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Peer-to-Peer Securitization Update:
Comparing CHAI to CCOLT

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On July 22, 2015, Citigroup announced that it is sponsoring a rated securitization of a loan pool originated by Prosper Marketplace, Inc. The transaction, called Citi Held for Asset Issuance 2015-PM1 or (CHAI 2015-PM1), is expected to close in August 2015. Notably, CHAI secured an A3 provisional rating on its senior tranche by Moody's, a first for P2P consumer loans and three levels higher than the Baa3 rating granted to the last major securitization of Prosper loans: BlackRock's CCOLT 2015-1 deal from February 2015,

In this piece, we briefly delve in the details of the CHAI transaction, compare it to CCOLT, and assess what this new deal portends for the future of P2P securitizations:

There are many similarities between the transactions: CHAI's asset pool and liability structure, upon deeper review, are almost identical to the CCOLT deal.

- The key metrics of Prosper grades, FICO scores, and Moody's cumulative net loss expectations between the deals pool are very close.

- On the liability side, when combining classes, CHAI looks very much like CCOLT. For example, if we compare CHAI's combined Classes A and B to CCOLT's Class A, then they look remarkably similar across several characteristics, including initial hard credit enhancement, weighted average life, and Moody's rating.

There are some key differences too, including the (i) balance sheet impact of a potential sale, (ii) roles and responsibilities, and (iii) default definitions. Further, CHAI has some unique characteristics that contributed to its Class A notes' rating. The backup servicer for the deal is a highly rated institution - namely, it is Citibank N.A. – which should give ratings agencies and investors confidence that the deal will perform as expected in a stress case.

Introduction

Back in June, we wrote a primer on the first rated securitization backed by peer-to-peer consumer loans entitled "Examining the CCOLT 2015-1 Deal," highlighting that it was a groundbreaking precedent that may augur more of its kind. Now in August, Citigroup will sponsor a rated securitization deal called Citi Held for Asset Issuance 2015-PM1 or (CHAI 2015-PM1).

In the earlier piece, we mentioned that the structure of the CCOLT deal could be a model for future securitizations in the industry; and indeed, the CHAI deal's asset pool and liability structure share many of the same characteristics. Yet, there are several notable differences, including the balance sheet impact of a potential sale; roles and responsibilities, and default definitions of the respective deals.

In this piece, we compare and contrast the two deals to educate market participants, since we expect more rated securitizations and bank involvement as the industry matures. As a famous 1938 ad for Alcoa Aluminum said: "One sets a precedent, two marks a trend."

A New Reason to Securitize?

As covered in our CCOLT piece, there are many reasons institutions securitize assets, including the potential for regulatory capital relief via better ratings or selling off most of its exposure. While CCOLT was sponsored by an asset manager, any potential sale of a bank-sponsored securitization, like CHAI, has this added benefit of regulatory capital relief. Citi has an agreement to purchase Prosper loans, which if kept on balance sheet would incur a capital charge. By securitizing the loans, obtaining ratings on the classes, and selling them off to investors, sponsor banks may reduce their regulatory capital provision.

Asset Pool

The asset pools for CHAI and CCOLT are comparable. As shown in Exhibit 1 below, CHAI's asset pool may have been constructed to mirror CCOLT's, presumably to obtain similar ratings (which we discuss in the next section). In fact, for the key metrics of Prosper grades and FICO, not only are the averages similar, so are the distributions. Indeed, Moody's applied cumulative net loss expectations of 8% to CHAI's collateral pool (the same as in CCOLT).

Exhibit 1

Asset Pool Comparison Between CCOLT and CHAI

Metric	CCOLT	CHAI
Aggregate Current Prin Bal ($MM)	306	420
Number of Loans	25,781	30,910
Avg Loan Size ($)	11,869	13,588
Wavg Remaining Term (months)	42	43
Wavg FICO	706	703
Wavg Borrower Rate (%)	14.0%	13.2%
% 3y Loans	59%	63%
% 5y Loans	41%	37%
% CA	14.0%	14.0%
% TX	8.1%	8.6%
% NY	8.1%	8.1%

Notes: CHAI data is as of June 30, 2015 and CCOLT's is as of Dec 31, 2014, which is the statistical cutoff date for both. Source: Moody's Research

Liability Structure

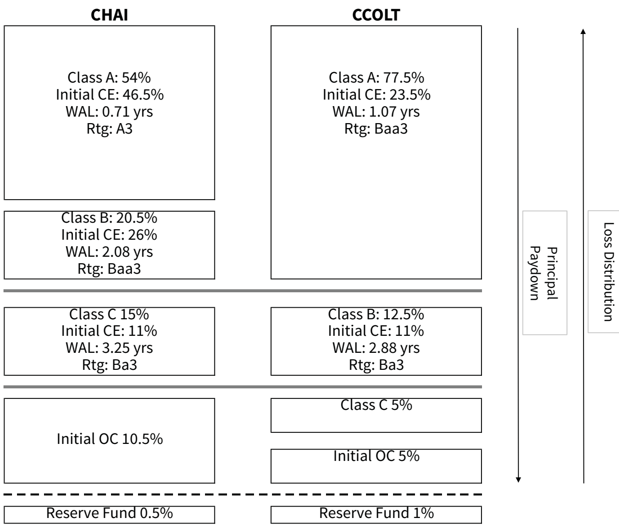
At first glance, CHAI's liability classes look different from CCOLT's. For example, the percentage of the pool for CHAI's Class A notes is much smaller than CCOLT's. But CHAI's Class A stands alone. It has a higher total hard credit enhancement (46.5%) and a shorter weighted-average life (0.71 years) than any of the CCOLT classes and, as such, it has a higher rating (A3). But if we combine CHAI classes and compare them to corresponding CCOLT classes (by percentage of pool), key metrics between the deals look similar.

