

# Consumer Unsecured Q1 2016

Loan Originations through March 31, 2016; Loan Payments through March 31, 2016

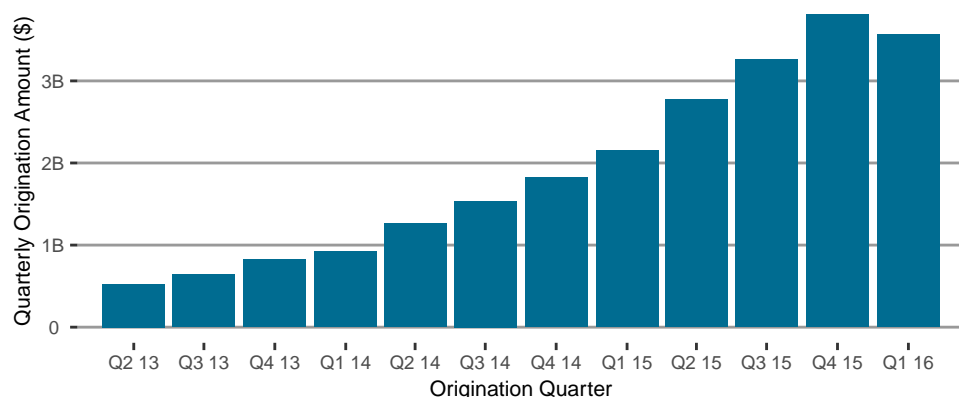
Orchard's Quarterly Industry Report provides a data-rich glimpse into trends within consumer unsecured marketplace lending. Orchard receives regular data feeds from originator data partners, who provide detailed information on new originations and the performance of their loan portfolios. Orchard standardizes, aggregates, and analyzes this data in order to provide valuable insight into volumes, trends and performance along various dimensions.

For more in-depth analysis, including access to standardized data sets across multiple originators and asset classes, subscribe to **Orchard Market Data**. Contact [sales@orchardplatform.com](mailto:sales@orchardplatform.com) to learn more.

## Key Insights

- 2014 vintage charge offs have increased more steeply than in recent years, aligning closely with rates we saw in 2010 and 2011. While part of this trend is a result of deteriorating loan performance, most of it is due to the continued growth of subprime loan origination platforms. These platforms charge off at higher rates but offer investors increased interest rates as compensation for this additional risk. There is not enough 2015 vintage performance data to draw any conclusions but we will be closely monitoring how that vintage performs in the coming quarters.
- Across the industry, Q1 origination volume was down approximately 6% from Q4 origination volume. This marks a pronounced deviation from the trend in recent years where origination volume consistently rose quarter-over-quarter. Given recent news and volatility at several of the largest originators, we expect Q2 origination volumes will continue to soften. However, we are not ruling out an uptick in growth later this year as confidence and capital return to these platforms.
- Borrower rates fell in Q1, dropping 183 bps over the last three months. It is important to note that most originators actually showed increasing interest rates this quarter, and that rather than indicating intra-originator rate cuts, the reduction instead reflects an overall shift in loan originations toward lower-rate originators.

