Making TALF Equitable & More Effective

July 2020

MARKETPLACE LENDING ASSOCIATION

Executive Summary

- **Marketplace Lending** uses sophisticated technology to deliver personal loan products at lower costs to American consumers compared to traditional banking.
  - **The crisis** has caused pull back in new loan originations by marketplace lenders of up to 90%, largely driven by a lack of investor liquidity.
  - **The crisis** has caused traditional banks to close credit cards and slash credit limits, as 1 in 5 cardholders saw a credit decrease of at least $5,000.
- **Personal loans** are not supported by the Federal Reserve's 13(3) emergency liquidity response, Term Asset-Backed Securities Loan Facility (TALF), but TALF supports higher APR credit card lending.
  - **The crisis** response by the Federal Reserve has provided trillions of dollars to support corporate debt, but less than 3% of Federal Reserve facilities have supported individual consumers.
- **Marketplace Lending** reaches geographically and demographically diverse populations, and low & moderate income individuals and communities.
  - **The crisis** is making personal loans more expensive by causing APRs to rise across credit score tiers by factors as high as 50%+, and most recently still over 30%.
  - **The crisis** has increased essential use cases for loans while overall demand for loans remains high.

Modifying TALF eligibility for marketplace lending will assist those who need it most, and assist those who represent over 70% of GDP:

The American Consumer

Sources: Global Capital [1]; Lending Tree [2]; Yahoo Money[3]

Fed Liquidity Is Going to Corporations Before Consumers

Liquidity…

+$4.9
Trillion

The Fed is providing $2.3 trillion of liquidity per it's 13(3) powers, and Congress approved an additional $2.6 trillion.

Consumers?

Less than
3%

Less than 3% of the Fed's $2.3 trillion of liquidity is going to consumers, yet consumer spending represents over 70% of the American economy.

Source: Analysis of the portion of Fed 13 (3) programs to consumers

4 Different Approaches For How the Fed Can Help Consumers

1. Modify the current TALF program to include AAA Personal Loan ABS. This would only support loans that are <36% APR, as high-rate lenders have not been able to achieve even investment grade ratings.

2. Add personal loan ABS to the corporate credit facilities for BBB and high yield corporate debt.

3. Include unsecured <36% APR personal loan servicers into any mortgage servicer / servicer liquidity facility.

4. Make changes to the Main Street Lending Program (MSLP) so that low rate digital lenders can better serve personal loan borrowers.

Americans Increasingly Require Personal Loans For Essential Liquidity Needs

Debt Consolidation

- Debt consolidation is down **23%**
- In a growing economy, Americans often use personal loans with lower interest rates to consolidate credit card debt and other higher interest-rate loans

Essential Uses

- Personal loans for small business use are up **47%**
- Home repair/improvement has increased **43%**

