



ThinCats

Guide to the Secondary Market

Last updated: November 2016

© 2016 Business Loan Network Ltd

Introduction

The secondary market is where you can sell a part of a loan that you have successfully bid on in an auction. What you are selling is the remaining principal of the loan and any future interest earned; likewise, the buyer is buying this remaining principal plus any outstanding and future interest. As well as making it possible to build a diversified portfolio more rapidly, and to earn interest from the day the auction ends, it also makes it possible to invest less than the normal minimum bid of £1,000.

The first two phases of the secondary market allowed sellers to sell their loan parts at 'par', in other words making no profit or loss on the deal. This proved very popular with buyers seeking to build a diversified portfolio and start earning interest instantly and most sales completed within minutes. The third phase of the secondary market, "SM3", allows a full auction and allows loans to be traded at a profit or loss.

The availability of a market in second hand loans where profits or losses are possible opens up a new investment opportunity. We are aware that some people are trading on the market, seeking to profit from that activity in itself. Fortunately, competition between members tends to keep prices keen and keeps the market reasonably efficient.

The increasing popularity of SM3 caused a demand from members for more detailed information about the performance of the underlying businesses so that trading could take place in a more informed way. This caused problems because the demand for more information was effectively insatiable. Since the borrowers have no interest in the secondary market or in providing more information than they are contractually obliged to do, supplying partial information caused more problems than it solved. After some discussion (much of which took place on the Members Forum) we decided NOT to provide any additional information and let traders make their own decisions based on the limited information available. We adopted the approach that 'no news is good news' and at the same time decided not to allow any loan onto the secondary market graded a B or below.

We have taken the view that we will only allow a secondary market in loans where all payments are up to date but there are a few other situations where we will block a sale because we are aware of information that would make it inappropriate. Such information is not always 'bad' but we may not be in a position to say more at that stage. An example of a reason why we might block a listing could be that we might be aware that the borrower is seeking an urgent meeting with the sponsor but we do not really know why. There could also be 'good' reasons for preventing a secondary market sale; the most obvious being that we are aware that the borrower is planning to repay the loan very soon but cannot be certain if and when it will actually happen. In all of these cases it may not be possible for us to explain why we are blocking a sale on the secondary market but you can be sure that we will publish the reason as soon as we can.

Some of the sponsors are publishing regular reports on the progress of their borrowers and we also have a regularly updated list of our loans that are eligible for the market; "*Secondary Market Status List*". You will find this in the Dropbox which can be accessed from the VIP website. Please contact admin@thincats.com if you have committed funds to ThinCats and need a reminder of the password.

The Status List classifies each loan into one of nine different status codes where the only loans suitable for the secondary market have code A. This is also colour coded on the spreadsheet, red showing unsuitable for the secondary market and green showing that it is suitable. The table below lists the Status codes that are used on the spreadsheet.

Guide to the Secondary Market

Code	Indicates	Secondary Market
A	The loan is being repaid to it's schedule	Considered suitable for the secondary market
B	The loan is about to be repaid or possibility that the loan will be repaid early	NOT Considered suitable for the secondary market
C	The Loan has been re-scheduled to an agreed plan and agreed by the lenders but otherwise is up to date.	NOT Considered suitable for the secondary market
D	A loan with missing payments which are under investigation, or one with arrears that have not been agreed.	NOT Considered suitable for the secondary market
E	A loan with unresolved questions - awaiting further information.	NOT Considered suitable for the secondary market
F	A loan in legal recovery.	No longer tradable
R	Loan fully repaid.	No longer tradable
V	Syndicate Vote in Progress (loan not in recovery)	Temporary Suspension
W	The loan has been fully or partially written off.	No longer tradable

Please note that these categories are entirely factual statements and give you no new information about the risks associated with a loan. In no sense is it a form of risk grading or scoring by ThinCats.

Sellers

A seller can see a list of their loan parts in the 'Sell' option on the side menu called 'My Loan Parts' or on a tab on their called 'Loan Part List' found on the dashboard.



Clicking this will show a list of active loan parts with funds disbursed which are available for sale on the secondary market.

