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PEERIQ

Peer-to-Peer Securitization Update:
Projecting CCOLT 2015-1 Performance Under Stress

In this note, we model the cashflows of the CCOLT 2015-1 deal under a set of base case and bear case scenarios

Our analysis demonstrates that under the deal structure, cash flows to liability holders remain insulated from small to medium tail risk scenarios. **Liability holders breakeven in larger cum loss scenarios**.

We also conclude that certificate-holders earn an IRR between 4% to 52% depending on the severity and timing of losses. We note that the findings are sensitive to loss and prepayment timing.

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Introduction

In the past, we have written extensively on the aggregate performance of US peer-to-peer consumer loans and the structure of important securitizations, like CCOLT 2015-1 and CHAI 2015-PM1. Now that those deals have issued and seasoned for several months, investor interest has shifted to their relative performance.

In this short note, we address this question by focusing on the CCOLT deal and provide forecasted base and bear scenarios for each of its classes.

Contemplating Potential Performance

We are often asked for our view on the most prominent marketplace lending securitizations in the space. We field such questions from potential issuers as well as ABS buyers interested in secondary ABS trading (which remains nascent).

In this section, we address that question by performing scenario analysis on the CCOLT asset pool, class notes, and certificates using our PeerIQ Analytics Platform.

Under a set of PeerIQ-constructed stress scenarios, the noteholders in the CCOLT deal earn IRRs similar to their stated par yields. In other words, liability holders should expect to earn their coupon under several stress scenarios. Further, there is not a significant contraction or extension of maturities under our stress scenarios. More importantly, the analysis suggests that CCOLT certificate-holders also may perform well in small to medium tail risk scenarios. This conclusion reinforces the theme that the securitization structures should help offset perceived shortcomings of the asset class.

How did you calculate cashflows and IRRs? Our methodology for determining the deal's cashflows and IRRs is described below:

- First, we map each repline loan pool to a representative set of Prosper loans with the same coupons, terms, and ages. (Replines are used to summarize a collateral file in lieu of providing a loan-by-loan listing. Technically, a repline is a dollar-weighted statistical aggregation of a collection of individual collateral agreements whose constituent collateral members share common characteristics, such as amortization pattern, spread, coupon, term, seasoning, payment options, or other identifying characteristics.)

- Second, we calculate the corresponding default and prepayment curves. We use information on historical paydowns for each class to imply the prepayment curve before October 2015. As we do not have information on historical losses on the pool, we use the PeerIQ expected default curve for cashflows appropriate to the rep-lines. Our expected default curve is generated from our credit model that projects prepayments and defaults for loan cohorts based on their historical performance.

- Third, we use those curves to generate the asset cashflows using our analytics platform.

- Finally, we allocate those cashflows to the note classes using the waterfall payment logic to produce the base-case liability cashflows.

Exhibit 1

CCOLT Scenario Input Assumptions

	Scenario Inputs							
Scenario	Loss Multiplier (x)	Prepay Multiplier (x)	Cum Losses ($MM)	Cum Losses (%)	Cum Prepays ($MM)	Cum Asset CF's ($MM)	Asset IRR (%)	Debt IRR (%)
Base Case	1.0	1.0	29.7	8.9%	96.4	417.2	9.56%	3.84%
Small Bear Case	1.2	0.9	36.7	11.3%	84.9	410.1	8.37%	3.84%
Medium Bear Case	1.5	0.8	44.1	13.8%	72.5	402.5	7.10%	3.84%
Large Bear Case	2.0	0.5	59.2	19.5%	48.0	388.4	4.65%	3.83%

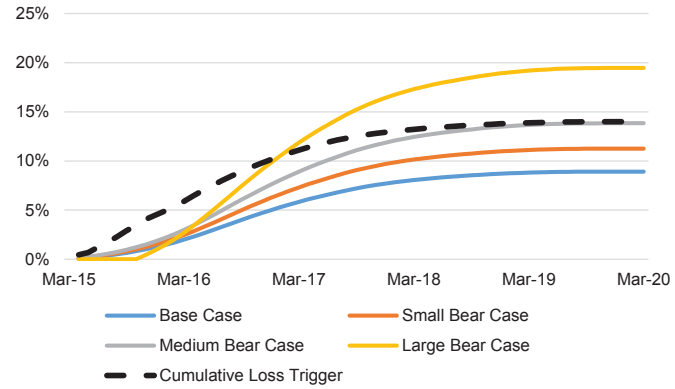
Notes: Cumulative losses, prepays, and asset cashflows are the total undiscounted sum in the scenario. Multipliers are the ratio of scenario losses or prepays to the ones in the base case. Cum losses percentage are the cumulative losses ($MM) divided by the initial asset pool size ($363MM). All scenario cumulative losses are greater than the Moody's estimate. Source: Bloomberg, PeerIQ Research.