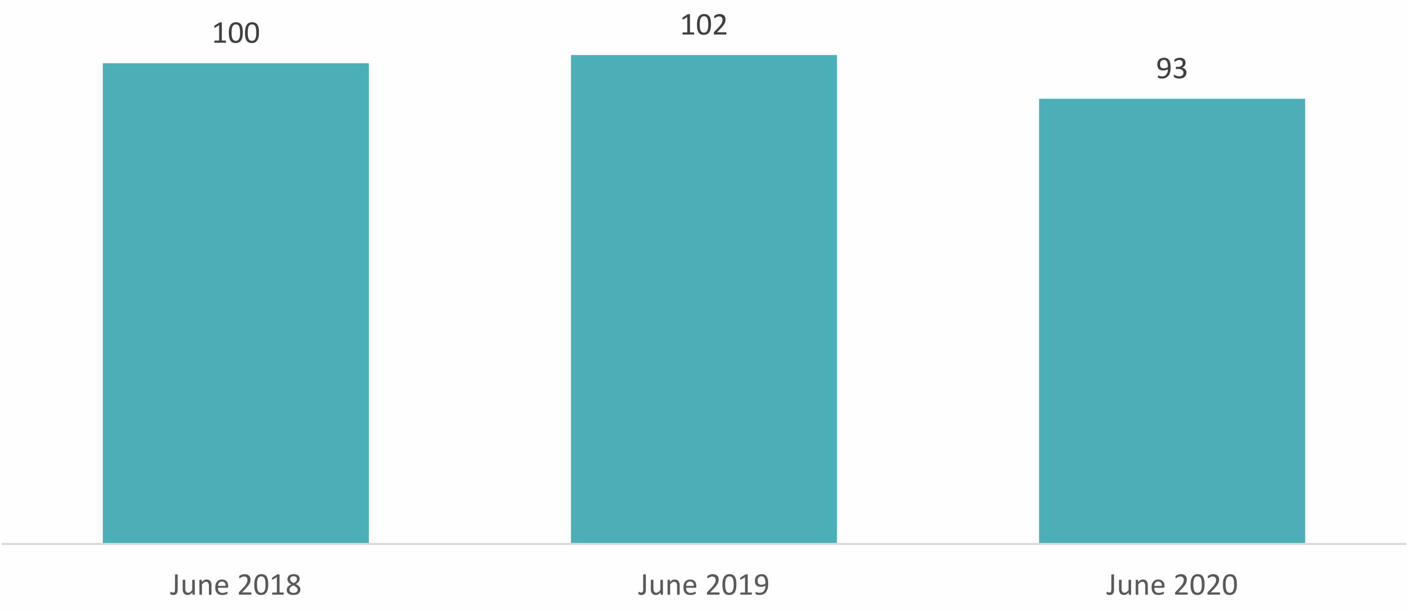
Source: Lending Tree [4][5]

The Crisis Is Crippling Personal Loan Supply, Yet Consumer Loan Demand Remains Relatively Constant

Demand for personal loans in June of 2020 was within 10% of prior years, evidenced in GoogleTrends search volume for “personal loans.”

