

Structured Finance - Review Report

Servicer Quality Analysis

23 June 2017



LendInvest Ltd

ARC Ratings has affirmed the public Servicer Quality rating of SQ1 to LendInvest Limited, given its capability to service its business and potential transactions.

SUMMARY RATING RATIONALE

The rating is based on the following key factors:

- **General:** the primary servicer rating reflects LendInvest Limited's robust internal controls/systems, servicing experience in the real estate lending and collections industry, and recent financial performance.
- **Ownership:** LendInvest is still largely privately held, with 73% of the equity owned by senior management and 6.2% distributed to staff. They have secured a substantial investment from Atomico; a testament to the skills and experience of the business.
- **Corporate governance and management:** LendInvest has a strong corporate governance structure. There is a high level of transparency, extensive systems and controls in place.
- **Robust internal control environment:** The company displays a strong debtor's management capability, with strong ICT systems and a proactive response to recovery. Loan files are regularly reviewed as well as policies and procedures being frequently updated.
- **Industry standard technology:** LendInvest currently employs an industry standard platform delivered by a well-established provider of high end software solutions aimed at Financial Services Institutions. LendInvest has also bespoke CRM software.
- **Data backup/disaster recovery:** LendInvest uses several well-known backup techniques as well as market-leading storage providers. The company is committed to ensuring that systems and processes maintain pace with a high growth rate currently being experienced. Therefore, the technology infrastructure has been deemed to be flexible, secure, stable and reliable.
- **Due Diligence:** LendInvest have a rigorous, time-tested and well-structured process for evaluating client suitability. They are also good at completing the on-boarding process with speed and efficiency.
- **Financial condition:** LendInvest has seen rapid growth since its creation in 2013, this has been shown by strong financial performance over the last four years, during which it has consistently turned an annual profit amid significant investment in the business and fast growth.

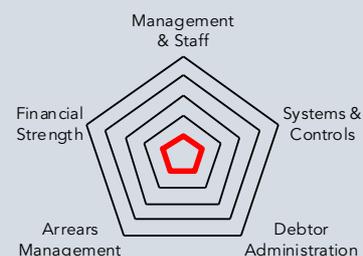
SUMMARY OF RATING METHODOLOGIES

ARC has applied the ARC Ratings Global Structured Finance Rating Criteria in conjunction with Structured Finance Servicer Quality Criteria.

RATINGS

Security Class	Rating	Outlook
Primary Servicer	SQ1	Stable

RATING CRITERIA



ORIGINATOR

LendInvest Limited

RATING DATE

23 June 2017

RATING VALIDITY

23 June 2018

NEXT REVIEW DATE

23 June 2018

RELATED RESEARCH

ARC Ratings Global Structured Finance Rating Criteria
Structured Finance Servicer Quality Criteria
available at www.arcratings.com

ARC CONTACT DETAILS

Nancy Nkinsi

Lead Analyst
nancy.nkinsi@arcratings.com

Emma-Jane Fulcher

Chief Ratings Officer & Panel Chairperson
emma.fulcher@arcratings.com

Maidstone Studios
New Cut Road, Vinters Park
Maidstone, Kent ME14 5NZ
UNITED KINGDOM
Tel: +44 (0) 1622 684548
Website: www.arcratings.com

FACTORS THAT COULD TRIGGER A RATING ACTION MAY INCLUDE:

Positive change(s): Further strengthening of trading performance and financial profile, favourable regulatory change, continued positive collections track record.

Negative change(s): Weakening financial performance, adverse audit findings, deterioration in collection statistics, or failure to maintain suitable updated systems, controls, policies and procedures could exert downward pressure on the rating. A major housing market decline, substantial rise in interest rates, or failure to implement a bad debts provision as the entity grows, may also have negative impact.

ORGANISATIONAL PROFILE

ARC Ratings met with management of LendInvest and Pepper on the 30th May 2017 and covered the areas detailed in this report.

Business Summary

LendInvest is a UK online marketplace for property finance established in May 2013. LendInvest is focused on short to medium term secured lending to both individuals and corporate entities.

The entity was 'incubated' out of an existing real estate finance business, called Montello Capital Management ("Montello"). Montello was established in 2008, and was brought under the LendInvest brand in 2013. The aim of the LendInvest platform is to match investors with funding requirements of UK property borrowers.

LendInvest's well-established footprint in the mortgage market facilitates the generation of substantial deal-flow (> £100m per month), which allows LendInvest to source numerous opportunities for investors.

Loans are predominantly secured by a registered first charge against the property, and are currently limited to a maximum of 36 months, with a typical period of 12 months. At present, 75% of all borrowing is sourced through intermediaries, and 25% is borrower direct. The minimum investment on the platform is currently £1,000. The minimum loan size is £75,000, and maximum is £7,500,000. The average loan size is approximately £600,000. LendInvest requires all loans to have a viable exit route.

