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Wei Wu, Ph.D., CFA, Principal Data Scientist
Vadim Verkhoglyad, CFA, Principal Analyst
Alex Kale, UX Engineer

dv01

Insights

COVID-19 PERFORMANCE REPORT VOLUME 6

915 Broadway, Suite 601 | New York, NY 10010 | 646-854-5258 | sales@dv01.co

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Introduction

Since dv01 connects directly with the largest online lenders to cleanse, validate, and normalize loan data, we are able to release bi-weekly reports based on daily loan performance. Going forward, our mid-month reports will consist of high-level performance snapshots of the online lending sector, and our end-of-month report will provide a comprehensive analysis that includes mortgage trends.

Important Note

As COVID-19 modification programs continue to evolve, dv01 reviews logic to ensure our data and timing are consistent across issuers and best reflects actual borrower behavior and individual issuer reporting. To that end, we adjusted certain modification dates to reflect the day the borrower requested a modification instead of the payment due date associated with the modification.

This change does not impact total impairments, total modifications, nor the total modification repayment rate. The primary change is in **Figures 6.5**, **7.2**, **7.3**, and **7.4** because certain modifications were reclassified into different weeks. None of the changes had a material impact on our overall outlook for this online lending sector.

Performance Summary

Impairment Analysis

Total impairments continued their decline throughout the month of May. After the normal seasonal spike at the start of June, impairments have continued their decline and are approaching mid-April levels, even as unemployment remains high with millions of new weekly jobless claims. For the second straight month, new impairments are below historical levels and are below levels seen since 2019.