<input type="checkbox"/>	The Traditional Inn Ltd	£1,000.00	9.90 %	2016-10-12	--	£1,000.00	Active
<input type="checkbox"/>	Robert Goddard Limited	£1,000.00	11.00 %	2016-11-20	--	£1,000.00	Active
<input type="checkbox"/>	Elevation Financial Group Ltd Loan 5	£1,000.00	14.00 %	2016-11-20	--	£1,000.00	Active
<input type="checkbox"/>	Shiny Sky Limited	£1,000.00	8.00 %	2016-10-12	--	£1,000.00	Active
<input type="checkbox"/>	Bio Dynamic (UK) Ltd Loan 5	£1,000.00	12.00 %	2016-11-20	--	£1,000.00	Active
<input type="checkbox"/>	The Oven Door Bakery Limited Loan 4B	£1,000.00	13.00 %	2016-10-20	--	£1,000.00	Active
<input type="checkbox"/>	First Merchant Finance Plc Loan 6	£1,000.00	10.00 %	2016-11-20	--	£1,000.00	Active
<input type="checkbox"/>	ThornProp Ltd	£1,000.00	12.00 %	2016-10-20	--	£1,000.00	Active

If you wish to sell an active loan part there is a button under the list called 'Resell This Loan Part' which is where you can do this.



Once you select this option, a menu will appear with options to sell your debt obligation.

Guide to the Secondary Market

Here you can select to sell at a Fixed rate or not. If you choose fixed rate, the target price will be equal to the remaining principal and the target rate option will disappear.

If you choose to not sell at a fixed rate, the option to change your target rate will be available. As you change this, the target price will automatically change. Note: The lower the rate, the higher the target price.

Rate	Date
14.00 %	2016-11-19
13.50 %	2016-11-20
12.00 %	2016-10-12
9.90 %	2016-10-12
11.00 %	2016-11-20

Remaining Principal
£1,000.00
£1,000.00
£368.42
£1,000.00
£1,000.00

When you click 'Sell Loan Part, another menu will appear to allow you to confirm the offer and review the details you have entered.

Rate you are currently receiving on the remaining principal. This won't appear if selling at fixed price.

Amount you are looking to receive for the remaining principle.

When you are ready to sell, click Confirm.

First Repayment Date	Last Repayment Due Date	Remaining Pri

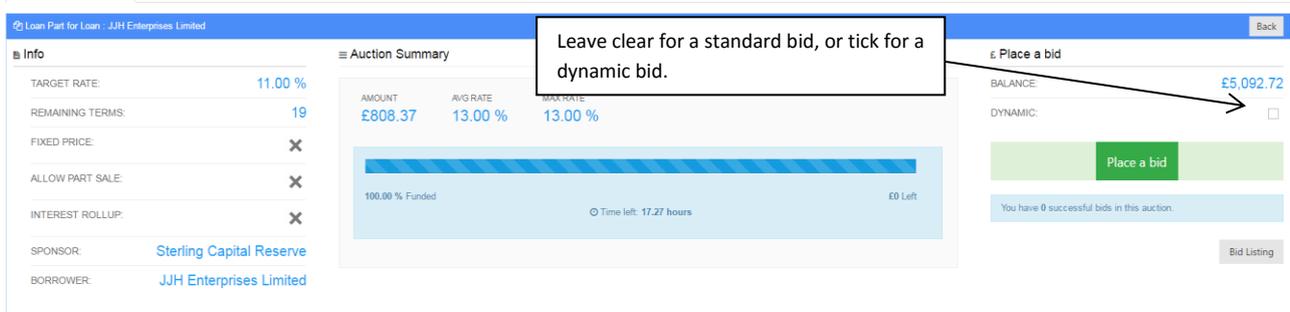
Once your decision to sell has been confirmed the loan part is put into a queue for an administrator to deal with. The administrator will either agree to list the loan for a fee or refuse to list it. If the former, it will be put onto auction on the secondary market; if the latter it will be returned to your account. While the loan is being auctioned it is in suspense and any repayments made before the sale is agreed go into a holding account for the eventual benefit of the buyer. At the end of the auction the seller may agree the result and the funds are released. This process is exactly like an auction for the original borrower.

Sellers on SM3 can refuse to sell a loan if the price offered is unacceptable but if you are likely to decide not to sell it is important that you inform us BEFORE the end of the auction by sending an email to resale@thincats.com. If we have not heard from you before the end of the auction we will assume that you accept the offer price and implement the sale accordingly.

