hedging issues and US consumer loans experiencing some spread compression and higher than expected defaults. This hit VPC Speciality Lending, particularly via exposure to Avant platform and P2P GI, through Lending Club.

In addition, Funding Circle SME Income also experienced weaker than expected performance as it ramped up exposure to US SME loans, and suffered from leveraged exposure to an underperforming cohorts of loans from Funding Circle's UK platform.

RDL Realisation has experienced the worst portfolio performance, including Argon Credit/Princeton, as well as various write downs including a Vehicles Services Contract platform, a Canadian SME Lending platform and an International SME Platform. This raised significant questions about the credit process and it was not a surprise to see the fund move into managed wind-down.



IS THERE A FUTURE FOR THE LISTED SECTOR?

The listed Direct Lending sector had a strong start to life with a significant amount of capital raised. However, it has since suffered from some teething problems and several funds are trading on significant discounts to NAV. The sector has reacting by adjusting strategies and winding-up funds that are not delivering compared to expectations. We believe there remains a place for the Direct Lending sector to generate returns in areas of specialist lending that have been neglected by banks since the financial crisis.

We expect the surviving funds to be the ones run by management teams with a strong credit background that demonstrate an ability to generate attractive risk-adjusted returns. We believe a number of funds have the potential to do this in the Investment Companies sector and favour GCP Asset Backed Income and SQN Asset Finance Income and also see recovery potential in P2P GI.

In future we expect shareholders to demand higher level of transparency from listed funds. This is complicated by the private nature of transactions, which can restrict the ability to disclose names of borrowers. However, key to attracting new shareholders will be providing information for investors to assess the expected risk profile of funds, such as levels of debt (loan-to-value/advance rates), subordination, security, profitability, interest cover ratios, and bad debt levels. ◆

LOAN IMPAIRMENTS, DEFAULTS AND RECOVERIES

Damian Webb of RSM gives an insider's view of the outlook for loan impairments and defaults in the P2P market.

Damian Webb's verdict on the current state of the online lending market is stark: "The sector is becoming more and more fraught with uncertainty."

Webb, a restructuring and alternative finance specialist at RSM, argues that alternative lenders have been encouraged by benign credit conditions to focus on increasing lending volumes at the expense of detailed and prudent underwriting. "As credit conditions become increasingly challenging, we are seeing an increase in defaults."

As a result, he claims, the problems building up in many platforms' lending books could be bigger than currently thought. From his own experience of dealing with impaired business loan books, Webb says: "Many of the alternative finance lenders have focused on markets that are underserved by traditional lenders or in spaces where traditional lenders do not operate. Banks and traditional lenders retreated from these areas due to the issues and losses they experienced during and after the financial crisis and consequently regard them as high risk. These parts of the business lending market are often characterised by limited data, which makes underwriting inherently difficult or challenging." In conversation, many established lenders have real concerns about the level of lending into certain sectors and believe that alternative finance providers could face significant losses as credit conditions deteriorate – just as they suffered in the financial crisis of 2008-09.

Webb highlights his recent experience in several insolvencies, where a range of unsecured lenders are exposed to significant losses when a business fails. "In my conversations with lenders, they often report their level of defaults at around 2% but this doesn't compare with what we're seeing in practice."

It appears there is no consistent method of measuring arrears or defaults. Many lenders who are focused on attracting retail and institutional funding are keen to improve their arrears and default statistics to strengthen their chances of accessing funding, both to increase their loan book and with it their platform valuation. "The financial crisis in 2008 was principally attributed to the late recognition of impairments," says Webb. "Lenders proved unable or unwilling to recognise the true level of impairments in their loan books and that led to a crisis of confidence which made the problems worse and led directly to the financial crisis. Regrettably, I believe this could be a major issue for the alternative finance sector, and it is vital that the sector collectively recognises the importance of transparency and accountability to ensure confidence is maintained. My real concern is that the current level of defaults reported by platforms does not reflect the underlying loan performance."

He sees a particular cause for concern in property lending. The secured nature of lending in this sector has naturally attracted risk-averse investors. However, much depends on the conditions remaining favourable in the UK property market, which has enjoyed a 10-year bull run. The well-publicised issues with London residential property and the general slowing of the market due to the uncertainty around Brexit is presenting increasing challenges for lenders in this space. Webb argues that property yields have fallen dangerously low during Britain's long property boom (implying inflated capital values). London is the worst case – and also the market where much P2P property lending has taken place – but other parts of the country are not immune, he argues. "In Birmingham, for example, five years ago it was possible to achieve residential yields of 7 per cent to 8 per cent. You would be lucky now to get between 4 per cent and 5 per cent. People are investing in development projects on the basis of these low yields. However, there appears to be a glut of supply that will hit the market over the next couple of years, this coupled with any form of downturn will have an impact on values."