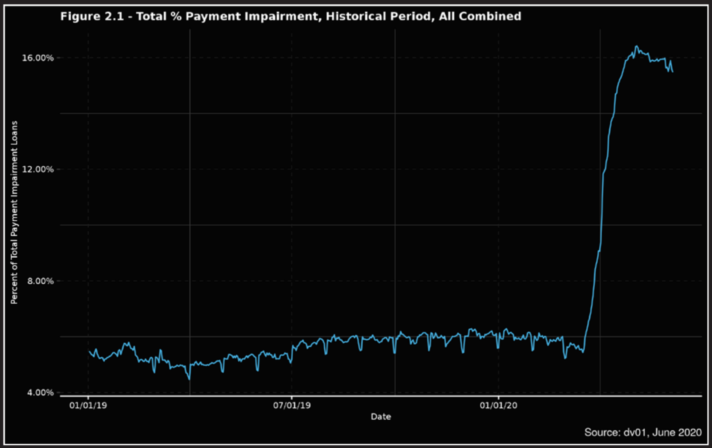


Figure 2.1 - Total % Payment Impairment, Historical Period, All Combined

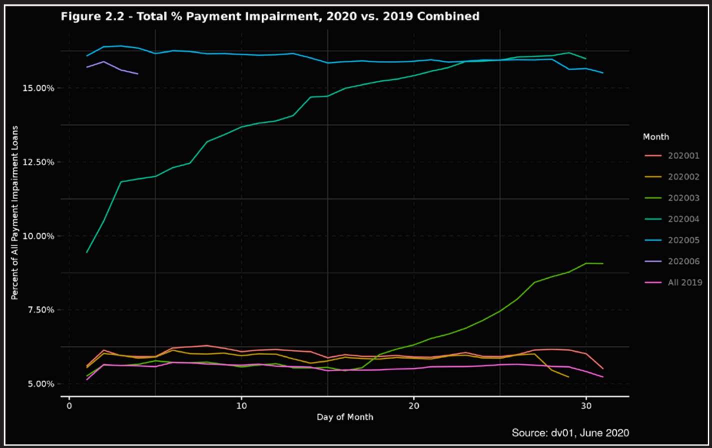


Figure 2.2 - Total % Payment Impairment, 2020 vs. 2019 Combined

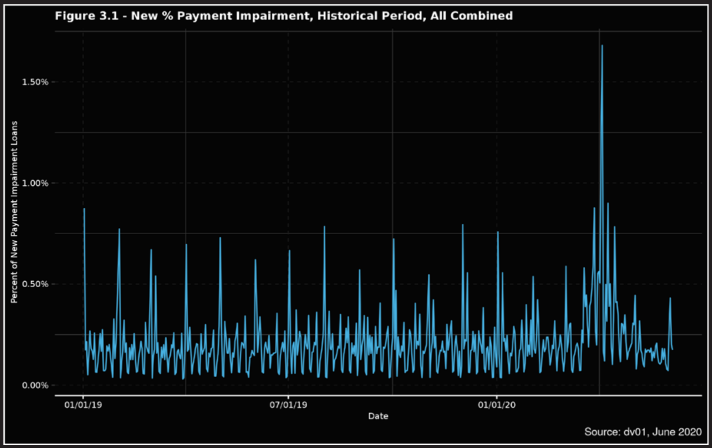


Figure 3.1 - New % Payment Impairment, Historical Period, All Combined

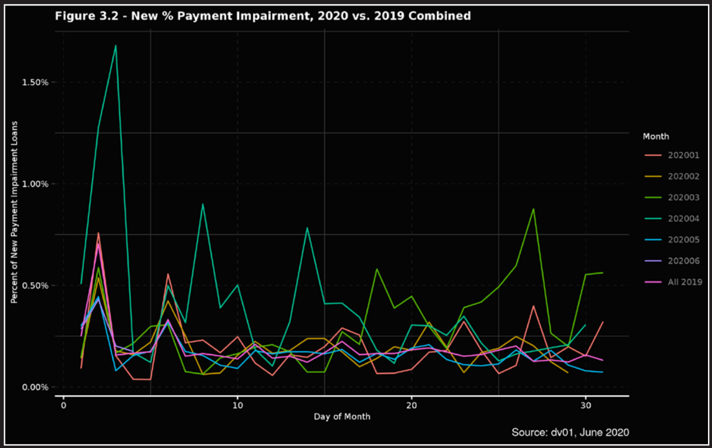
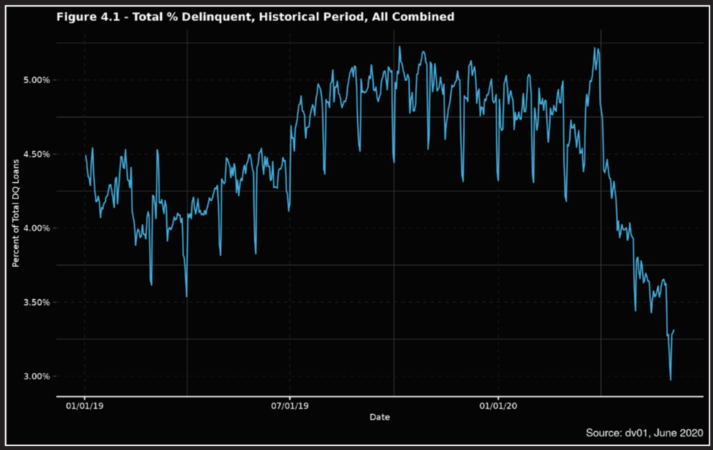


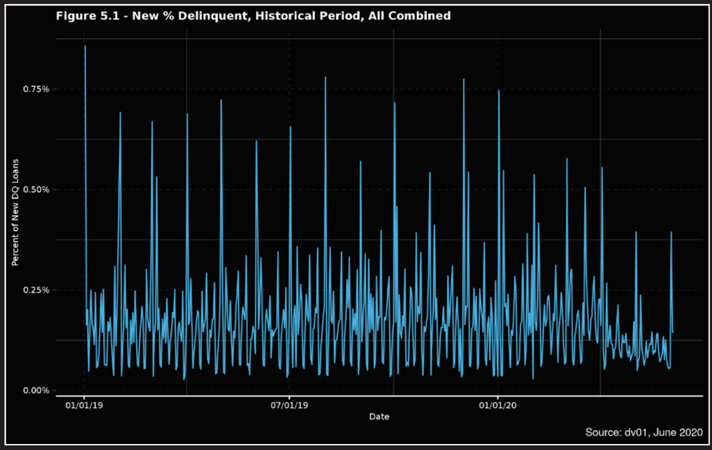
Figure 3.2 - New % Payment Impairment, 2020 vs. 2019 Combined

Delinquency Analysis

Total delinquencies continue to fall, hitting another multi-year low at the end of May, and new delinquency rates remain below historical levels.

There was a normal seasonal increase in the beginning of June, which was similar to the increase seen in May, and both months were well below historical averages. Continued low delinquency rates mean near-term losses remain less of a consideration for stakeholders as opposed to understanding post-modification borrower payment behavior.





