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Langton Crescent  
Parkes ACT 2600

Via E-Mail: [ABSF@treasury.gov.au](mailto:ABSF@treasury.gov.au)

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Dear Ms Hogan,

Marketlend welcomes the opportunity to provide a brief submission regarding the introduction of an Australian Business Securitisation Fund. As a facilitator of lending between professional investors and small businesses, we find ourselves particularly well-suited in providing guidance on several aspects of the Fund. We consider the government participation a valuable addition to an already vibrant investor marketplace for SME lending, but its success will only be measured by how well it can offer SMEs capital at rates that are affordable and on flexible terms to enable them to conduct their business.

### **Marketplace lending and its ability to develop SME securitisation over the long-term**

As one of the pioneering proponents of Marketplace lending, we thought it would be useful to recap what marketplace lending means.

Marketplace lending is an arrangement wherein experienced or wholesale investors invest in securities (typically issued as notes or certificates from a standalone trust or managed investment scheme) and by using an online platform these investments are provided as monies lent to borrowers (small businesses in Marketlend's case).

This model emerged in the United Kingdom, and subsequently the United States before the global financial crisis (GFC) and has gained significant traction subsequent to the GFC when financial institutions including banks began to restrict their lending in those jurisdictions.

Consequently, these markets have become significant providers of liquidity to borrowers. For example, Funding Circle has funded £4.2 billion to 42,000 businesses and become public in 2018. Lending Club has funded USD\$42 Billion and become public in 2014.

It aimed to solve issues within the traditional lending market. The inefficient, blunt and automated nature of bank lending found too many SMEs unable to finance business. This is especially so in Australia where the typical requirement by most banks is that there must be property collateral offered as security to the bank for them to provide funding at a reasonable rate to an SME or at all.

Furthermore, the only alternative available to SMEs outside of that has been prior to marketplace lending, lenders funded by venture capital companies or private funders, at rates that are far in excess of 20% per annum with significant prepayment penalties with a product that is typically principal and interest and payable for the full term regardless of any prepayment.

This impact was especially severe for SMEs in underdeveloped sectors – in instances where there is a lack of historical data or information able to benchmark the business in reference to others.

Ultimately, this led to the requirement of personal collateral lending in order to obtain financing. The securitisation of personal property and homes was required to access business finance. This leads to intense pressure on a small business owner. Small business owners are not only risking the

success of their business but also their homes – discouraging business ownership and entrepreneurship.

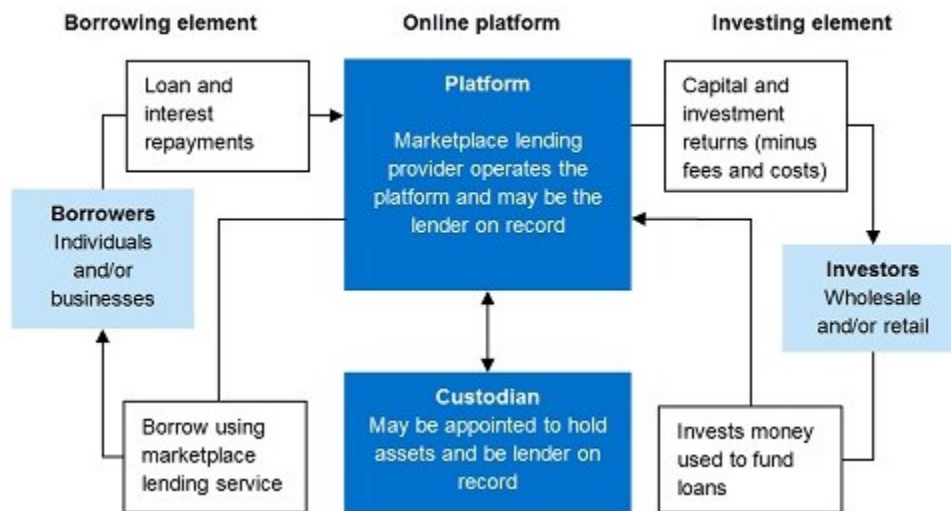


Figure 1 Overview of how marketplace lending is generally structured - ASIC

Marketplace lending removes many of the inefficiencies and discrimination associated with traditional lending. For one, it allows a private investor to individually research the business and make their own assessment on whether to lend. This allows an SME to receive funding without any prejudice to their industry. So long as they can demonstrate an ability to pay off the loan, our experience demonstrates that professional investors are willing to invest. Furthermore, marketplace lending provides lower interest rates for businesses to borrow at and higher rates of return for lenders. Without the existence of a middle-man and far lower fees than institutional banks, marketplace lending can improve the size of the pie for both parties. Marketplace lending also speeds up loan approval processes, giving SMEs much needed capital on fair and transparent terms, but in a shorter time frame than was possible in the past.

Marketlend submits that marketplace models can play an important role in achieving the objects of the Australian Business Securitisation Fund.