> "The benign credit conditions appear to be ending and as Warren Buffet stated 'only when the tide goes out do you discover who has been swimming naked'."

"Based on my experience of the 2008 crisis it will be the sectors that have been over-invested or assets in peripheral locations that will suffer most in any form of crisis. Key areas I would have concerns over are student schemes outside the Russell Group of universities, and leisure and private rental schemes in peripheral locations." Assets and developments of this kind could see significant declines in value. Typically mainstream lenders have refused to lend on projects of this sort, resulting in a high concentration of lending against these assets in the alternative finance space. As a result, he suggests, the less mature property platforms will experience defaults of 20 per cent to 30 per cent with potential capital losses after recovery of 5 per cent to 10 per cent. However, he notes: "It really depends on the quantums platforms are lending by region and sector. There could be some big losses in certain sectors where the underlying business models of the developments are uneconomic".

He is also concerned about the level of transparency in the alternative finance sector, notably that platforms are reluctant to disclose in full the underlying performance of their portfolio. In addition, he believes that abundant liquidity in the lending market means that lenders have not had to confront issues, with problem loans merely being refinanced by other lenders. He believes this could help explain the relative lack of impairments to date. Given the demand among investors for loans and loan books, it is possible for portfolios of loans to be sold to specialist investors. However, sales such as these are rare, principally due to the nature of P2P lending structure.

"It's not easy," argues Webb. "The platforms don't own the assets so they can't trade them as a bank could – if you're true P2P the assets are owned by the lenders and the case law is very uncertain on how you actually unwind loan books." Effectively, investors operating under Section 36H of the FCA's Regulated Activities Order on P2P lending are a syndicate, each member of which has an individual loan contract with the borrower. Therefore, they would all have to agree on the terms of any sale of that loan.

However, there is no process for reaching such an agreement set out in typical 36H loan documentation and no minimum threshold for approval, which makes trading impaired P2P loans particularly complex.

If loans cannot be sold to ensure some return of capital to investors, what about the recovery process? Here Webb highlights a range of issues, in particular the potential lack of alignment between the interests of investors and the platforms. Investors will principally be focused on recovering their capital, whereas in many cases the platform will be more concerned about their underlying growth strategy and equity story. This divergence can undermine the recovery strategy. In addition, he argues that in certain sectors where there are minimal underlying assets, it quickly becomes uneconomic for a platform to fund ongoing recovery operations. Even where there is a property asset backing the loan, the assets may be impaired or of a type that it is not readily realisable. Hence, there is a risk that the proceeds of any disposal will be insufficient to provide a full return to investors after taking the costs of recovery into account.

Webb argues that the outlook for many online lending platforms is deteriorating as the economy moves into a more difficult phase. "The benign credit conditions appear to be ending and as Warren Buffet said, 'only when the tide goes out do you discover who's been swimming naked'. This will be true for the alternative finance sector. The good operators will trade robustly through any downturn and the weaker ones will be exposed."

Against this background, private investor interest in P2P business and property lending is waning, he says. "The inflows from retail money are slowing, partly because of the well-publicised problems in the sector recently. On the other side, stricter regulation of retail investment coupled with the cost of attracting and onboarding retail investors mean that platforms do not feel it is viable today to build a business based on retail funds. They are concentrating on attracting institutional money, which is increasingly focused on this sector."

