

MARKETPLACE LENDING INVESTING

Case Study: Diagnostic Check for Investors

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Management



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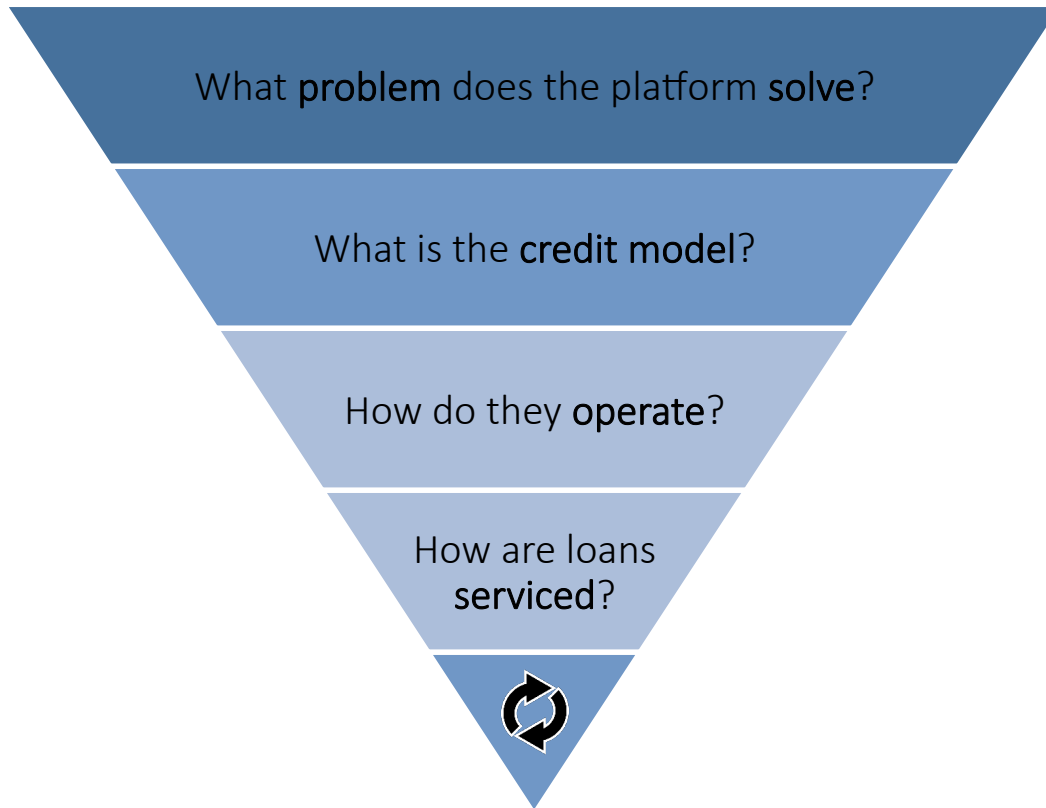
GOODWIN | PROCTER

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MonJa

MonJa

PLATFORM SELECTION

Evaluation:



Engagement Process:

1. Underwriter completes initial due diligence questionnaire
2. BE performs review; asks follow-up screening questions
3. Platform completes comprehensive scorecard
4. BE performs on-site diligence visit
5. Relationship parameters are negotiated
6. Legal docs established

Reading the Signs

- Have any internal or external compliance audits, pre- or post-closing QC, investor/loan purchaser due diligence reports, regulator exams or any other evaluations of the business been conducted? If yes, please provide copies of each. Scheduled?
- Do you have a complaint management system? If yes, please describe. Please provide copies of your complaint log, including descriptions, resolution information and timing. Please provide copies of any complaint analyses that have been done, as well copies of any Board reports on complaints.
- Have you had any loan repurchase or indemnification claims? Please provide reports on the nature, amount and resolution of any claims.
- Have you had any litigation, including active, closed or threatened? Please provide reports on the nature, amount/exposure and status of any litigation.
- Have you had any active, closed or threatened government actions, proceedings, investigations or *inquiries*? If so, please provide copies and a report of the nature, amount/exposure and status of each.

