Orchard QUARTERLY INDUSTRY REPORT

Consumer Unsecured Q4 2016

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

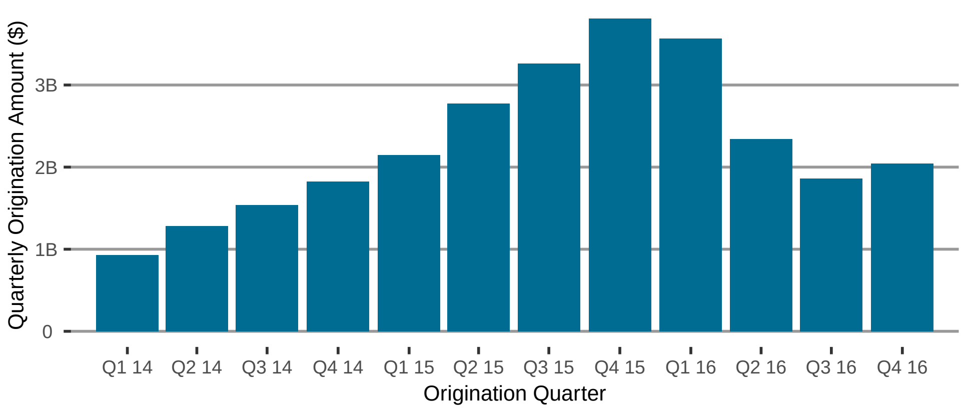
Orchard's Quarterly Industry Report provides a data-rich glimpse into trends within consumer unsecured online lending. Orchard receives regular data feeds from originator data partners, who provide detailed information on new originators and the performance of their loan portfolios. Orchard standardizes, 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 to learn more.*

Key Insights

- Origination volume increased in Q4, ending the trend of decreasing volume over the previous three quarters. Q4 origination volume was up 10% from Q3, though still down 46% from Q4 2015, when the market reached its highest originations. Early indications in 2017 are that investor sentiment is improving, and we believe we're likely to see increased investment over the next quarter.
- 2014 and 2015 vintage charge-offs have increased more steeply than in prior years. We believe there are two main sources driving this increase. First, individual platforms have shown increasing charge-offs during these years. We do not have strong evidence of the reasons for this deterioration, but in recent months, some of the larger platforms have reworked their credit models which they believe should address the increases they have seen. Second, and also important to note, is that 2014 and 2015 vintages experienced substantial growth in subprime originations, which tend to charge-off at higher rates. The increase in subprime loans as a percentage of the overall market skews the results for recent years upward when compared with the originations from previous years that had a smaller percentage of subprime loans.
- Borrower rates continued their decline in Q4, falling another 42bps from Q3 levels. This decrease was largely due to a sharply falling share of subprime originations in the second half of 2016. Most individual originators have actually increased rates during this period to match Fed rate increases and boost investor demand for their loans.