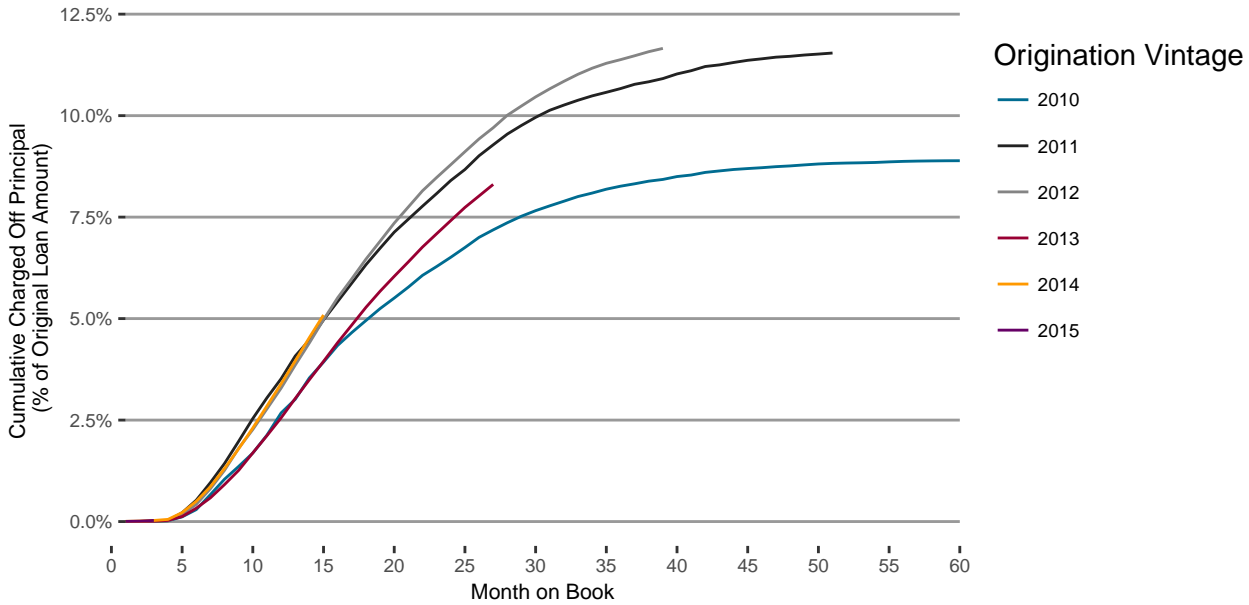
## Quarterly Originations



## Total Origination by Quarter

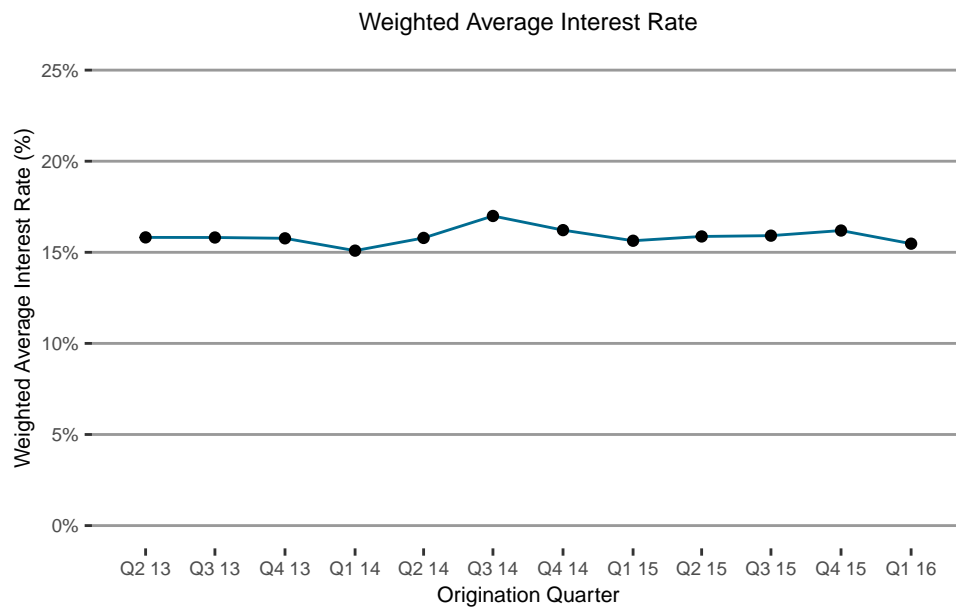
Origination Quarter	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
<b>Total Amount (\$MM)</b>	\$524.9	\$645.4	\$820.7	\$920.9	\$1,263	\$1,537	\$1,823	\$2,150	\$2,772	\$3,262	\$3,807	\$3,563
<b>Lagging 3mo Change (%)</b>	35.4%	23%	27.2%	12.2%	37.2%	21.7%	18.6%	17.9%	28.9%	17.7%	16.7%	-6.4%
<b>Lagging 12mo Change (%)</b>	199.3%	155.6%	172.8%	137.6%	140.7%	138.1%	122.1%	133.4%	119.4%	112.2%	108.9%	65.8%

Charge Off Rate Vintage Curves



The vintage curves in the above graph show cumulative charge offs as a proportion of original loan balance and are broken out by year. Vintage curves explain the level and timing of charge offs that occur among loan populations. A higher or steeper curve indicates higher and faster charge off rates, respectively. In the graph above we see 2014 vintage charge offs are increasing more steeply than in recent years, aligning closely with rates we saw in 2010 and 2011. While part of this trend is a result of deteriorating loan performance, most of it is due to the continued growth of subprime loan origination platforms. These platforms charge off at higher rates but offer investors increased interest rates as compensation for this additional risk. There is not enough 2015 vintage performance data to draw any conclusions but we will be closely monitoring how that vintage performs in the coming quarters.