Average For Each Month of June

Number of google searches for ‘personal loan’ indexed to June 2018

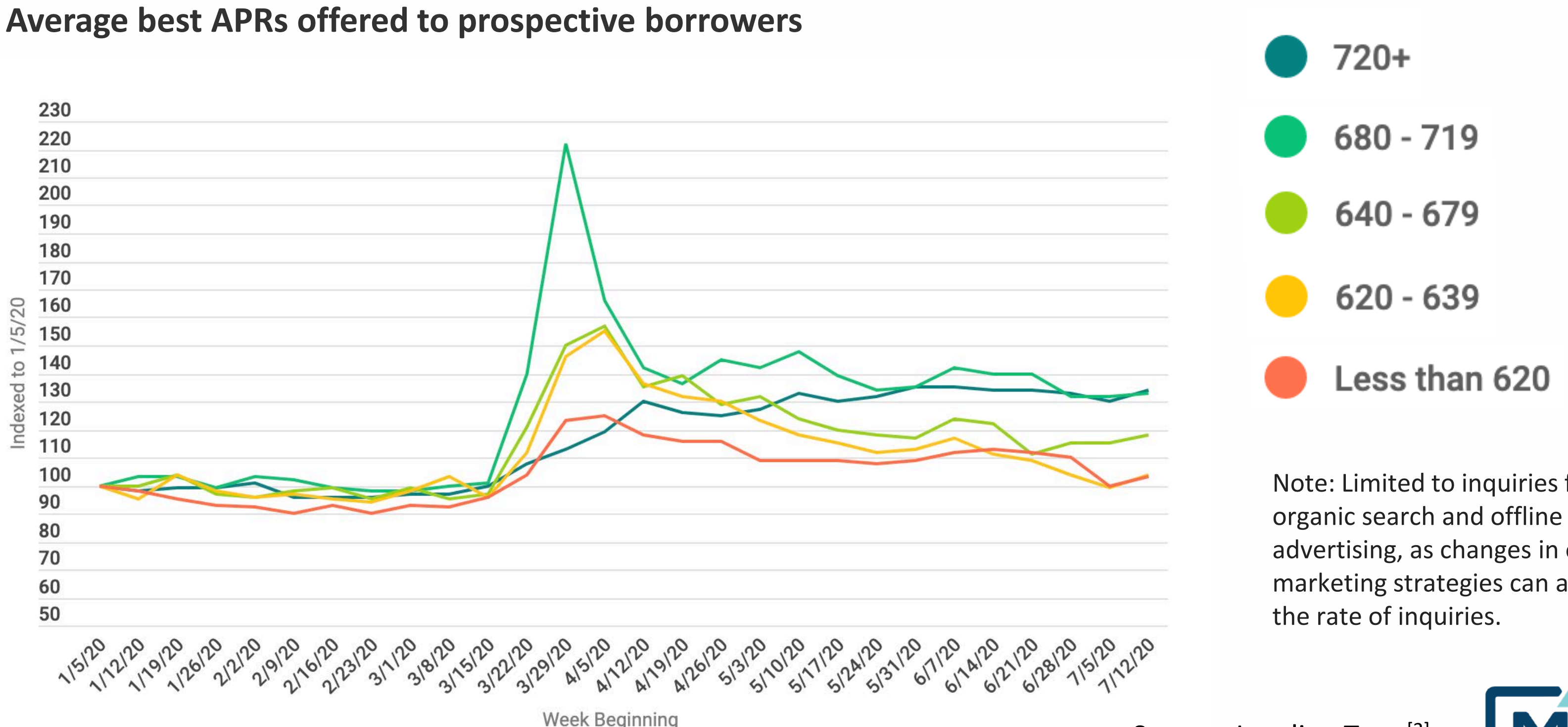


Source: GoogleTrends [6]

Investor Capital Pulls Back, Borrowers Are Paying the Price—Literally

Borrowers are now paying higher APRs. They are borrowing from higher-cost lenders because lower-cost marketplace lenders have been forced to reduce lending available without support from TALF.

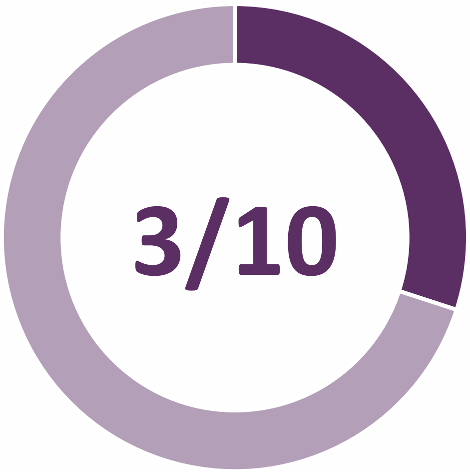
Average best APRs offered to prospective borrowers



Note: Limited to inquiries from organic search and offline advertising, as changes in online marketing strategies can alter the rate of inquiries.

Source: Lending Tree [2]

Fed Research Shows Small Businesses Rely On Personal Loans, Even Prior to COVID-19



3 out of 5 small businesses (less than 5 years old) rely on personal loans to fund their businesses, often because they lack the revenue history for commercial lending.

Personal loan borrowing for small businesses is up nearly 50%, from March 1st to July 5th 2020.

Disaster-affected firms are about 50% more likely to rely on personal loans, according to research from the Federal Reserve Banks of Dallas, New York, Richmond, and San Francisco.

Source: Federal Reserve Bank of New York [7]; Federal Reserve Banks of Dallas, New York, Richmond, and San Francisco[8]

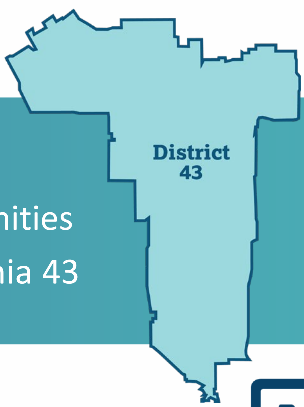
Nearly Half Of All Personal Loans Go To Lower and Moderate Income Individuals and Communities

- 47% of LendingClub loans go to LMI individuals and communities.
- By comparison, only 16% of credit card dollars reach LMI neighborhoods, according to the CFPB.
- 25% of LendingClub loans are concentrated in the 10% of counties with the fewest bank branches per capita, according to Federal Reserve research.