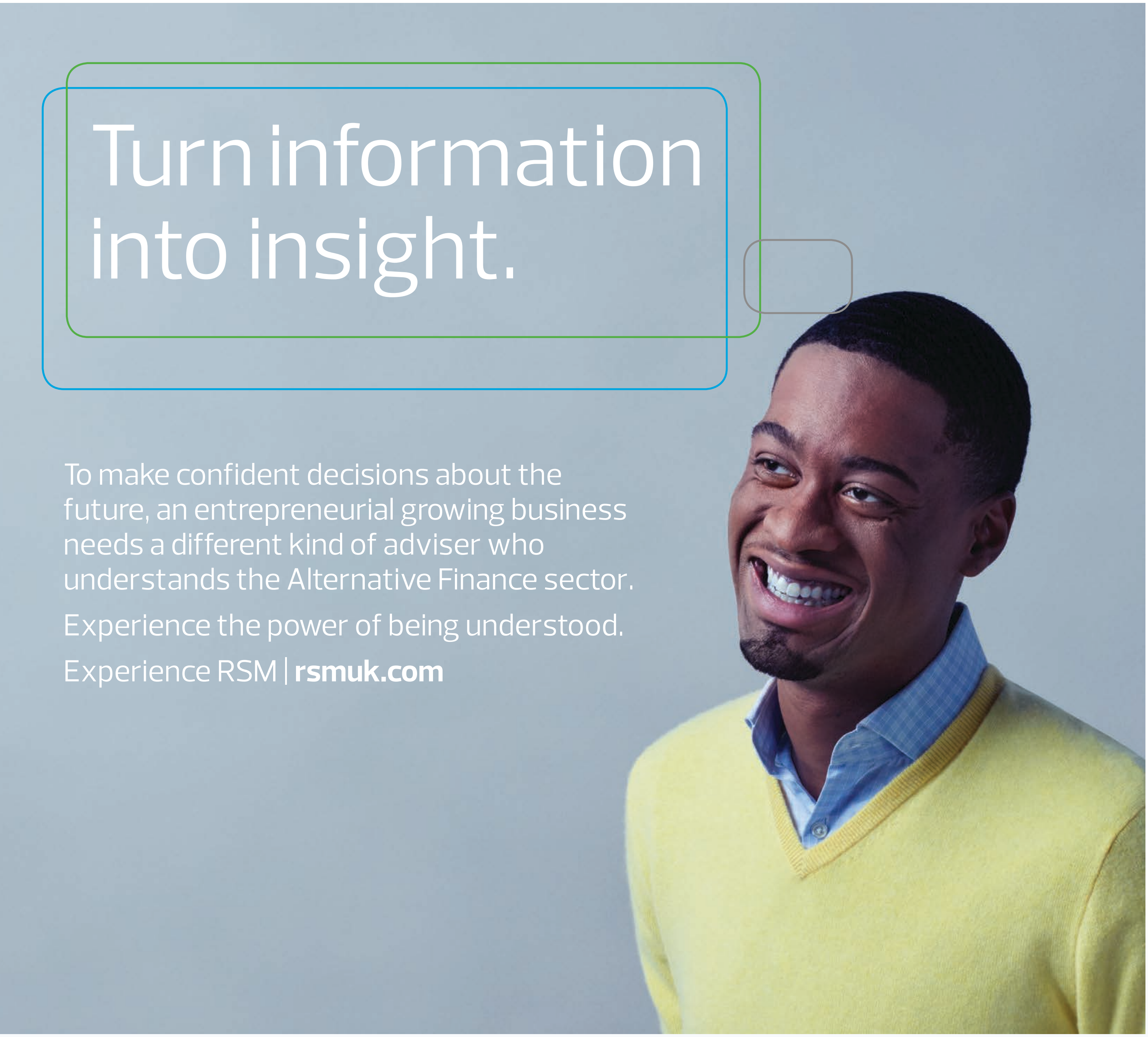
Webb believes this can only be positive because institutional funders will prioritise well-run, well-regulated platforms with good corporate governance. Consequently, those that fall short of accepted best practice will be unable to access institutional capital, leaving them unable to compete. This Darwinian process, combined with stricter regulation, should ensure that many of the growing pains currently affecting the alternative finance sector will be addressed. It should emerge stronger as a result. ◆

Higher value lending: The next trend in P2P?

Jonathan Segal, Partner, Fox Williams

Having acted for a number of peer-to-peer platforms, including ThinCats, over the years, Fox Williams' fintech team has recently observed an increase in the size of loans advanced to SME borrowers though peer-to-peer platforms, with loans in some cases breaking the £10m mark. The prevalence of higher-value lending is in part due to an increase in institutional lenders using peer-to-peer platforms, including specialist debt funds and pension funds, who may lend the full amount of a loan or co-lend together with retail lenders.

These institutional lenders are treating the lending platform as a distribution partner, which has the automated processes, standardised documentation and marketing reach to streamline the distribution of credit to SMEs that have been failed by mainstream bank finance. Retail investors, co-lending with larger institutional lenders, may also take comfort that the transaction, including due diligence, has been approved by the institutional lenders who bring the experience, analysis and criteria required to make prudent investing decisions. As alternative finance evolves, we expect both high-value lending or co-lending to continue, in direct challenge to traditional bank lending.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APPENDIX

ALTFI'S PLATFORM SURVEY

In the boxes below we breakdown each UK and Continental European peer-to-peer lending platform key investment criteria, fees and lending information.