Modification Trend Analysis

Modifications remain the predominant driver of impairments. Following the aforementioned seasonal spike in early June, total modifications have continued to decline from early May. Furthermore, as fewer new borrowers require assistance in making monthly payments, new modifications are beginning to approach historical levels. Our focus for modifications continues to shift from new modifications to how borrowers are resuming to repay their loans. Nearly 75% of all outstanding modifications were requested between mid-March and mid-April, and over 90% of all COVID-19 modifications are one- to two-month deferrals with an option to extend.

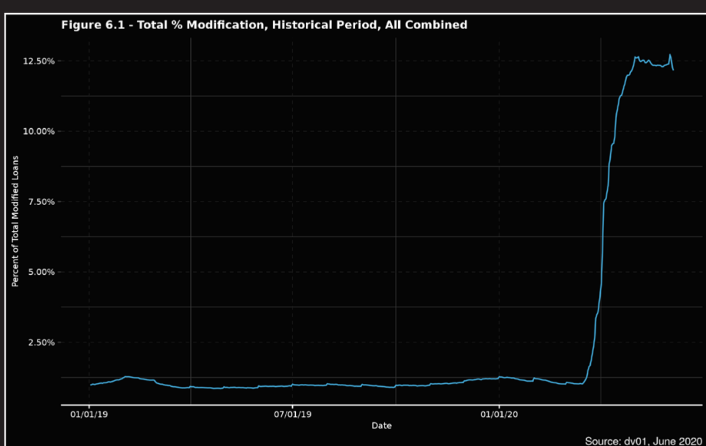


Figure 6.1 - Total % Modification, Historical Period, All Combined

Figure 6.2 - New % Modification, Historical Period, All Combined

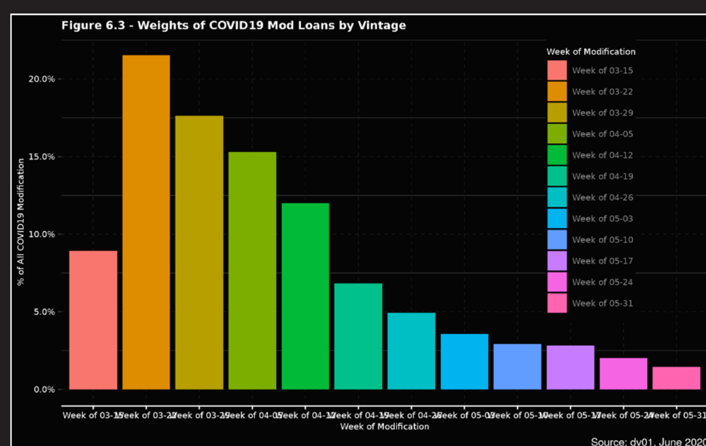


Figure 6.3 - Weights of COVID19 Mod Loans by Vintage

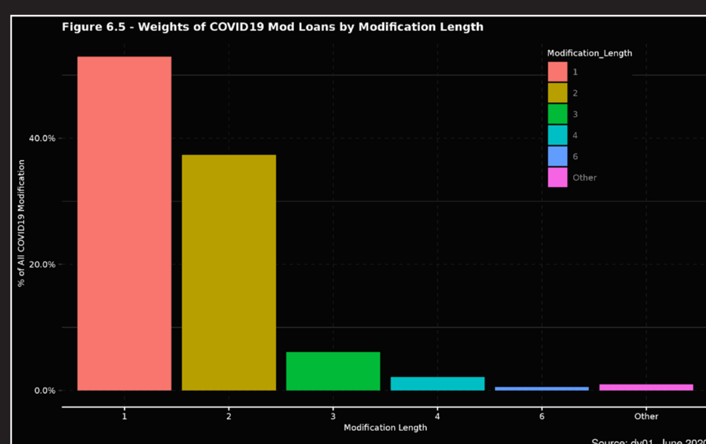


Figure 6.5 - Weights of COVID19 Mod Loans by Modification Length

COVID-19 Modification Payment Analysis

Repayment rates on COVID-19 modified loans continue to increase, with a third of these loans having resumed payments; 45% percent of modified loans requested in March have received payment.

Unsurprisingly, one-month modifications have the highest rates of resumed payment, wherein repayment rates approach 60% for modifications requested in March and early April. Initial repayment indicators for two-month modifications show a similar behavior trajectory as the one-month modified loans.