Congressional District Example: California 43

Lending Club: 59% of loans go to LMI individuals or communities

Affirm: Fully 40% of all loans go to LMI individuals in California 43



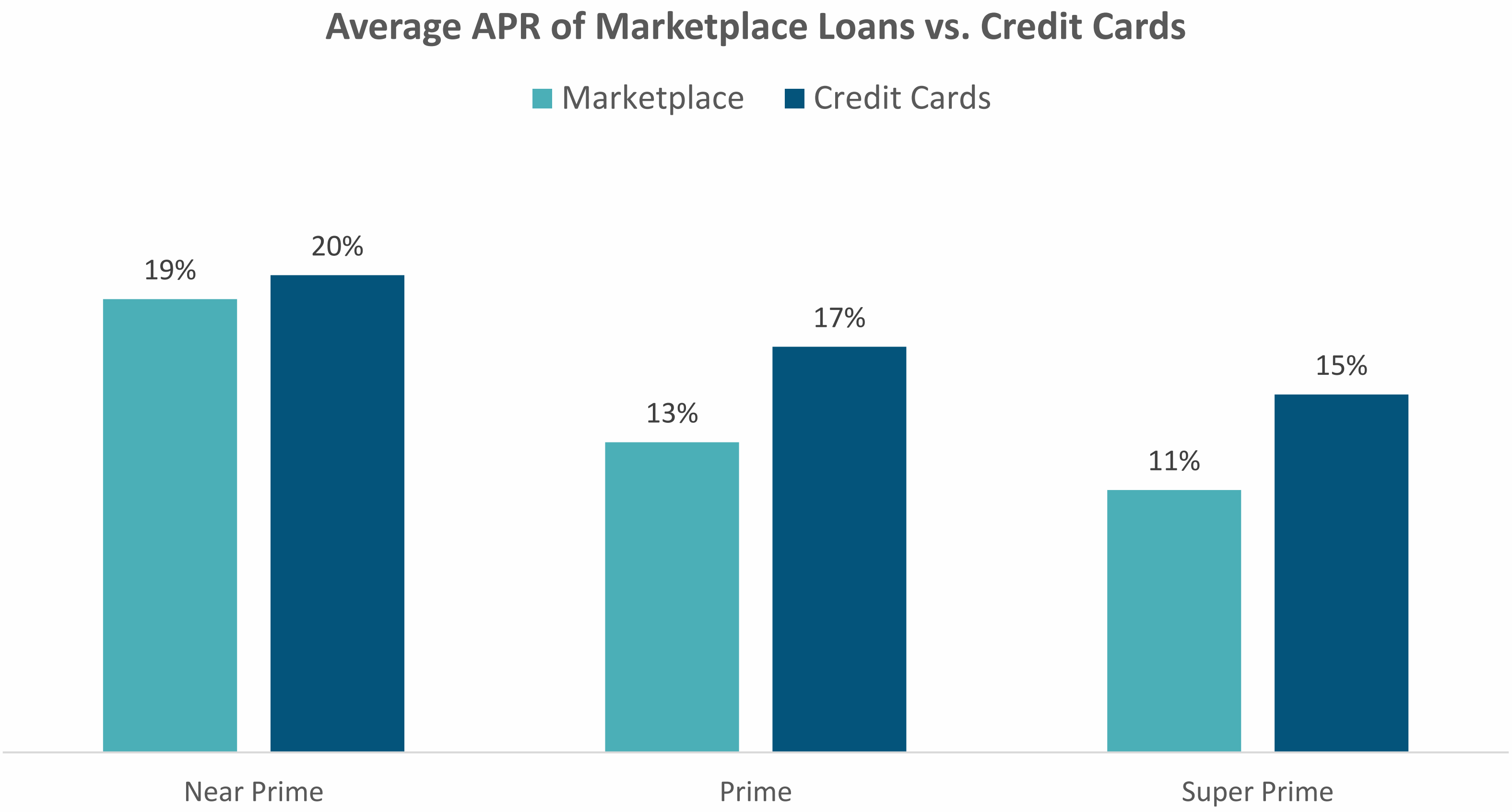
Source: LendingClub [9]; CFPB [10]; Affirm [11]

Fed Research Shows Marketplace Lenders Fill Gaps Where Banks Don't Lend

"Fintech lenders can fill credit gaps in areas where bank offices may be less available…As the number of banks and banking offices continues to decline, the presence of fintech lenders may be important to supplement the availability of unsecured consumer credit."