## Borrower Interest Rates

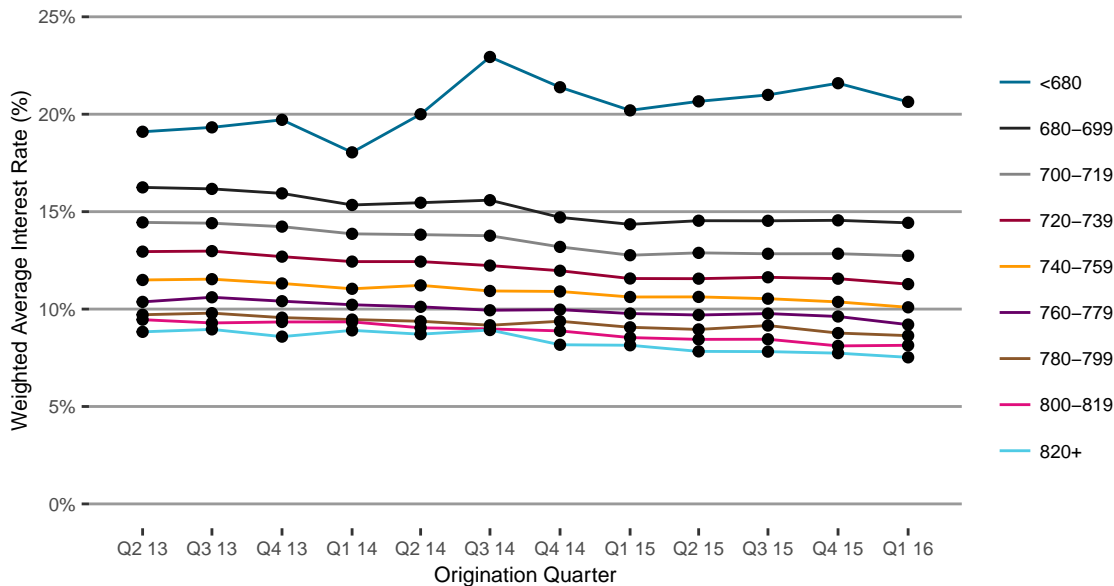


Average Interest Rate Weighted by Original Principal

Origination Quarter	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
<b>Weighted Average Interest Rate</b>	15.8%	15.8%	15.8%	15.1%	15.8%	17%	16.2%	15.6%	15.9%	15.9%	16.2%	15.5%
<b>Lagging 3mo Change (bps)</b>	120	0	-5	-68	70	121	-78	-58	24	4	28	-72
<b>Lagging 12mo Change (bps)</b>	16	6	30	47	-3	118	45	54	8	-108	-2	-16

The graph and table above show average borrower interest rates at origination, weighted by original loan balance. Borrower rates fell in Q1, dropping 183 bps over the last 3 months. It's important to note that most originators actually showed increasing interest rates this quarter, and that rather than indicating intra-originator rate cuts, the reduction instead reflects an overall shift in loan originations toward lower-rate originators.