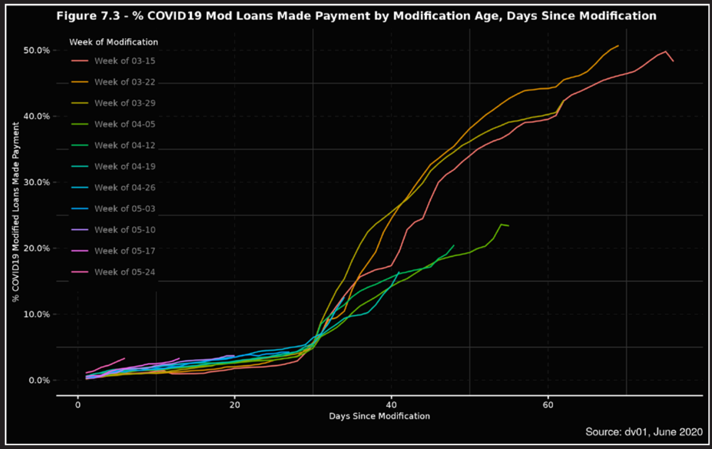


Figure 7.3 - % COVID19 Mod Loans Made Payment by Modification Age, Days Since Modification

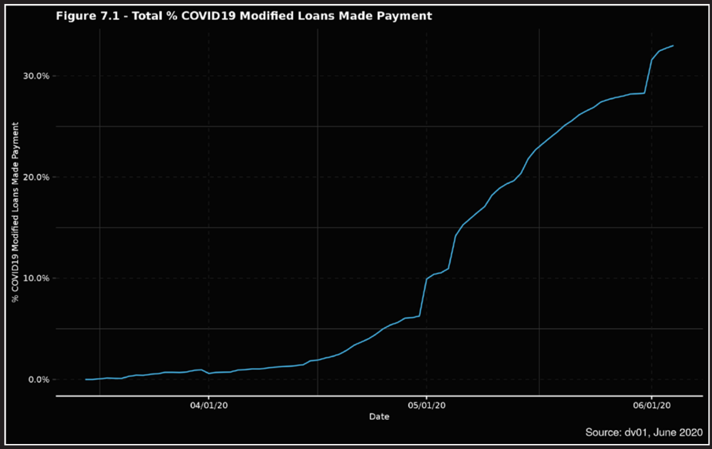


Figure 7.1 - Total % COVID19 Modified Loans Made Payment

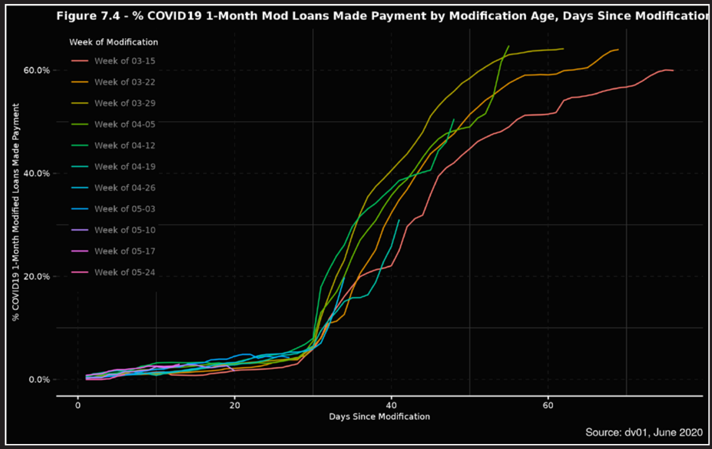


Figure 7.4 - % COVID19 1-Month Mod Loans Made Payment by Modification Age, Days Since Modification