Source: Julapa Jagtiani and Catherine Lemieux, Federal Reserve Bank of Philadelphia [12]

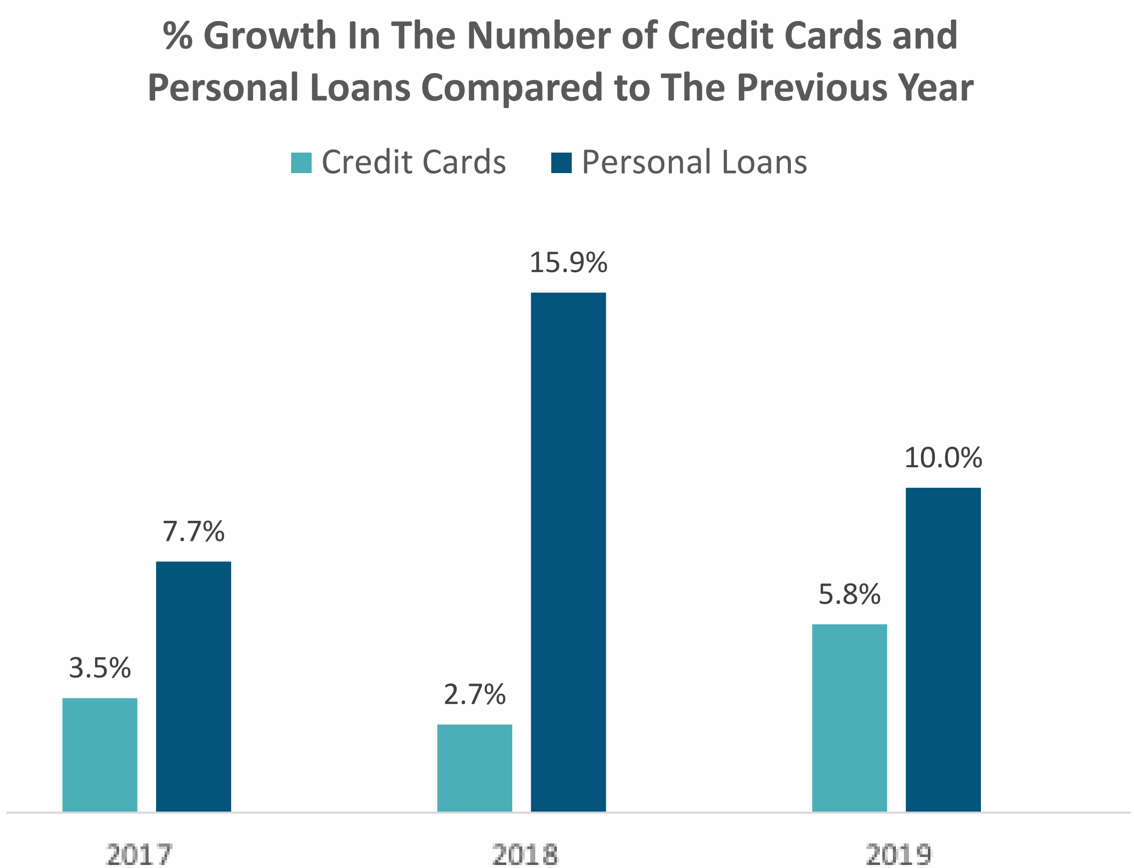
Fed Research Shows Marketplace Lenders Provide Lower APRs Than Credit Cards



Source: St. Louis Fed Research [13]

Personal Loans' Share of the Credit Market Is Growing Fast

- There are about $160 billion in personal loans outstanding, the fastest growing lending category in the country.
- From 2016 to 2019, the number of personal loans grew by over 37%, while the number of credit cards grew by only around 12%.