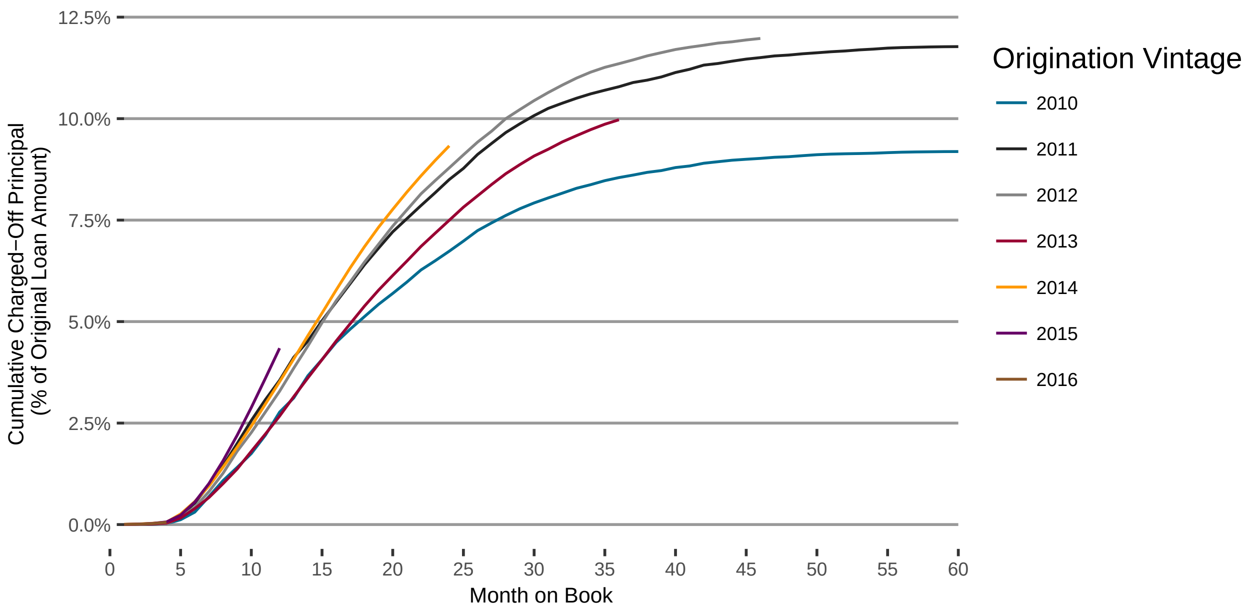
Quarterly Originations



Total Origination by Quarter

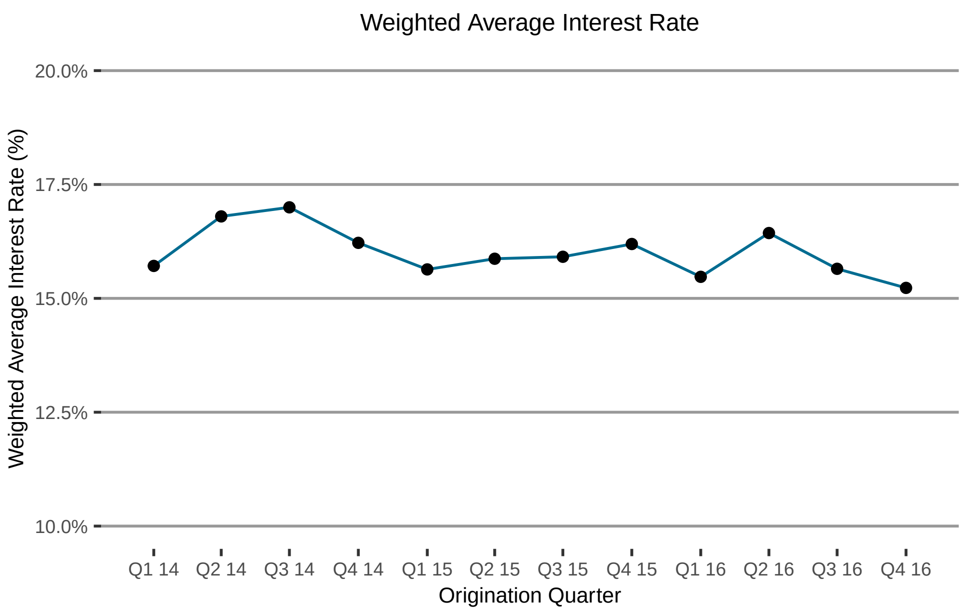
Origination Quarter	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Total Amount ($MM)	$930	$1,284	$1,537	$1,822	$2,149	$2,771	$3,261	$3,807	$3,563	$2,342	$1,858	$2,045
Lagging 3mo Change (%)	12.7%	38.1%	19.7%	18.6%	18%	29%	17.7%	16.7%	-6.4%	-34.3%	-20.7%	10%
Lagging 12mo Change (%)	139.7%	143.3%	136.8%	120.7%	131%	115.8%	112.2%	109%	65.8%	-15.5%	-43%	-46.3%

Charge-Off Rate Vintage Curves



The vintage curves in the above graph show cumulative charge-offs as a proportion of original loan balance and 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 can see that 2014 and 2015 vintage charge-offs have increased more steeply than in prior years. We believe there are two main sources driving this increase. First, individual platforms have shown increasing charge-offs during these years. We do not have strong evidence of the reasons for this deterioration, but in recent months, some of the larger platforms have reworked their credit models which they believe should address the increases they have seen. Second, and also important to note, is that 2014 and 2015 vintages experienced substantial growth in subprime originations, which tend to charge-off at higher rates. The increase in subprime loans as a percentage of the overall market skews the results for recent years upward when compared with the originations from previous years that had a smaller percentage of subprime loans.