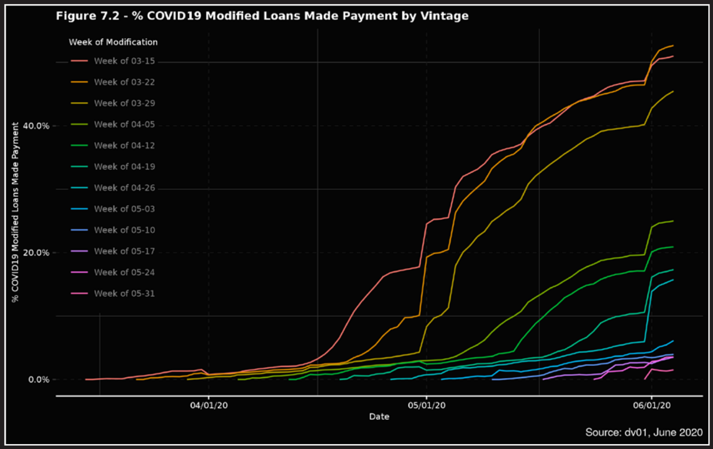


Figure 7.2 - % COVID19 Modified Loans Made Payment by Vintage

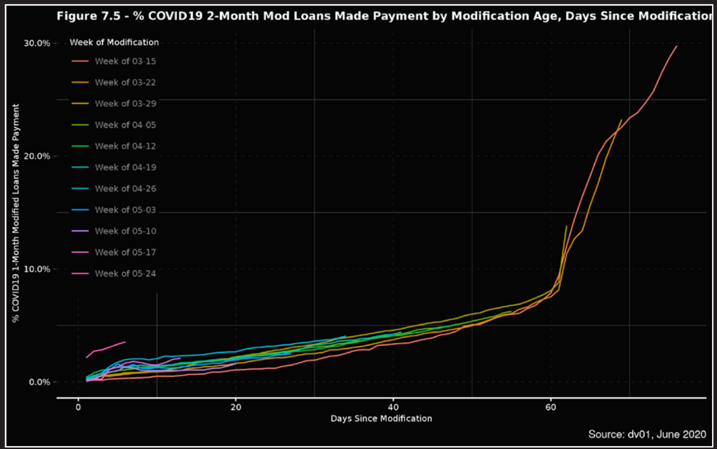


Figure 7.5 - % COVID19 2-Month Mod Loans Made Payment by Modification Age, Days Since Modification

Performance by Loan Attributes

Geographic regions

All regions are showing similar rates of decline in total impairment rates, except for the tourism-reliant states (Hawaii and Nevada). As we highlighted in an earlier report, quarantine efforts are largely statewide, but recovery will be more visible at MSA, city, and zip-code levels, and will require more granular analysis.

Figure 8.1 - Total % Payment Impairment by State, Historical Period, All Combined

Loan Grade

Top Grade remains the only category with material declines in total impairments. Impairments have fallen by 200 bps in Top Grade loans. Impairments remain flat for Middle Grade loans, and impairments have recently begun to flatten for the Bottom Grade loans.

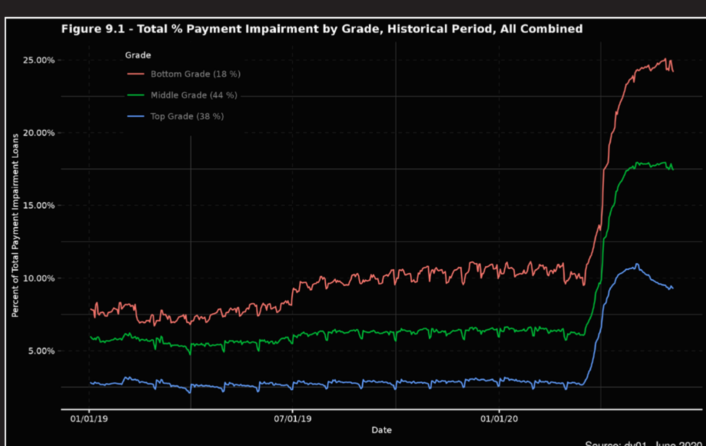


Figure 9.1 - Total % Payment Impairment by Grade, Historical Period, All Combined

Homeownership Status

Loans to homeowners continue to significantly outperform non-homeowner loans, with total impairments falling nearly 150 bps from their peaks. As with Bottom and Middle Grade loans, we have observed a sustained flattening of total impairments in the non-homeowner population, which is encouraging.