### Marketplace lending and encouraging greater private investor participation in the market

Marketplace lending represents an important first step in encouraging private investor participation in the small business lending market. Without marketplace lending platforms, there is a distinct lack of avenues for professional investors to enter the market. Aside from private loans or informal funding requests made by family and friends, there are no institutional on-boarding mechanisms to connect small businesses and professional investors. In the current securitisation environment, Marketlend represents one of few marketplace lending platforms positioned towards small businesses.

With our introduction of insured business loans, investors have begun taking small business lending far more seriously as a means of investing. From our experience, it seems that institutional involvement and underwriting of small business loans can considerably boost the confidence of professional investors to enter into this market. Furthermore, the ability for investors to access high-quality information and data on the business and the current state of the industry will also contribute to increasing confidence and level of participation.

## Improving access to data and information in the small business lending industry

After trading for five years, a key difficulty we have identified is the inability for investors to benchmark their SME loans over a period of time. The performance of loans in the SME industry is heavily guarded and kept confidential from one lender to the other. This makes it very difficult to assess credit risk and exacerbates the information asymmetry between lender and borrower.

In our experience, overseas investors who have participated in UK and US small business investments are surprised to see that there is no default benchmark on industry standards available in Australia. Without strong benchmarks and historical data on the small business industry, it is difficult for algorithms to be built and predict the performance of an expected loan to an SME.

Ultimately, comparative pricing and industry-wide data could assist professional investors and institutions in comparing the risks and price against a government benchmark rate. We submit that this could open the doors for far more private investor participation and capital to be injected into the small business finance landscape.

## Our performance and who we are

Marketlend has funded a total of AUD \$63,473,100 using securitisation to sell the loans to investors purchasing debt securities.

Marketlend has operated since Q1 2015 and has originated 661 loans to date in Q4 2018. Annually Marketlend is audited by Deloitte for its operations, business processes and compliance and Tyndall Capital(Tyndall), Marketlend's trust manager, is audited by Bell Partners and a holder of AFS Licence No415909

Furthermore, Marketlend engaged Clifford Chance to conduct an audit on the legal documentation completed by Mills Oakley including but not limited to the transaction and taxation opinions issued for the benefit of the investors.

Over the past four years, we have seen a considerable increase in appetite towards marketplace lending. Our loans have funded small businesses in many industries with a specific focus on construction and manufacturing, two industries which provide major productivity and employment benefits to the Australian economy.