How were the scenarios determined? To generate the bear cases, we multiplied our base case prepayment and default curves by a set of factors outlined in the input assumptions table above. The medium bear case scenario was designed to have cumulative losses that were right below the cumulative loss trigger. The small bear case scenario is midway between the medium bear case and base case scenarios. The large base case scenario assumes double the amount of base case losses and half the prepayments. Severities were assumed to be 100% for all scenarios.

A quick, but important caveat before continuing. We stress that the scenario results below for estimated maturity and IRR are highly sensitive to the timing of defaults and prepayments. In other words, the shape of the inputted default and prepayment curves have great influence over the resultant class performance. For instance, an alternative scenario to the Large Bear Case that has an identical cum loss of 19.5% except that the defaults take place early in the deal would generative negative IRRs for certificate-holders.

Exhibit 2

Scenario Cumulative Losses



Notes: Chart shows evolution of cumulative losses divided by initial pool size ($363MM) over each payment date. We include dates from Mar15 to Oct15 because those losses are modeled. Source: Bloomberg, PeerIQ Research

What are the implications for noteholders? The results indicate that the deal is stable insofar as noteholders receive expected cashflows even in the most stressed scenarios. Class notes are paid off in ranges that align with reported maturities except for the large bear case. In that case, an amortization event occurs in mid-2016 and the principal pay-down for the Class notes is accelerated, which results in shorter expected maturities.

Exhibit 3

CCOLT Scenario Returns

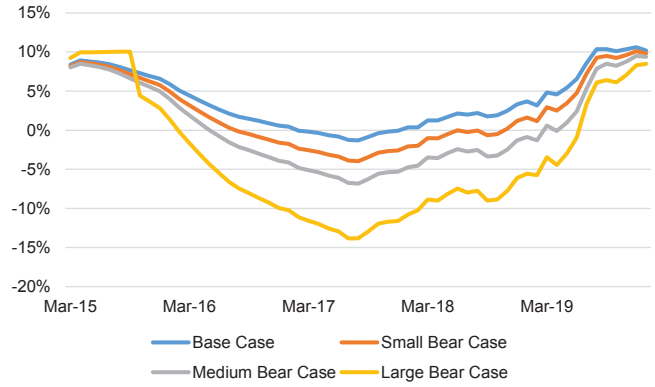
	Scenario Outputs						
	Class A		Class B		Class C		Certs
Scenario	IRR (%)	Maturity (yrs)	IRR (%)	Maturity (yrs)	IRR (%)	Maturity (yrs)	IRR (%)
Base Case	2.87%	1.84	5.24%	3.00	5.23%	3.75	52%
Small Bear Case	2.87%	1.84	5.24%	3.00	5.23%	3.84	42%
Medium Bear Case	2.87%	1.84	5.24%	3.09	5.23%	3.84	29%
Large Bear Case	2.87%	1.67	5.24%	2.92	5.23%	3.75	4%

Notes: Expected maturity is not the same as WAL. It is calculated by determining when the principal amortizes down to zero for the specific scenario relative to the most recent payment date (Oct 15, 2015). IRR is calculated over the life of the deal, which includes Mar to Oct 2015 cashflows. Results are highly sensitive to the timing of defaults and prepayments, which are not shown above. The IRRs on the certificates are based on $18.15mm in proceeds with no additional fees/expenses. Source: Bloomberg, PeerIQ Research.

What about certificate-holders? The IRRs for certificate-holders are more variable than for noteholders. In the small and medium bear cases, certificate-holders may still receive positive returns. This is mainly due to the fact that losses tend to be low and excess spread tends to be high early in the deal's life. As the deal ages, excess spread still outweighs losses until mid-2016. Afterwards the principal for the notes are paid off and remaining cashflows go to certificate-holders towards the end of the deal. As a result, the certificate-holders receive yield in the early and late parts of the deal.

Exhibit 4

Excess Spread Less Losses



Notes: Chart shows the excess spread less losses, which is calculated as (Excess Spread – Losses) / Asset Pool Balance at a certain payment date. Source: Bloomberg, PeerIQ Research.

In contrast, in the large bear scenario, losses outweigh excess spread causing the difference to fall more quickly in the early part of the deal. Afterwards, an amortization event occurs that diverts excess spread to an accelerated pay-down of the note classes. As a result, the certificate-holders receive some cash up-front and some at the conclusion of the deal, but miss out on cashflows in the middle. Still, the cashflows they receive over the life of the deal may be enough to roughly break even.

Conclusion

In this note, we have leveraged our credit analytics platform to generate asset cashflows for the CCOLT deal. Our modeling of CCOLT demonstrates that the deal is structured in such a manner that noteholders remain insulated from tail risk scenarios. Certificate-holders are insulated also, but to a lesser extent.

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