Source: TransUnion [14]

Unsecured Consumer Asset-Backed Securities Are Growing Rapidly And Are Low-Risk

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There has never been a downgrade of a consumer personal loan ABS bond.

100%

All Personal Loan ABS bonds have consistently made interest and principal payments to investors.

5-6%

Personal Loan ABS issuances now represent 5-6% of the total U.S. ABS market.

Source: MUFG bank analysis [15]

Unsecured Consumer Asset-Backed Securities Are Growing Rapidly And Are Low-Risk

No Losses

- All personal loan ABS bonds have made timely interest and principal payments resulting in no loss of cash flow to investors.
- This includes AAA, and even lower investment grade and non investment-grade ABS.

No Downgrades

- There has never been a downgrade of a consumer personal loan ABS bond.
- Actual defaults to date have strongly outperformed base default expectations of ratings agencies, according to Kroll ratings.

Low Risk

- Senior bonds in personal loan ABS transactions are insulated from losses up to 6x a rating agency's base case loss expectations. This is a similar methodology that is used for other consumer-backed ABS bonds with equivalent ratings such as credit cards.

Source: Kroll Ratings [16]

Including Personal Loans In TALF Could Provide 5x-10x In Credit Support For Americans

5x-10x

- By providing leverage to the Fed and private capital, every $1 of Treasury support to TALF for personal loans could deliver $5-$10 in credit support for Americans that need to borrow.
- Therefore, 5x-10x less taxpayer money would be needed to support Americans and economic growth than if directly allocated by Congress.
- This type of leverage has been used extensively in Fed programs for corporations.

Source: MLA [17]

Congress Urges Fed Chair Powell to Include Personal Loans in TALF, Multiple Times

"Large numbers of Americans rely on non-bank credit to make ends meet, finance major purchases (including automobiles), and to handle emergency expenses…Non-bank lenders and fintech lending platforms in turn rely on the capital markets including through the sale of asset-backed securities to fund loans and to continue to extend credit."

"We support the Federal Reserve's April 9, 2020 expansion of the TALF program demonstrating the Federal Reserve and Treasury's commitment to adjusting the program to reflect today's markets. However, there are still essential lending products that should be included to assist borrowers, including personal installment loan backed securities and non-agency residential mortgage backed securities."

Source: Congressional letters to the Fed in support of including personal loans in TALF [18][19]

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Sources

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[2] Lending Tree - https://infogram.com/1prmkkz37dj97gsgyjdq9q67wkbm51lx73n

[3] Yahoo Money - https://money.yahoo.com/banks-close-credit-cards-and-slash-credit-limits-amid-the-pandemic-survey-finds-170739834.html

[4] Lending Tree – Timeframe evaluated: 3/1/2020 -7/7/2020 -https://infogram.com/1pnjvrkwy533rmiz75gv763zrwum30rgr7v

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[9] Lending Club data as of 2019

[10] CFPB - "Lending by neighborhood income level," data Jan-July 2018. https://www.consumerfinance.gov/data-research/consumer-credit-trends/credit-cards/lending-neighborhood-income-level/

[11] Affirm data as of 2019

Sources

[12] Jagtiani, Julapa and Lemieux, Catherine, Federal Reserve Bank of Philadelphia, Working Paper No. 18-13, Do Fintech Lenders Penetrate Areas that are Underserved by Traditional Banks?, pg. 1, Mar. 2018. https://www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2018/wp18-13.pdf.

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[14] TransUnion - Consumer Finance Advisory Board, "Q4 2019 Industry Point of View." https://www.transunion.com/blog/consumer-credit-origination-balance-and-delinquency-trends-q4-2019

[15] MUFG bank analysis

[16] Kroll Ratings

[17] MLA - The 5x-10x multiplier is an assumption based on the multiplier for other Fed emergency programs, such as the Main Street Program, which has a $600bn cap with $75bn in equity

[18] Politico - House Letter led by Reps. Bill Foster and Barry Loudermilk and obtained by POLITICO (Victoria Guida)

[19] Congressional Letter - May 7th Letter led by Senators Moran, Tillis, and McSally