Current Loans by Sector

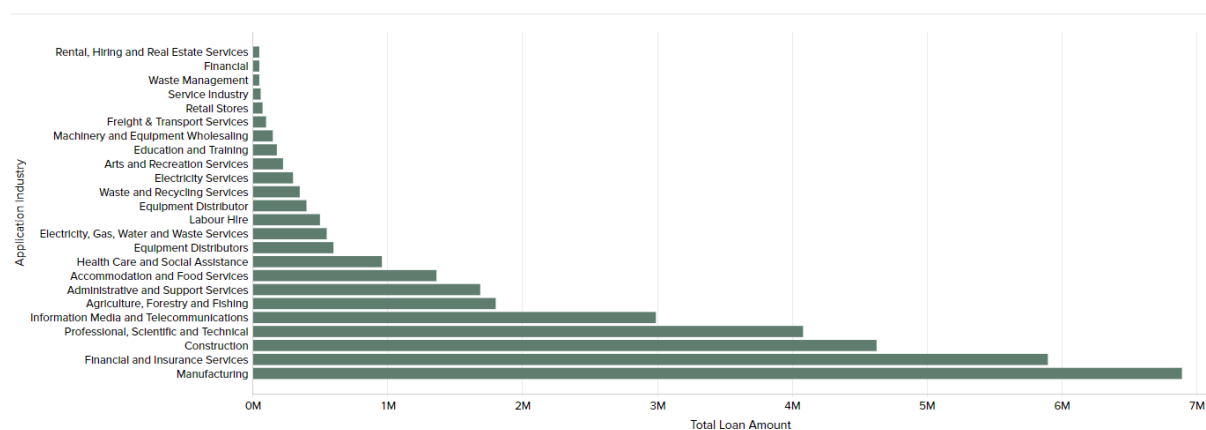


Figure 2 Lending by sector

### Current Status of All Loans Originated

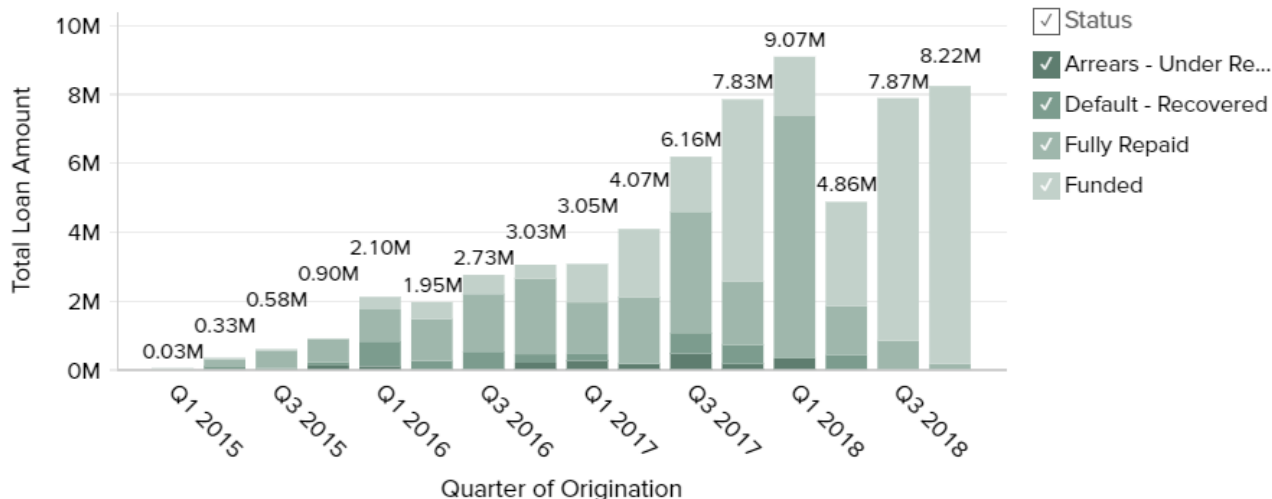
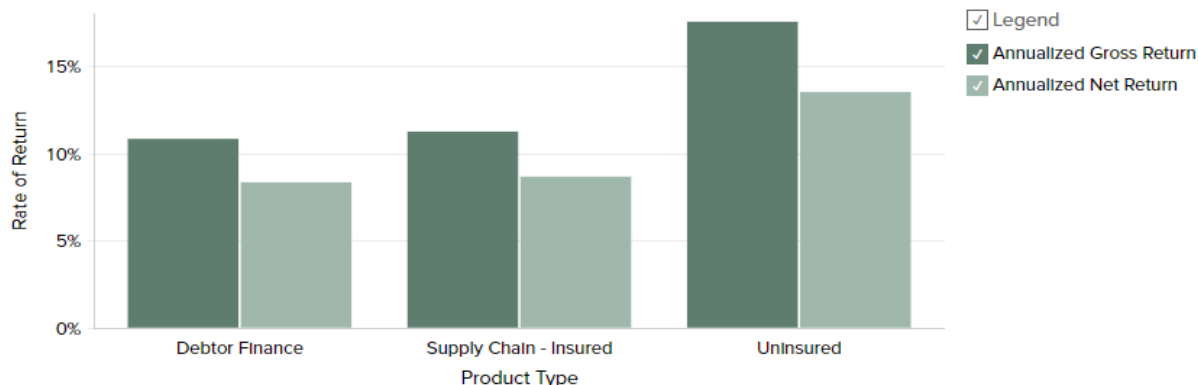


Figure 3 Origination of loans

Finally, we have seen considerable returns to the lenders involved on Marketlend. As seen in the chart below, our rates of return have been consistent over risk appetites. This has allowed new investors to start with lower risk investments and begin to diversify into higher risk investments as they become more knowledgeable about the companies and industries in which they are investing.

### Annualised Return per Product Type



Ultimately, we believe that placing investors and borrowers as close to each other as possible improves lending outcomes for both parties – this philosophy can, and should, be applied to the Australian Business Securitisation Fund. By removing middlemen and unnecessary layers of red-tape, fees are lowered for borrowers, while lenders are able to evaluate businesses themselves and build a relationship with the businesses to which they lend.

While the results we have highlighted in this submission underscore the positive outcomes achieved through the marketplace lending model, we also believe that trust, transparency and ethical lending

should define all SME lending. Here is a link to an interview with Marketlend's founder, Leo Tyndall, for further background to his thinking on how to ensure ethical lending across the Fintech industry: <https://www.afr.com/business/banking-and-finance/marketlend-calls-for-fintech-cleanup-end-to-predatory-practices-20181019-h16v0z>

### **Anticipated Structure**

From inception, Marketlend has embraced securitisation as the means to fund the loans originated and enable investors to have a robust standalone trust structure with an independent trustee, AET Limited.

Other than rating the notes issued by the trust structure, Marketlend is securitizing its loans daily or weekly, and any offering by the AOFM to invest in securitized structures by the issue of notes is welcomed by Marketlend.

From our intelligence we are informed that this is the most likely method of investment by the AOFM.

However we do note that for the majority of SME lenders, especially marketplace lenders, obtaining a rating on notes issued has not been common place and could cause a significant cost and delay in implementation of the fund.

On that basis, we do submit that in cases where an acceptable third party audit can be conducted on behalf of the AOFM, that a rating is not a requirement on the notes and the AOFM is able to purchase securitised notes without rating.

Thank you for your consideration of this submission. We are happy to supply any additional information you may need and are open to having a phone or conference follow up if it is of assistance.

Yours truly,

The Team at **MarketLend**