Credit Models

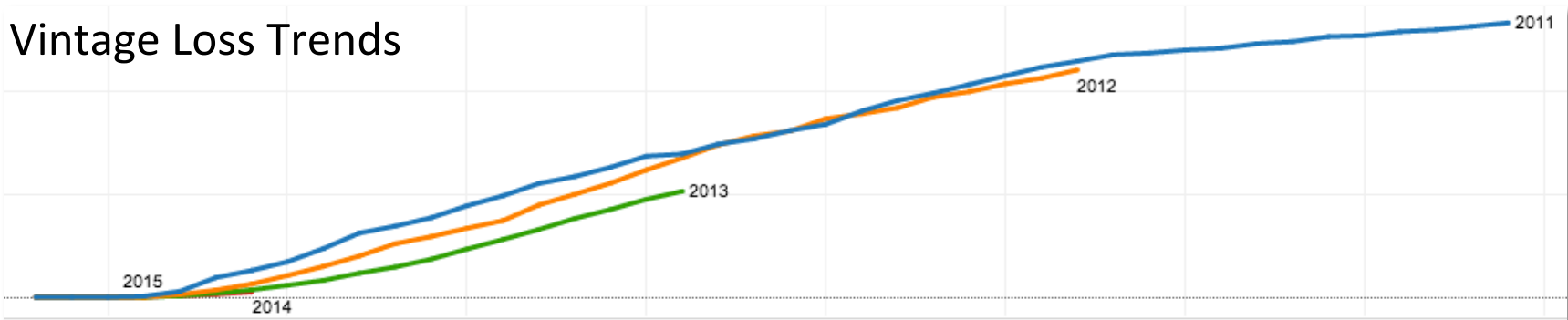
- Platform Team
 - Credit team qualifications (Finance vs. Tech)
 - Special servicing capabilities
- Model Inputs
 - Key model inputs, sample size and update frequency
 - Borrower and collateral data source review and availability
 - Algo vs. Human collection
- Loan Scoring Model & Calibration
 - Decision criteria for accepted application including the target universe and scope
 - Development of loan grading system
 - Back-testing and regression analysis
- Model Outputs
 - Rate assumptions by loan grade
 - Default and loss assumptions by loan grade
 - % of issuance by loan grade
- Stress Test
 - Outline of stress assumptions
 - Has there been a real world severe down case with relevant borrower/credit profile?
 - If so, what data was used?
 - If not, how was scenario built?
- Demonstration of Model Decisions
 - Example of loans that just made/missed cutoff for either grade or approval and reason the model made that decision
 - Approval rates on applications

Examining Cohorts

Monthly Vintage Losses



Vintage Loss Trends



Softball and Hardball

- Do you have policies and procedures that cover all applicable federal and state laws? Please provide copies.
- Ask hard questions (e.g, fair lending assessment of non-traditional underwriting practices/attributes)
- Low hanging fruit: marketing, note and disclosures (TILA), and fees
- Loan file reviews
- Recalculate APR
- What are your current compliance initiatives? Scheduled?
- What compliance areas do you need improvement in?
- What keeps you up at night?

Comparing Risk Adjusted Return

Loss adjusting yields and building a loss matrix helps compare lenders across the industry