Control/Ownership Structure

LendInvest is still largely privately held, by members of senior management. The entity has one institutional investor, Atomico IV LP, which acquired a minor shareholding. Atomico is a technology investment firm led by Niklas Zennström, who was a co-founder of Skype. The majority shareholding is still in the hands of senior management and Mattias Ljungman, of Atomico, have also joined the board of directors.

Corporate Governance

Over the last four years, LendInvest has undergone few changes on the management board. The board currently comprises of LendInvest's two founders, Christian Faes and Ian Thomas (who collectively maintain a majority shareholding), and Mattias Ljungman, of Atomico. Although the boardroom dynamic has changed, the presence of an institutional investor on the board and the experience he brings from his own specialist fields has been beneficial to the company. Under the current arrangement, the Executive Committee, comprised of nine senior managers, meets once a

week to manage the business on a day-to-day basis.

All policies and procedures are currently documented in manuals. Creation of the Executive Committee facilitates frequent review of policy and procedure whilst increasing the level of internal scrutiny. Over the course of the last year a substantial review and evolution of the organisational structure has taken place, resulting in the separation of several roles into specialised departments each addressing different areas of LendInvest's operations. The lending policy has been updated comprehensively, adding significant depth and rigour.

Given the nature of the business conducted, and the speed at which the operating environment may change, it is important that LendInvest is able to adjust its controls effectively. LendInvest is currently being audited and the company had its first external audit in 2015, which returned no adverse findings.

In the past twelve months, LendInvest has recruited a lawyer with regulatory experience which has been beneficial to the entity. LendInvest is not a bank so it is not subject to PRA regulation. LendInvest Limited is currently interim authorised and regulated by the FCA for consumer credit business and credit brokerage. No FCA authorisation is required for LendInvest Limited's current activities and planned future activities, and the company is considering whether this is needed going forward.

LendInvest Funds Management Ltd (LFLML) is authorised and regulated by the FCA as a small authorised Alternative Investment Fund Manager (AIFM) with permission to manage alternative investment funds. LendInvest Loans Limited (LLL) is authorised and regulated by the FCA as a regulated mortgage lender. LLL is a wholly-owned subsidiary of LendInvest Limited and is able to lend against owner-occupied and first-time investment property.

Human Resources and Staffing

LendInvest currently employs over 100 people. This shows that LendInvest has an excellent rate of retention of staff which is in line with the company's rate of growth. This growth has seen LendInvest restructure their organisation substantially, with several roles separated and new departments established to meet their increasing needs. LendInvest has added in-house legal counsel, a human resources department and have separated experienced design, service delivery management, client services and capital markets, where previously these functions fell under less specific reporting lines. This significant evolution of the organisational structure reflects LendInvest's willingness and ability to adapt and expand their business model in line with growth and their ambition to continuously improve client relations, their offer and the transaction process.

LendInvest has an industry respected Head of Credit, with in excess of 25 years' experience as a Senior Mortgage Credit Executive, who has overseen a complete review of all credit processes, and has seen the credit side of the business separated from the financial department. The primary credit team now comprises seven members, with in excess of 100 years combined experience in servicing, lending and underwriting.

Furthermore, the establishment of a human resources department allows both improved retention strategies and improved recruitment processes.

Finally, LendInvest has invested substantially in developing their IT department, bringing in a Chief Technology Officer with experience of growing and developing efficient IT and technology teams. LendInvest is aware of the critical importance of developing the IT side of their business and the expansion and specialisation of the department reflects this. Currently, the IT department accounts for roughly a quarter of their total headcount, and they anticipate that this will

grow to around 40% in the future.

LendInvest continues to recruit several Business Development Managers.

Financial Position

Although the servicer quality analysis is not focused on the ability of LendInvest to service its own debt, the entity's financial profile and profitability impacts its capacity to retain key staff and maintain adequate systems. A review of LendInvest's current financial condition revealed no material concerns, the company demonstrating continued operational profitability. Capital investment and consistently increasing deal flow, whilst maintaining an excellent track record on loss, gives LendInvest increasing financial flexibility. In the financial year 16/17, LendInvest provided lending of approximately £357 million from a range of investors and institutional funding sources.

LendInvest has identified that banks who have traditionally funded approximately 60% of the development loan market, are less unwilling to fund smaller deals around the £5 million mark, which leaves an opportunity that LendInvest is proactively pursuing. Furthermore, LendInvest is seeking to exploit areas of the market where they have a substantial competitive advantage.

With more than 10% of all UK online marketplace loans, LendInvest is now the 4th biggest online marketplace lender in the UK. LendInvest is the UK biggest marketplace for property finance.