Borrower Interest Rates

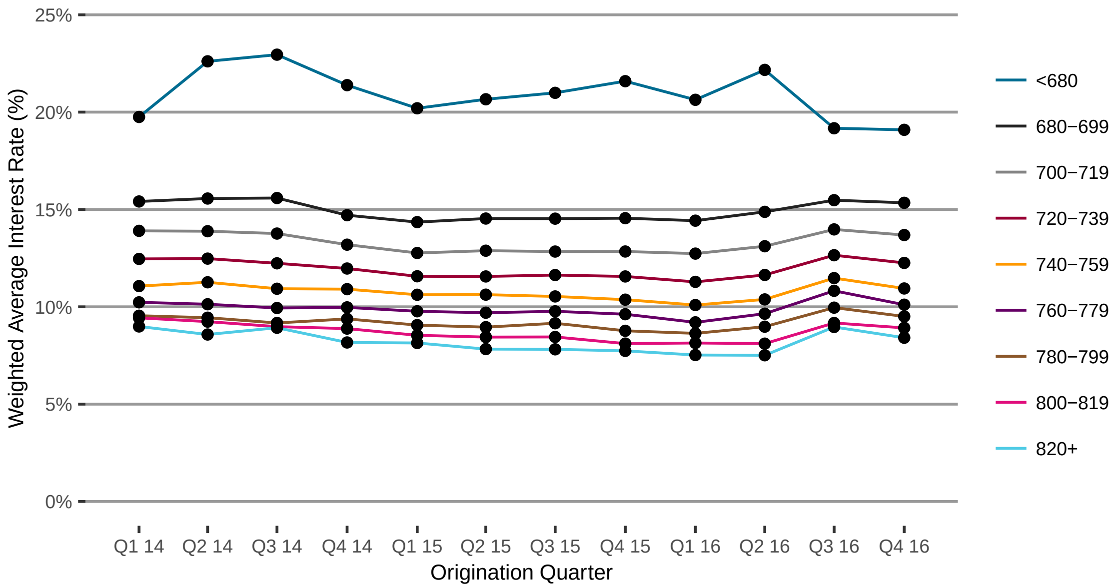


Average Interest Rate Weighted by Original Principal

Origination Quarter	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Weighted Average Interest Rate	15.7%	16.8%	17%	16.2%	15.6%	15.9%	15.9%	16.2%	15.5%	16.4%	15.6%	15.2%
Lagging 3mo Change (bps)	-41	109	20	-78	-58	23	4	28	-72	96	-79	-42
Lagging 12mo Change (bps)	101	55	79	9	-8	-93	-109	-3	-16	56	-26	-96

The graph and table above show average borrower interest rates at origination, weighted by original loan balance. Borrower rates continued their decline in Q4, falling another 42bps from Q3 levels. This decrease was largely due to a sharply falling share of subprime originations in the second half of 2016. Most individual originators have actually increased rates during this period to match Fed rate increases and boost investor demand for their loans.

Borrower Interest Rates by FICO



Weighted Average Borrower Interest Rate by FICO

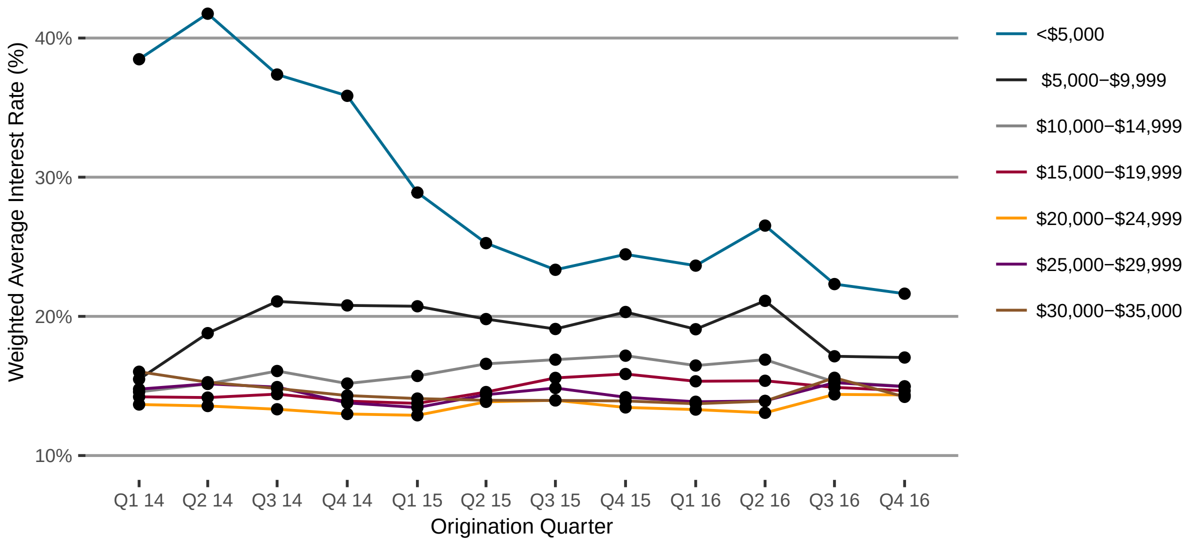
Origination Quarter	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
<680	19.8%	22.6%	23%	21.4%	20.2%	20.7%	21%	21.6%	20.6%	22.2%	19.2%	19.1%
680-699	15.4%	15.6%	15.6%	14.7%	14.4%	14.5%	14.5%	14.6%	14.4%	14.9%	15.5%	15.3%
700-719	13.9%	13.9%	13.8%	13.2%	12.8%	12.9%	12.8%	12.8%	12.7%	13.1%	14%	13.7%
720-739	12.5%	12.5%	12.2%	12%	11.6%	11.6%	11.6%	11.6%	11.3%	11.6%	12.7%	12.3%
740-759	11.1%	11.3%	10.9%	10.9%	10.6%	10.6%	10.5%	10.4%	10.1%	10.4%	11.5%	10.9%
760-779	10.2%	10.1%	9.9%	10%	9.8%	9.7%	9.8%	9.6%	9.2%	9.6%	10.8%	10.1%
780-799	9.5%	9.4%	9.2%	9.4%	9.1%	9%	9.2%	8.8%	8.6%	9%	10%	9.5%
800-819	9.4%	9.2%	9%	8.9%	8.5%	8.4%	8.5%	8.1%	8.1%	8.1%	9.2%	8.9%
820+	9%	8.6%	8.9%	8.2%	8.1%	7.8%	7.8%	7.7%	7.5%	7.5%	9%	8.4%