**Borrower Interest Rates by FICO**



**Weighted Average Borrower Interest Rate by FICO**

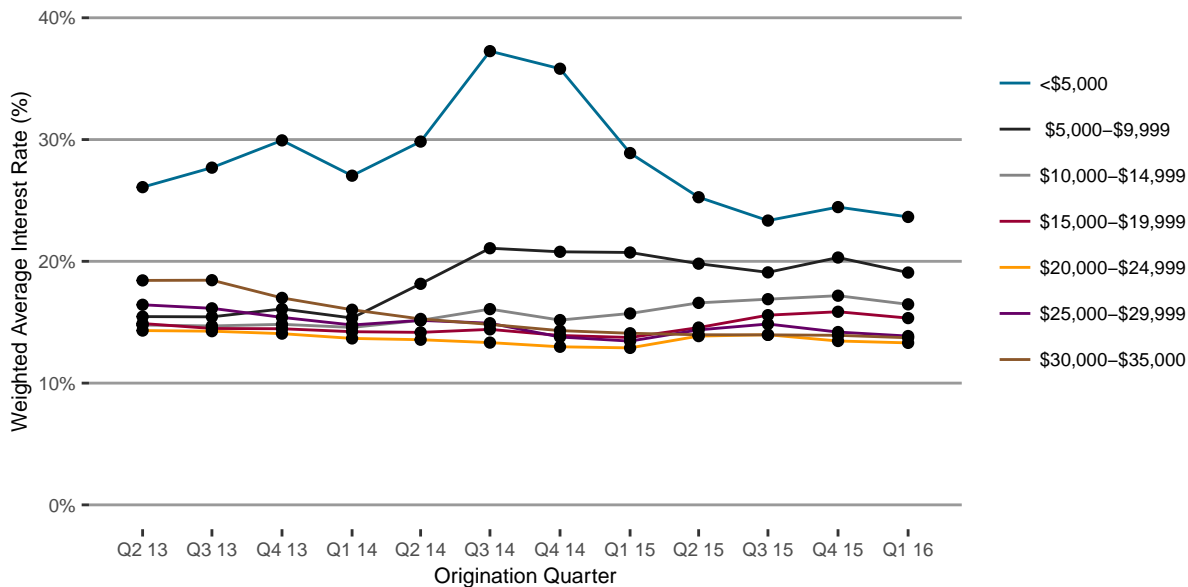
Origination Quarter	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
<b>&lt;680</b>	19.1%	19.3%	19.7%	18%	20%	22.9%	21.4%	20.2%	20.7%	21%	21.6%	20.6%
<b>680-699</b>	16.2%	16.2%	15.9%	15.3%	15.5%	15.6%	14.7%	14.3%	14.5%	14.5%	14.6%	14.4%
<b>700-719</b>	14.4%	14.4%	14.2%	13.9%	13.8%	13.8%	13.2%	12.8%	12.9%	12.8%	12.8%	12.7%
<b>720-739</b>	12.9%	13%	12.7%	12.4%	12.4%	12.2%	12%	11.6%	11.6%	11.6%	11.6%	11.3%
<b>740-759</b>	11.5%	11.5%	11.3%	11%	11.2%	10.9%	10.9%	10.6%	10.6%	10.5%	10.4%	10.1%
<b>760-779</b>	10.4%	10.6%	10.4%	10.2%	10.1%	9.9%	10%	9.8%	9.7%	9.8%	9.6%	9.2%
<b>780-799</b>	9.7%	9.8%	9.6%	9.5%	9.4%	9.2%	9.4%	9.1%	9%	9.2%	8.8%	8.6%
<b>800-819</b>	9.5%	9.3%	9.3%	9.3%	9%	9%	8.9%	8.5%	8.4%	8.5%	8.1%	8.1%
<b>820+</b>	8.8%	9%	8.6%	8.9%	8.7%	8.9%	8.2%	8.1%	7.8%	7.8%	7.7%	7.5%

**Average FICO Score Weighted By Original Principal**

Origination Quarter	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
<b>Weighted Average FICO Score</b>	698	699	699	698	697	695	694	693	693	693	693	695
<b>Lagging 3mo Change (pts)</b>	0	1	0	-1	-1	-2	-1	-1	0	0	0	2
<b>Lagging 12mo Change (pts)</b>	-11	-6	-1	0	-1	-4	-5	-5	-4	-2	-1	2

The graph and table above show average borrower interest rates at origination, weighted by original loan balance and stratified by FICO score. FICO score is a measure of borrower credit quality with higher FICO scores corresponding to lower interest rates for a borrower. Stratifying interest rates by FICO provides is helpful in providing an overall snapshot of interest rate trends. The graph above indicates a divergence of interest rates among prime and near prime borrowers. Rates for near prime borrowers appear to be increasing while rates for prime borrowers are decreasing, suggesting that originators may be adjusting underwriting based on borrower performance.

**Borrower Interest Rates by Loan Size**



**Weighted Average Borrower Interest Rate by Loan Size**

Origination Quarter	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
<\$5,000	26.1%	27.7%	29.9%	27%	29.8%	37.3%	35.8%	28.9%	25.3%	23.3%	24.5%	23.6%
\$5,000-\$9,999	15.5%	15.4%	16.1%	15.3%	18.2%	21.1%	20.8%	20.7%	19.8%	19.1%	20.3%	19.1%
\$10,000-\$14,999	14.8%	14.7%	14.8%	14.6%	15.2%	16.1%	15.2%	15.7%	16.6%	16.9%	17.2%	16.5%
\$15,000-\$19,999	14.9%	14.5%	14.5%	14.2%	14.2%	14.4%	13.9%	13.7%	14.6%	15.6%	15.9%	15.3%
\$20,000-\$24,999	14.3%	14.3%	14.1%	13.7%	13.6%	13.3%	13%	12.9%	13.9%	14%	13.5%	13.3%
\$25,000-\$29,999	16.4%	16.1%	15.4%	14.8%	15.2%	14.9%	13.8%	13.4%	14.4%	14.9%	14.2%	13.9%
\$30,000-\$35,000	18.4%	18.5%	17%	16%	15.3%	14.8%	14.3%	14.1%	14%	14%	13.9%	13.7%