OPERATIONAL PROFILE

Borrower Due Diligence

The quality and extent of due diligence conducted by LendInvest on prospective borrowers prior to the extension of a formal loan offer plays an important role in understanding the expected behaviour and characteristics of the loans ultimately presented to investors, and serviced by Pepper UK. LendInvest's ownership of the entire origination process enables them to utilise many of the customer on-boarding and due diligence processes that were developed and refined by Montello over many years.

The process begins with the borrower (or brokers on behalf of borrowers) completing a basic enquiry form on the LendInvest website, after which point, the borrower on boarding and due diligence is largely a manual process.

The Deal-flow team vets all loan enquiries to ensure the proposition meets the LendInvest initial credit criteria. The borrower then completes a full application form, which is manually assessed by the underwriter. The application form contains the consents required to carry out the credit bureau search and authorises the use of fraud detection systems. The borrower must also provide evidence of an appropriate and acceptable exit strategy. Upon receipt of the application, a full due diligence and risk assessment exercise is conducted – enabling LendInvest to understand the risk profile of not only the application, but also that of the borrower. This includes credit reference agency and AML checks, as well as an underwriter analysis.

If the loan still meets the criteria of LendInvest, the security is subject to a valuation by an external valuer, in accordance with the latest RICS standards. Simultaneously, external solicitors are instructed to check the title of the property, and prepare the relevant documents for the borrower. As an additional measure, LendInvest requires the borrower to sign the documents in the presence of their solicitor, and that the solicitor signs an additional document themselves confirming this took place. The solicitor must also sign a document stating that the borrower's evidence of address has been verified,

and that the image contained within the identification provided is a true likeness. LendInvest require the borrowers' solicitors have three or more principals, since the incidence of fraud is considered much lower in these circumstances. As the case evolves, discussions take place between LendInvest's solicitors and the case managers to ensure all appropriate procedures are conducted. A foreign legal opinion is obtained when lending to foreign entities/companies.

Next, the underwriter reviews the valuation report, as well as relevant credit policy criteria, before making a recommendation for the approval of a loan in principal, and preparing a detailed Credit Decision paper. Approval of the loan in principle request is made by the Credit Committee. Finally, a formal offer of loan will be issued to the customer and the solicitor representing LendInvest. This document details the terms and conditions applied to the loan by LendInvest, which the borrower must accept before the loan application can proceed further. Once this stage is complete, the loan is funded and then put on the platform for investment purposes.

LendInvest's underwriting policies are traditional and LendInvest does not use technology to generate underwriting decision. The company have ring-fenced certain geographic areas of London that they do not wish to involve themselves in as a measure of caution. LendInvest restricts lending to 75% of LTV, which provides protection against defaults and losses, and their average LTV is less than 62%, which indicates prudent lending policy.

Servicing

LendInvest partnered with Pepper UK ('Pepper') in June 2016. Pepper UK acts as a third-party servicer to undertake servicing and arrears activities. Pepper UK is a subsidiary of the Australian-based Pepper Group Limited, which specialise in lending, advisory and asset servicing across the residential and commercial property market.

LendInvest's partnership with Pepper has been beneficial, helping the company to scale up. Pepper's dedicated team has helped manage the growing loan book in the most efficient ways. Pepper has brought along staff, with experience in both unregulated and regulated lending, which supports LendInvest's growth ambitions across its current and potential future products.

Appropriate controls, SLAs and mandates are contractually agreed between LendInvest and Pepper to ensure appropriate handling of all LendInvest loans. This is detailed in LendInvest's Loan Servicing Manual. Pepper will undertake all activity through a ring-fenced team on a "white label" basis in order to appear as LendInvest at all times, ensuring the best customer journey.

Pepper uses the Caseman system for loan servicing, which is in-house software linked to the Phoebus platform.

ARC Ratings does not currently rate Pepper UK however, it is rated by Fitch with a Residential Special Servicer Rating at 'RSS2+' and UK Residential Master Servicer Rating at 'RMS2'.

Arrears and Repossessions

Pepper monitors account payment records and is proactive in its response to the recovery of arrears, which are identified within two working days of occurrence. Due to the size of the company and nature of the loans, arrears are still reviewed on an individual basis.

Pepper staff members are proactive in pursuing delinquencies, with emphasis on acting quickly to prevent delinquencies getting out of hand. Once two months have elapsed with no response, a receiver will be appointed. As one may expect, an increased level of human intervention is present in the latter stages of attempted recovery. For the first three months

Pepper and LendInvest will work together to reach payment agreement. If the loan become in arrears, a notice of a potential enforcement is sent (10 days after those three months). If there is no response LendInvest can formally enforce 14 days after the three months have elapsed and it is at this point that the loan is declared as defaulted. However, if the borrower is working with LendInvest, then defaulting is a measurement of last resort.