ASSETZ CAPITAL	
Who do you mainly lend to?	SMEs and Property
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2013
Who is your national regulator?	FCA
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	Yes
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	Yes. A provision fund on all accounts except manual investing
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	£1
What is the maximum investment for ordinary investors?	No limit bar availability of loans
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	Yes
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	None directly as we charge the borrower
What are your fees for borrowers?	An arrangement and a loan servicing fee
When is interest paid?	Monthly on most, sometimes bullet

FELLOW FINANCE	
Who do you mainly lend to?	Consumers and businesses
Domicile of platform?	Finland
In what year did you start offering loans to investors i.e. formally open for business?	2014
Who is your national regulator?	Fin-FSA
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	No – but the delinquent loans are sold to collection agencies when 90 days due
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	25
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	0
What are your fees for borrowers?	Opening fee and monthly account management fee
When is interest paid?	Monthly

FINEXCAP	
Who do you mainly lend to?	SMEs
Domicile of platform?	France
In what year did you start offering loans to investors i.e. formally open for business?	2015
Who is your national regulator?	AMF
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	Yes, Finexcap hold the first loss piece of Finexcap fund (5% equity tranche)
Do you offer an auto invest facility?	No
What is the minimum investment for ordinary investors?	EUR 100,000
What is the maximum investment for ordinary investors?	EUR 10,000,000
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	Yes
Are your loans predominantly bullet or amortising?	Bullet
What are your fees for investors?	None
What are your fees for borrowers?	1.9-5.8% of face value
When is interest paid?	Monthly

FOLK2FOLK	
Who do you mainly lend to?	Businesses
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2013
Who is your national regulator?	FCA
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	Yes
Do you have a lock in structure which penalises early exit for investors?	For early exit, investors have to pay a listing fee of £250 and a success fee of 0.5% (less the listing fee) of the value of the loan being sold
Do you offer a contingency fund of some sort? Please specify.	No
Do you offer an auto invest facility?	No
What is the minimum investment for ordinary investors?	£20,000
What is the maximum investment for ordinary investors?	No max.
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Bullet
What are your fees for investors?	No fees
What are your fees for borrowers?	2% initial arrangement fee and 1.25% or 1.5% annual arrangement fee depending on the loan
When is interest paid?	Monthly

FUNDING CIRCLE	
Who do you mainly lend to?	Businesses
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2010
Who is your national regulator?	FCA, SEC, Bafin and AFM
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	Yes
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	No
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	£1,000
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	1%
What are your fees for borrowers?	0.9-6%
When is interest paid?	Monthly

LANDBAY	
Who do you mainly lend to?	Property investors (BTL Mortgages)
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2014
Who is your national regulator?	FCA
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	IFISA
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	Yes we have a reserve fund
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	£100
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Bullet
What are your fees for investors?	None
What are your fees for borrowers?	Product fee up front
When is interest paid?	Monthly

LENDIFY	
Who do you mainly lend to?	Private borrowers
Domicile of platform?	Sweden
In what year did you start offering loans to investors i.e. formally open for business?	2014
Who is your national regulator?	FI
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	Yes, a fund that securitises amortisation monthly on our automatically investment accounts
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	1kr
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	Service fee, 4% annual average rate on investments
What are your fees for borrowers?	Admin fee (495 SEK), instant transfer fee (199kr), paper invoice fee (49kr), direct debit (10kr), e-invoice on digital bank (0kr)
When is interest paid?	Monthly

LENDINVEST	
Who do you mainly lend to?	Property
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2008
Who is your national regulator?	FCA
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	No
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	£1,000
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Bullet
What are your fees for investors?	No fees
What are your fees for borrowers?	Varies depending on product
When is interest paid?	Monthly

MARKETINVOICE	
Who do you mainly lend to?	SMEs
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2011
Who is your national regulator?	FCA
Are you formally regulated by your local regulator?	No
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	No
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	£50,00
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	15-25% of interest accrued
What are your fees for borrowers?	Varies depending on the product
When is interest paid?	Maturity