**Average Loan Size**

Origination Quarter	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
<b>Weighted Average Loan Size</b>	\$13,313	\$12,844	\$12,801	\$13,444	\$12,582	\$11,428	\$11,767	\$12,444	\$12,600	\$13,109	\$12,533	\$13,369
<b>Lagging 3mo Change (%)</b>	-8.8	-3.5	-0.3	5.0	-6.4	-9.2	3.0	5.8	1.3	4.0	-4.4	6.7
<b>Lagging 12mo Change (%)</b>	17.7	10.7	-1.6	-7.9	-5.5	-11.0	-8.1	-7.4	0.2	14.7	6.5	7.4

The graph and table above show average borrower interest rates at origination, weighted by original loan balance and stratified by borrower loan size. In general, we see that higher loan sizes receive lower interest rates. However, this is contrary to what we would expect given higher loan sizes increase risk for lenders and should command higher interest rates, all things being equal. Instead, this indicates that originators employ stricter underwriting criteria for borrowers at higher loan amounts. Originators may be willing to lend small amounts to borrowers who they would not otherwise consider for higher loan sizes. As loan sizes increase, approval criteria becomes stricter, and therefore we see the opposite relationship to what we would expect—average interest rates fall as loan sizes increase.

## About Orchard

Orchard is the leading provider of technology and data to the marketplace lending industry, powering the interaction between institutional investors and loan originators. Founded in New York City in 2013, Orchard's mission is to build the systems and standardize the data that will allow marketplace lending to efficiently grow into a global financial market. Orchard provides products and services to investors that enable them to understand, access, and execute marketplace lending investments, including Market Data, Reporting, and a powerful Order Management System. Orchard offers originators access to a diverse group of institutional investors who use Orchard to purchase marketplace lending assets. A single integration using Orchard's proprietary approach to data standardization enables end-to-end marketplace support through Investor Awareness, Education & Insights, and Data Integrity & Transparency products. Orchard has been named to Forbes [Next Billion Dollar Startups](#) list, produces the Orchard [US Consumer Marketplace Lending Index](#)—the only industry wide benchmark distributed on the Bloomberg Professional service—and is recognized for its technical and analytical thought leadership as explored on its [blog](#).

## Author

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Michael Toth is a credit risk analytics specialist and oversees Orchard's research and industry reporting. Previously, Michael was an associate at BlackRock, where he was responsible for the valuation and risk analysis of mortgage whole loans and securitized products for several financial institution clients, covering portfolios with valuations in excess of \$400 billion. Michael is a graduate of the Wharton School at the University of Pennsylvania, where he received a B.S. in Economics with Finance and Statistics concentrations. In his free time, he enjoys traveling, playing chess, and programming.

## Notes

1. Due to delays in the reporting of loan delinquency statuses by some originators, data for the most recent month has been estimated for those originators with missing data and is subject to change in subsequent reports. For any originator with incomplete delinquency data in the final month reported, we have estimated their current delinquent loan balance as the prior month's balance multiplied by the average month-over-month change over the prior 6 months to provide an estimate of the overall population of delinquent loans. The official value will be available with next month's report.

2. Due to delays in the reporting of charge offs by some originators, data for the most recent month has been estimated for those originators with missing data and is subject to change in subsequent reports. For any originator with incomplete charge off data in the final month reported, we have estimated their current charged off loan balance as the prior month's balance multiplied by the average month-over-month change over the prior 6 months to provide an estimate of the overall population of charged off loans. The official value will be available with next month's report.

Includes data from four originators, with names of originators omitted to maintain confidentiality. Orchard anticipates that the included originators will be named once data from five or more originators are included.

Originators are added to the report based on current and historical lending volumes, availability of datasets required to produce the report, and willingness to release data.

Includes all loans originated from January 2010 through December 2015, with payments through March 2016.

## Disclaimers

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