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P2P consumer loans given landmark rating

Tracy Alloway in New York

A bundle of peer-to-peer consumer loans has been given a credit rating by Moody's, the first time a major rating agency has evaluated a securitisation deal created by the fast-growing "P2P" lending industry.

Achieving such a credit rating is a major win for the nascent peer-to-peer, or marketplace lending, sector as it seeks to expand by tapping new types of investors.

Data-driven technology and online platforms are used to directly connect borrowers with lenders, extending financing at a lower rate than that offered by traditional lenders while simultaneously generating higher returns for investors.

In recent years, P2P lenders have seen an influx of cash from professional investors including hedge funds and asset managers keen to buy up the P2P loans originated through the platforms. Securitising the loans into saleable bonds allows investors to further boost their returns by applying leverage to the deals.

Securing a credit rating is expected to open up the sector to a broader range of investors such as pension funds and insurers. It also means a new line of business for bankers who are seeking fresh types of assets that can be bundled into securitisations in the aftermath of the housing crash that led to big losses on bundles of subprime mortgages.

The $327m deal, called Consumer Credit Origination Loan Trust 2015-1, was put together by BlackRock Financial Management and involves packaging loans originated through Prosper, the world's second-biggest P2P lender.

Moody's gave the $281m top slice of the deal an investment-grade rating of "Baa3" while the lower $45m portion has been given a speculative-grade rating of "Ba3". The rating agency said that its cumulative net loss expectation for the CCOLT 2015-1 loan pool is 8 per cent.

The deal features a $50m prefunding feature that will see investors essentially buy into the securitisation before the P2P loans have even been originated.

Such prefunding accounts were a hallmark of securitisations sold before the financial crisis. They have made a return in recent years as investors clamour to put their money into anything that might generate higher returns.

The swiftness of the rating may surprise some financial market participants. Many believed rating agencies were taking a cautious approach to evaluating new asset classes in the aftermath of the crisis, which saw them accused of handing out top-tier ratings to undeserving bonds.

Nevertheless, the prospect of a vibrant market for P2P securitisations has attracted interest from Wall Street, where a wide range of financial institutions is salivating over the chance to make money by packaging, selling and providing financing for the deals.

The hedge fund Eaglewood Capital was first to securitise P2P loans with a $53m unrated deal sold in 2013. Last year, SoFi scored a major win for the industry when it received an investment-grade rating from Standard & Poor's for a securitisation of P2P student loans. Jefferies announced last year that it would buy and securitise $500m worth of P2P loans originated through CircleBack Lending.

The FT previously reported that BlackRock was working with Prosper to create the first rated transaction of P2P consumer loans. Santander is believed to be working with Lending Club, the world's biggest P2P lender, on a similar deal.

Ram Ahluwalia, chief executive of PeerIQ, a risk analytics platform for the P2P industry, said such securitisations open the sector to a "broad" pool of investors and capital. "Rated securitisations are a step forward in the maturation of P2P lending into a full-blown asset class," he added.

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