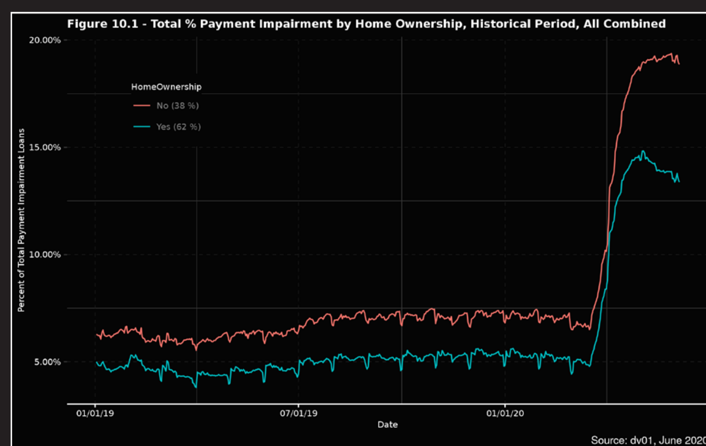
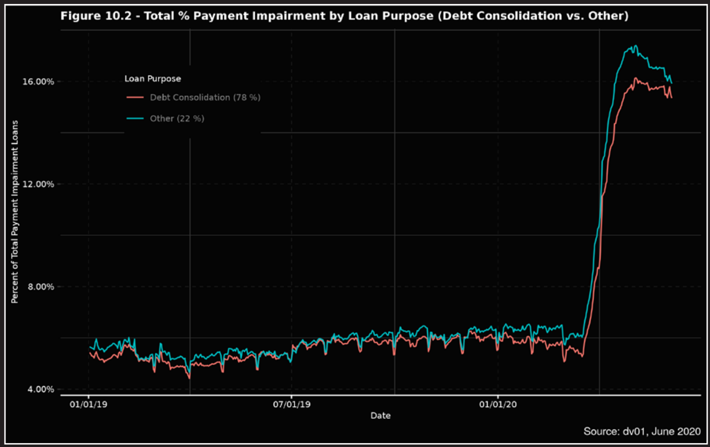


Figure 10.1 - Total % Payment Impairment by Home Ownership, Historical Period, All Combined

Loan age

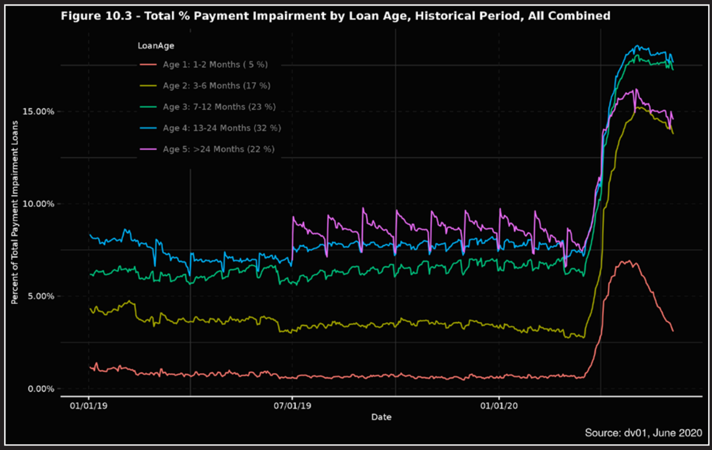
As stated in previous reports, impairments within the 1-2 months loan age category always trend lower because it includes originations post COVID-19 outbreak. Aside from loans aged 1-2 months, loans aged 3-6 months have shown the strongest improvement in total impairments. The difference in impairments between the 3-6 month aged category and older loan categories is returning to historical norms.

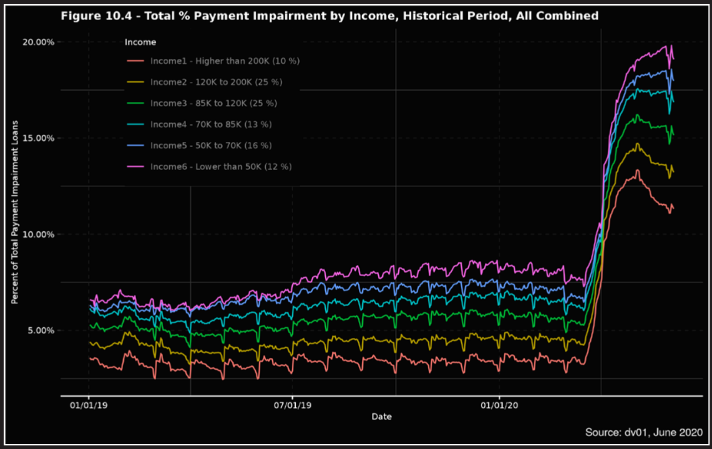


Income and PTI

Impairments across different income levels and at different PTIs continue to decline. While the most visible declines have been in higher income loans, this difference is muted when adjusting for other attributes as discussed above.

Higher PTI loans have also shown the most visible decline in total impairments, but they also had the largest rate of increase. PTI remains a category where we observe a much larger difference in impairment rates between buckets than was observed pre-COVID-19.