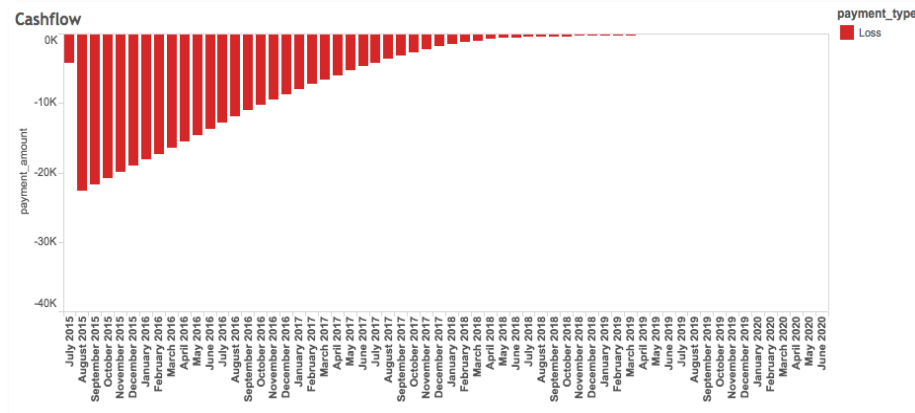
	Base Case Loss Adjusted Yield	.5X Loss	2X Loss	3X Loss	Probability Weighted Return
Lender A	6.74%	8.50%	2.50%	-1.50%	5.74%
Lender B	12.74%	13.82%	10.68%	8.62%	11.51%
Lender C	12.30%	13.55%	9.80%	7.30%	10.49%
Lender D	9.90%	11.70%	6.30%	2.70%	9.09%
Lender E	10.64%	11.10%	9.71%	8.79%	10.55%
Lender F	15.00%	21.50%	4.00%	-9.00%	4.38%
Lender G	12.00%	18.00%	0.00%	-12.00%	0.90%
Lender H	7.50%	10.25%	1.95%	-3.61%	4.44%

The higher the availability of data, the higher the probability attributed to achieving the base case or better scenarios

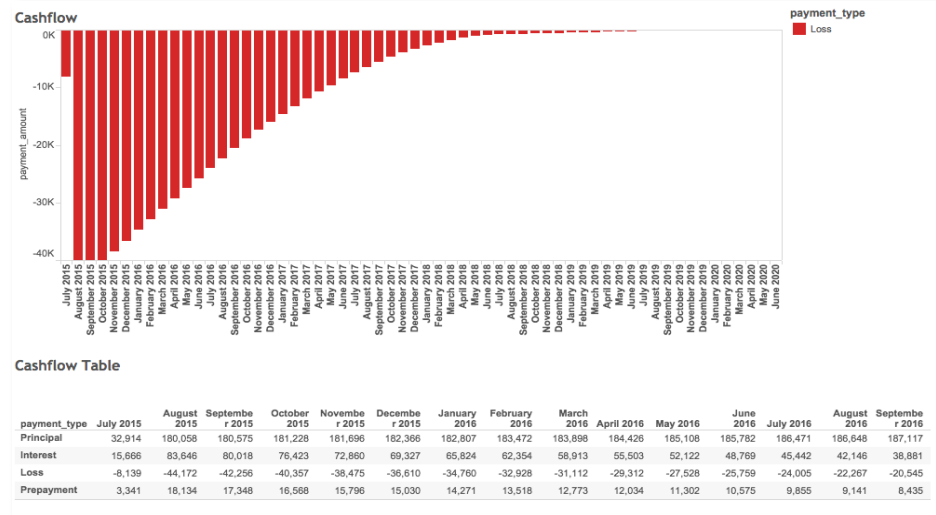
	Base Case Probability	.5X Loss Probability	2X Loss Probability	3X Loss Probability
Lender A	60.00%	15.00%	20.00%	5.00%
Lender B	40.00%	10.00%	35.00%	15.00%
Lender C	40.00%	5.00%	35.00%	20.00%
Lender D	60.00%	15.00%	20.00%	5.00%
Lender E	75.00%	10.00%	15.00%	0.00%
Lender F	25.00%	5.00%	45.00%	25.00%
Lender G	25.00%	5.00%	45.00%	25.00%
Lender H	40.00%	10.00%	40.00%	10.00%

Forecasting on Scenarios

Benign Scenario



Recession Scenario



Max Protect/Fair Shake/Valid When Made

- Can I get the all-encompassing loan-level “fraud” representation and warranty in my loan purchase agreement?
- Do you have an allocation policy and what does it say?
- How do you mitigate any *Madden v. Midland* risk?