Average FICO Score Weighted By Original Principal

Origination Quarter	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Weighted Average FICO Score	697	696	695	694	693	693	693	693	695	693	697	699
Lagging 3mo Change (pts)	-2	-1	-1	-1	-1	0	0	0	2	-2	4	2
Lagging 12mo Change (pts)	-1	-2	-4	-5	-4	-3	-2	-1	2	0	4	6

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 is helpful in providing an overall snapshot of interest rate trends. The graph above shows a tightening in the range of interest rates, with high-FICO borrowers generally showing increases over the prior two quarters and low-FICO borrowers showing a decrease. With the exception of the <680 group, all FICO groups have shown increases in interest rates since Q2 2016. This corroborates our point above that the reduction in rates over this period has been driven by changes in the subprime market, while most originators have actually increased their interest rates over this period to keep up with Fed rate changes and to further boost investor demand for their loans.

Borrower Interest Rates by Loan Size



Weighted Average Borrower Interest Rate by Loan Size

Origination Quarter	**Q1 14**	**Q2 14**	**Q3 14**	**Q4 14**	**Q1 15**	**Q2 15**	**Q3 15**	**Q4 15**	**Q1 16**	**Q2 16**	**Q3 16**	**Q4 16**
<$5,000	38.5%	41.7%	37.4%	35.8%	28.9%	25.3%	23.3%	24.5%	23.6%	26.5%	22.3%	21.6%
$5,000-$9,999	15.5%	18.8%	21.1%	20.8%	20.7%	19.8%	19.1%	20.3%	19.1%	21.1%	17.1%	17%
$10,000-14,999	14.6%	15.1%	16.1%	15.2%	15.7%	16.6%	16.9%	17.2%	16.5%	16.9%	15.3%	15%
$15,000-$19,999	14.2%	14.2%	14.4%	13.9%	13.7%	14.6%	15.6%	15.9%	15.3%	15.4%	14.9%	14.7%
$20,000-$24,999	13.7%	13.6%	13.3%	13%	12.9%	13.9%	14%	13.5%	13.3%	13.1%	14.4%	14.4%
25,000-$29,999	14.8%	15.2%	14.9%	13.8%	13.5%	14.4%	14.9%	14.2%	13.9%	13.9%	15.2%	15%
$30,000-$35,000	16%	15.3%	14.8%	14.3%	14.1%	14%	14%	13.9%	13.7%	13.9%	15.6%	14.2%

Average Loan Size

Origination Quarter	**Q1 14**	**Q2 14**	**Q3 14**	**Q4 14**	**Q1 15**	**Q2 15**	**Q3 15**	**Q4 15**	**Q1 16**	**Q2 16**	**Q3 16**	**Q4 16**
Weighted Average Loan Size	$12,628	$11,525	$11,433	$11,772	$12,446	$12,601	$13,116	$12,537	$13,370	$11,850	$12,739	$12,769
Lagging 3mo Change (%)	1.7	-8.7	-0.8	3.0	5.7	1.2	4.1	-4.4	6.6	-11.4	7.5	0.2
Lagging 12mo Change (%)	-12.8	-10.4	-8.0	-5.2	-1.4	9.3	14.7	6.5	7.4	-6.0	-2.9	1.8

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 data, technology, and software to the online lending industry. Founded in New York City in 2013, Orchard is building the infrastructure to power the many interactions between originators and institutional investors and help grow online lending into an efficient, transparent, and global financial market. Orchard has been named to the 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.

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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.

Names of originators have been omitted to maintain confidentiality. Originators are added to the report based on current and historical lending volume, availability of datasets required to produce the report, and willingness to release data.

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