Issuance Volume Analysis

While performance trends have been the focal point of our reports, we shift our attention to issuance trends for loans originated in May. As with our previous issuances sections, due to the difference in new issuance reporting cadence and the lack of new securitizations in online lending, the following caveats still apply:

- Only platform-level information is covered in this section on issuance.
- The constituents and composition of the issuance discussion are not consistent with the remainder of the report.
- Due to the confidential nature of underwriting standards and credit quality of our partnering issuers, dv01 cannot disclose the exact credit characteristics of May issuance. Users can subscribe to our Market Surveillance offering for a complete understanding of new and existing collateral trends, along with all relevant performance information.

May issuance volume was a continuation of the behavior observed in April. As with April, this was largely attributable to continually tightened underwriting standards from issuers, changes in investor demand, and changes in consumer spending and borrowing habits. We continue to emphasize that issuers are voluntarily tightening underwriting standards and decreasing their future revenue to better safeguard investors and ensure new originations meet the continued challenges of a difficult economy. Even as issuers have tightened underwriting, they have also raised rates on high-quality loans, providing further protection for investors. Beyond the visibly improved credit characteristics described below, issuers have also introduced substantial qualitative changes to underwriting. There has been decreased focus on new applicants in favor of prioritizing existing relationships; stringent income verification and electronic payment requirements; and wholesale elimination of riskier loan offerings.

May issuance volume fell 13% MoM and was down 67% YoY. The number of loans fell less drastically from April to May—down only 6%—but issuers also decreased average lending amounts as part of credit tightening. Weighted Average ("WA") FICO scores increased an additional 11 points MoM and are now nearly 30 points above levels at the start of the year. While WA DTI rose slightly by 40 bps MoM, it is still 70 bps lower than the start of 2020. Current WA DTI is also 100 bps below 2019 levels.

The best summary of the tighter underwriting is by loan grade. Issuance of loans categorized as Top Grade increased an additional 12% MoM and now represents over 75% of new issuance. Issuance of Bottom Grade loans is in the single digits. Finally, increases in loan pricing continued in May, with average increase in WACs of over 40 bps for Top Grade loans and 400 bps for the few Bottom Grade loans that were issued. WACs on Top Grade loans are now 100 bps higher than the start of the year.

The continued issuance of new loans throughout the COVID-19 pandemic nullifies another concern wary participants have expressed about the resilience of online lenders. Similar to speculation that online loans may underperform in a downturn—which dv01 has shown to be unfounded nearly two months into an economic downturn worse than that of 2008—there were theories that investors would exit en masse and issuers would be unable to originate new loans. Yet new loans continue to be made and purchased, further illustrating the viability of the marketplace issuance model.

About dv01

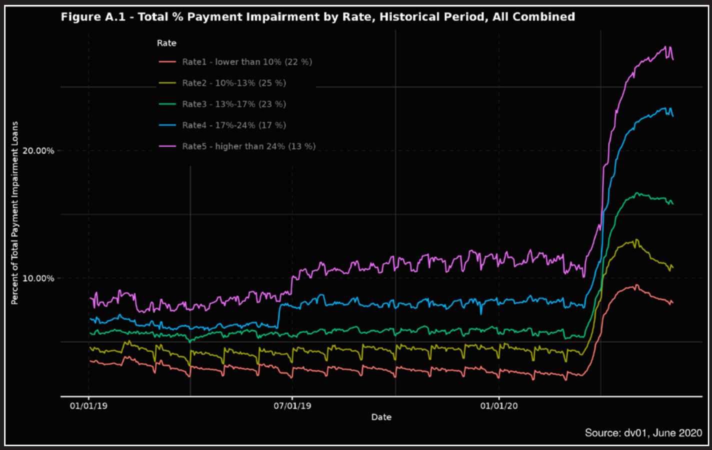
Because performance data is only available on a monthly basis (the typical payment frequency) and is usually reported with a lag, there has been little loan performance information available to see how consumers and businesses are responding to the slowdown. Since dv01 connects directly with the largest online lenders in the consumer world to cleanse, validate, and normalize loan data, we are able to make weekly observations based on daily loan performance.