MINTOS	
Who do you mainly lend to?	Variety
Domicile of platform?	Headquartered in Latvia
In what year did you start offering loans to investors i.e. formally open for business?	2015
Who is your national regulator?	FKTK (Latvia)
Are you formally regulated by your local regulator?	No
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	Buyback guarantee
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	EUR 10
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	Yes
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	None
What are your fees for borrowers?	N/A
When is interest paid?	Varies depending on loan type, country and originator

OCTOBER	
Who do you mainly lend to?	SMEs
Domicile of platform?	France
In what year did you start offering loans to investors i.e. formally open for business?	2015
Who is your national regulator?	ACPR
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No early exit possible
Do you offer a contingency fund of some sort? Please specify.	No
Do you offer an auto invest facility?	No
What is the minimum investment for ordinary investors?	EUR 20
What is the maximum investment for ordinary investors?	EUR 2000
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	0
What are your fees for borrowers?	3%
When is interest paid?	Monthly

OCTOPUS CHOICE	
Who do you mainly lend to?	Professional Landlords
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2016
Who is your national regulator?	FCA
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	Yes
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	No – we co-invest in every loan and take first loss on capital and interest
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	£10
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Bullet
What are your fees for investors?	None
What are your fees for borrowers?	Arrangement fee 2%, admin fees, interest rates 4.99-8.99%
When is interest paid?	Monthly

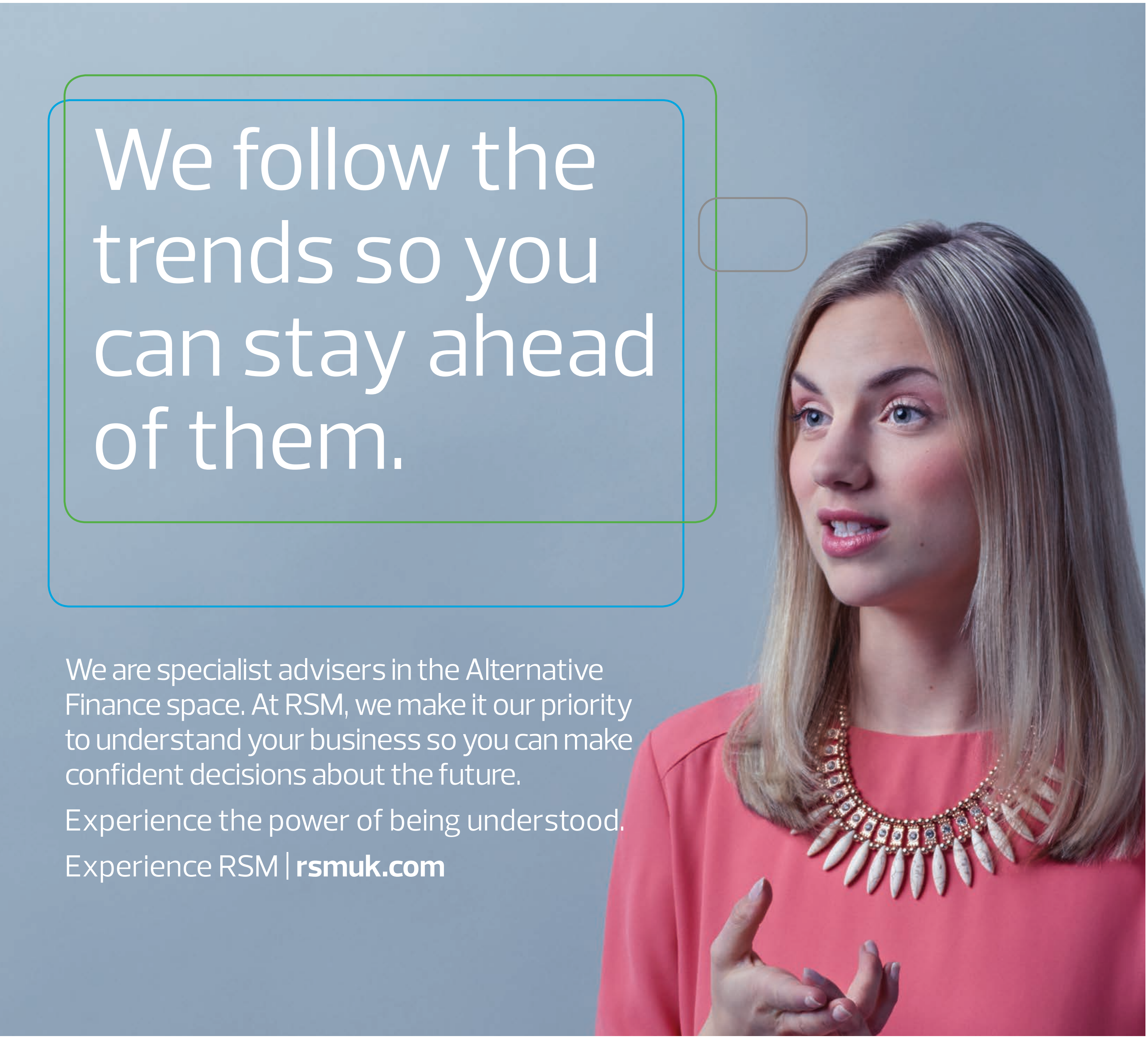
RATESETTER	
Who do you mainly lend to?	Personal Loans
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2010
Who is your national regulator?	FCA
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	Yes
Do you have a lock in structure which penalises early exit for investors?	Early exit fees are 0-1.5% depending on investment market
Do you offer a contingency fund of some sort? Please specify.	Yes – We pioneered the provision fund
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	£10
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	Yes
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	None
What are your fees for borrowers?	Risk-weighted payment into provision fund. This and RateSetter's fees are included in APR
When is interest paid?	Monthly in general, or maturity for 1 Year market