First, a refresher on CCOLT. The CCOLT deal had 3 classes of notes. Class A is the most senior, initially 77.5% of the capital structure, and rated Baa3 by Moody's. Class B is subordinated to A, 12.5% of the capital structure initially, and rated Ba3. Class C is subordinated to the other classes, 5% of the capital structure initially, and not rated. The initial and target overcollateralization are 5% and 15%, respectively. The reserve fund started at 1% of the capital structure. Since issuance, CCOLT has performed well. Class A and B notes traded down to indicative yields of 1.7% and 3.8% in May, down from par yields of 2.8% and 5.2%.

If we combine CHAI's Classes A and B percentage of pool and compare it to CCOLT's Class A, then they look remarkably similar. The initial hard credit enhancements (26% for CHAI versus 23.5% for CCOLT), weighted average life (1.09 versus 1.07 years), and ratings (Baa3 for both) are virtually identical. This same comparison holds if we compare CHAI's combined Class A, B, and C to CCOLT's A and B Classes.

Exhibit 2

Liabilities Structure



Notes: Initial CE is the initial hard credit enhancement and includes the percentage size of subordinated classes, initial overcollateralization, and the reserve fund. Source: Moodys Research.

Other features of the two securitizations are also similar. The initial Priority of Payments is identical. If an amortization event occurs for the CHAI deal (cumulative defaults increase past a predetermined threshold), then an accelerated principal pay-down schedule is put into effect, which also occurs for CCOLT.

CHAI has some unique characteristics that contributed to its Class A notes' rating. In addition to its larger credit enhancement, the backup servicer for the deal is a highly rated institution, namely Citibank N.A., whose senior debt and long-term bank deposits are rated A1 and A by Moody's and S&P. In a scenario where defaults spike, an unrated servicer (and backup servicer) may have more difficulty fulfilling its obligations. Therefore, having a rated backup servicer may give ratings agencies and investors more confidence that a deal will perform as expected in a stress case.

Another minor difference is that collateral defaults are defined by loans that are greater than or equal to 120 days delinquent or whose borrower is bankrupt. This stricter definition of default may not impact loss projections since the overwhelming majority of the 120 day delinquent loans end up charged off.

Exhibit 3

Roles and Responsibilities

Role	Responsibility	CHAI Deal Rep	CCOLT Deal Rep
Originator	- Generates the pool assets	WebBank	WebBank
Primary Servicer	- Monitors assets and provides collateral reports - Transfers asset payments and collections to trust	Prosper Funding LLC	Prosper Funding LLC
Backup Servicer	- Performs servicer duties if primary is impaired	Citibank N.A.	First Associates
Seller	- Transfers the pool assets to the PTP purchaser	Prosper Funding LLC	Prosper Asset Holdings LLC
PTP Purchaser	- Buys loans from seller and sells them to depositor	CIGPF I Corp	P2P Consumer Credit
Depositor	- Initial beneficiary and equity owner of the Issuer	CHAI, LLC	CCOL LP 2015-1
Issuer	- Issues the notes and is responsible for their payment	CHAI 2015-PM1	CCOLT 2015-1
Owner Trustee	- Administers the asset pool for the Issuer	Wilmington Trust	Wilmington Trust
Custodian	- Performs custodial duties for Grantor Trust	Citibank N.A.	BONY Mellon Trust Co
Indenture Trustee	- Ensures monthly distributions are made to noteholders	Christiana Trust	BONY Mellon
Paying Agent	- Ensures monthly distributions are made to	Citibank N.A.	BONY Mellon
Lead Underwriter	- Main underwriter of securitization	Citigroup	Citigroup

Source: Moodys Research.

One important development since CCOLT's issuance is recent litigation, *Madden v. Marine Midland Funding*, which potentially makes consumer loans subject to state interest rate caps. Upon review, we believe the impact of this litigation may be limited on rated peer-to-peer securitizations. The impact will be felt by agents in the Northeast that hold loans with interest rates above the state cap, which is a small amount. For example, only 2.8% of Prosper's Jan 2014-Jan 2015 originated loans issued in New York were above the state cap. Assuming the CHAI asset pool interest rate distribution is at least similar to (if not better than) that of recent Prosper issuance, the impact of the ruling should be muted.

Conclusion

Looking ahead, we believe this deal reinforces three trends we have identified previously. **First**, institutions, and specifically large diversified financial services firms, are becoming larger players in the space. These firms may continue to participate by lending directly (monetizing their existing consumer relationships) or facilitating securitizations. Specifically, financial institutions that have partnerships with platforms may continue to use rated securitizations as a tool to fund a greater scale of origination. **Second**, we think institutions with investment grade ratings will play a larger role in assisting securitizations to obtain high ratings for at least part of the capital structure. For CHAI, Citibank's role as the backup servicer contributed to the senior class's rating. And **third**, CCOLT's structure may continue to serve as a model for future rated (and unrated) securitizations.

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