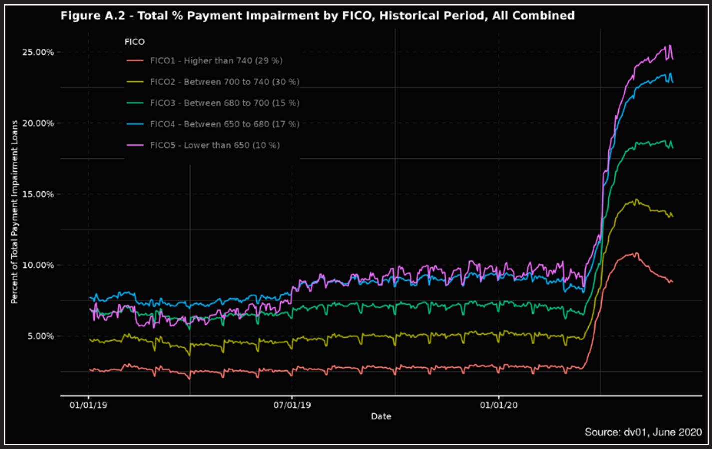
As the world's first end-to-end data management, reporting, and analytics platform for loan-level consumer lending data, dv01 is bringing unparalleled transparency and intelligence to every securitization for every investor.

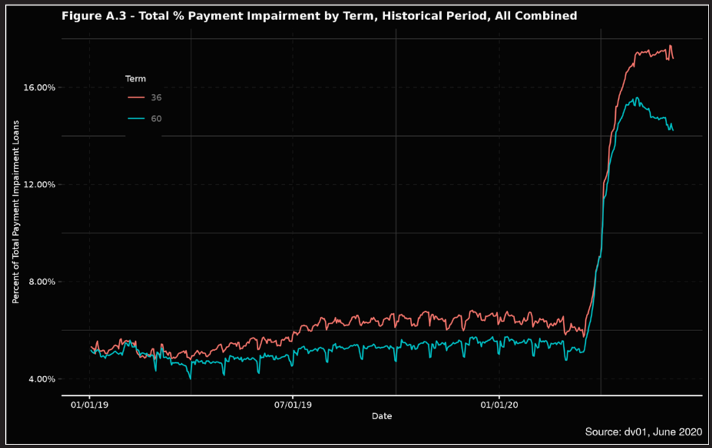
With 500+ securitizations on the platform, dv01 has partnered with 20+ issuers and provided securitization reporting and analytics on $100B transactions across consumer unsecured, mortgage, small business, and student loans. Additionally, in 2019, dv01 onboarded the CRT dataset, consisting of 83 transactions for a total notional balance of $2.6 trillion.

By building the most comprehensive available library of MBS and ABS data, dv01 is empowering the capital markets with world-class tools to make safer data-driven decisions. Learn more at dv01.co or contact sales@dv01.co for more information.

Appendix







Methodology

The data in this report represents loan performance activity reported from January 1, 2019 through June 4, 2020. As with prior reports, only issuers reporting loan information on a daily cadence are included. The report is based on the full population of loans without any filtering or sampling for the most accurate and complete picture. All issuer information is aggregated, and no issuer-specific commen- tary is provided.

Beyond looking solely at aggregate performance, dv01 filtered and stratified performance based on a number of attributes. Among the most commonly reviewed attributes is loan grade, which is an issuer-defined categorization of the issuer's own loan portfolio based on credit attributes and linked to underlying loan interest rates. Because of the varying grade classifications used by different issuers, dv01 utilized heuristic assumptions to group grades into the following three categories for an apples-to-apples comparison:

- Top Grade: Represents lower-risk, lower-interest-rate loans
- Middle Grade: Represents medium-risk, medium-interest-rate loans
- Bottom Grade: Represents higher-risk, higher-interest-rate loans

Terminology

- Delinquency: A loan is delinquent when a borrower is past due on their loan payment and is not in an active modification.
- Modification: A modified loan means there has been a change made to the original agreed-upon terms of a loan or that a borrower has been offered a temporary pause on making loan repayments. Borrowers must contact the issuers directly and request a modification in order to qualify; they are not offered automatically.
- Impairment: A payment impairment refers to any loan that is delinquent or has an active modification status. This category is a combination of delinquencies and modifications.

Disclaimers

- This report is intended as a general overview and discussion. It does not constitute an offer to sell or a solicitation of an offer to buy any security.
- dv01 does not make an effort to differentiate or opine on specific issuers or issuer performance trends within a specific sector.
- dv01 also does not seek to influence future performance or opine on the investment returns of any particular investment strategy.
- Investors should consider this publication as only a single factor in making their investment decision.
- Past performance is not a guarantee of future performance.
- All opinions, projections, and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice.
- No material, non-public information was used to derive the findings and analysis of this report.
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