TWINO	
Who do you mainly lend to?	Consumers
Domicile of platform?	Latvia
In what year did you start offering loans to investors i.e. formally open for business?	2015
Who is your national regulator?	FKTK
Are you formally regulated by your local regulator?	No
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	No
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	-
What is the maximum investment for ordinary investors?	-
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Bullet
What are your fees for investors?	None
What are your fees for borrowers?	Interest only
When is interest paid?	Monthly

WORKINVOICE	
Who do you mainly lend to?	Businesses
Domicile of platform?	Italy
In what year did you start offering loans to investors i.e. formally open for business?	2015
Who is your national regulator?	Bank of Italy
Are you formally regulated by your local regulator?	No
Are your investments available in a tax wrapper structure?	No
Do you have a lock in structure which penalises early exit for investors?	No
Do you offer a contingency fund of some sort? Please specify.	No
Do you offer an auto invest facility?	No
What is the minimum investment for ordinary investors?	EUR 1,000,000. We operate with institutional investors.
What is the maximum investment for ordinary investors?	No Max, largest investor has EUR 15m portfolio
Can businesses lend money on your platform?	No
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Bullet
What are your fees for investors?	20% of profit
What are your fees for borrowers?	Approx 50bps
When is interest paid?	Maturity

YOUNITED CREDIT	
Who do you mainly lend to?	-
Domicile of platform?	France
In what year did you start offering loans to investors i.e. formally open for business?	2012
Who is your national regulator?	ACPR
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	Yes
Do you have a lock in structure which penalises early exit for investors?	-
Do you offer a contingency fund of some sort? Please specify.	-
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	EUR 1,000
What is the maximum investment for ordinary investors?	EUR 100,000,000
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	0.3% per year
What are your fees for borrowers?	3% of borrowed amount
When is interest paid?	Monthly

ZOPA	
Who do you mainly lend to?	Low-risk UK consumers
Domicile of platform?	UK
In what year did you start offering loans to investors i.e. formally open for business?	2005
Who is your national regulator?	FCA
Are you formally regulated by your local regulator?	Yes
Are your investments available in a tax wrapper structure?	Yes
Do you have a lock in structure which penalises early exit for investors?	Investors can withdraw cash to holdings account with no charge. If investors want to withdraw a lump-sum prior to end of the loan term, they can sell the loan to other investors with a 1% fee
Do you offer a contingency fund of some sort? Please specify.	We are currently winding down our provision fund following successful campaign to change the tax laws for consumers. We do have a contingency plan to protect our customers if zopa was to go out of business.
Do you offer an auto invest facility?	Yes
What is the minimum investment for ordinary investors?	£1,000
What is the maximum investment for ordinary investors?	N/A
Can businesses lend money on your platform?	Yes
Do you offer cashback for ordinary investors?	No
Are your loans predominantly bullet or amortising?	Amortising
What are your fees for investors?	No fees for investors lending with Zopa. But if investors want to withdraw a lump-sum from the platform, we charge a 1% fee for matching the loans to other investors
What are your fees for borrowers?	An origination fee for setting up the loan and a loan servicing fee to each loan contract which is deducted from each borrower repayment before the principal and interest is passed on to investors. Both fees are included in the loan's APR.
When is interest paid?	Monthly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