Overall, the entity's policies and procedures pertaining to arrears and repossessions are considered sufficient and well-documented.

Track Record

Currently, LendInvest has an average arrears rate of 4.5 %, which is a minor increase on last year's figure of 4%. Whilst arrears have slightly increased, 4.5% represents the systematic risk of the marketplace and LendInvest's proactive approach to tackling delinquencies alongside a historical record of 100% capital being recovered, elicits confidence that they will continue to manage arrears adequately.

As the company's systems and processes continue to evolve, its ability to not only reduce the frequency of foreclosures, but to also effectively manage foreclosures when they do occur, should also continue to improve.

FUNCTIONAL PROFILE

Location

LendInvest (and all of its operations) are based in London.

IT Systems

The aim in creating LendInvest was to be digitally innovative in the mortgage market and since its creation in May 2013, LendInvest have experienced a significant transformation-into an entity that is now largely technology-focused. LendInvest has made substantial investments in IT systems and resources, with an IT staff that comprises more than a quarter of all staff, while promoting a culture of continuous improvement in the platforms they provide to their clients.

The company has established a sophisticated IT structure and has developed an efficient IT strategy, addressing the need for the platform to respond effectively to client, regulatory and business needs and hence lending support to its overall competitive strategy. The company uses cloud-based systems, AWS-hosted platform and all applications are SaaS. In case of a disaster, all data and communications can be re-routed to another location, and business can continue as usual.

Email and file storage are hosted by Google which comes with its own back up capabilities. Firewall protection is in place, traffic is monitored for intrusion prevention and anti-virus and anti-malware are used.

The company is committed to ensuring systems and processes maintain pace with the high rate of growth currently being experienced. The company also hires a professional external 'hacker' on a quarterly basis as an additional means of testing security systems.

Risk Management

LendInvest operates a comprehensive risk-management policy with a dedicated framework. The aim of the framework is to help the board to balance opportunities, risks and rewards by defining an appropriate level of risk, and shielding the business from excess risk while understanding the risk tolerances and limits that will facilitates the realisation of strategic

objectives and meet shareholder expectations. Risk and compliance both report on the central risk exposures and escalate issues to the board where it is required. There has been a strong commitment from LendInvest to maximise fraud prevention and detection systems. There is a comprehensive crime insurance policy in place to mitigate against fraud risks. Therefore, LendInvest's analysis of key risks facing the entity, is well thought out and mitigation strategies are thorough.

RATING LIMITATIONS

Ongoing Surveillance

Servicer ratings are long-term ratings that require an annual review to maintain them; these are conducted in order to enhance the active identification of latent issues that may affect the servicer's ratings.

Criteria Limitations

While servicers demonstrate and describe their technology, no independent tests are conducted to verify the functionality or interactivity of the servicing systems or their fitness for any specific purpose.

DISCLAIMER

Note that ARC is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, ARC is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the Transaction documents / mechanics, and should form their own views in this respect. They should not rely on ARC for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

ARC Ratings, S.A.

Maidstone Studios

New Cut Road, Vinters Park

Maidstone, Kent ME14 5NZ

UNITED KINGDOM

Phone: +44 (0) 1622 684548

E-mail: arcratings@arcratings.com

Site: www.arcratings.com



ARC Ratings, S.A. is registered as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA), within the scope of the REGULATION (EC) N° 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 16 September, and recognised as External Credit Assessment Institution (ECAI).

Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner.

The rating(s) assigned by ARC Ratings in this report was / were sought by the entity whose financial commitments are being rated.

Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed (the Preliminary Rating Report). This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC Ratings in the assignment of the rating.

ARC Ratings historical default rates are published in the European Securities and Markets Authority Central Repository (CEREP) which can be accessed in the website cerp.esma.europa.eu/cerp-web/. ARC Ratings default rate is the probability of lack of full and timely payment of capital or interest or of the occurrence of any event that explicitly indicates that the future full and timely payment of those commitments will not occur (e.g., in case of insolvency).

Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer's performance on a constant basis, and may even bring forward the date of the review unless stated as point in time. Hence, prior to an investor using a rating, ARC Ratings recommends that it be confirmed, namely by consulting the list of public ratings available at the web site www.arcratings.com.

Ratings are assigned based on information, including confidential information, collected from a wide group of sources, and in particular from the entity whose financial commitments are being rated. ARC Ratings uses and treats this information with due care and attention. Although all due care was taken in the collection, verification and processing of the information for the purposes of the rating analysis, ARC Ratings cannot be held liable for its accuracy. ARC Ratings must make sure that the information has a minimum level of quality prior to assigning a rating based on such information.

In the rating process, ARC Ratings adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by situations of conflict of interests. Any exceptions to these principles are disclosed by ARC Ratings together with the rating of the financial commitment in question.