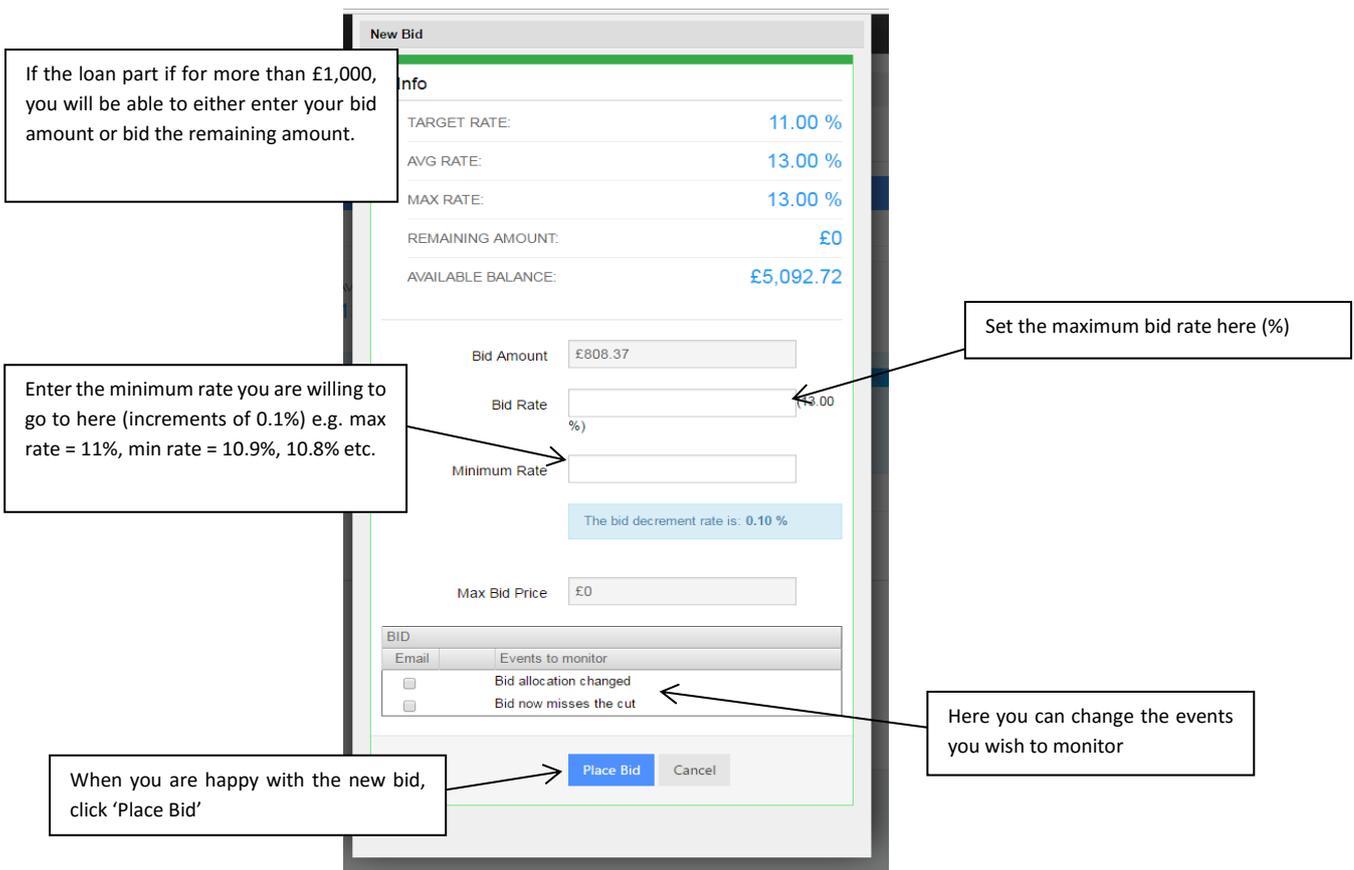
Buyers

A buyer must have cleared funds in their account to cover any bid they make on the secondary market, as in the case of the primary market. The option in your main menu called 'Secondary Market' allows you to view a list of loan parts in auction, both at fixed and variable bids. Selecting the loan you wish to view will give you two tabs, 'Loan Part Auction Summary', and 'Loan Part Details'. Loan Part Auction Summary allows you to view the loan part along with a full summary and the rate you will receive. Loan Part Details shows the target price and interest rate along with the original loan details including documentation and Q&As. With a fixed price auction, you may make a bid as you would in the primary market. However, as the third phase has been implemented, there are now further steps for variable auctions within the secondary market.

Placing a standard bid is the same process as it is in the primary market, however a dynamic bid, involves more understanding and steps.



You will then be asked to confirm your bid ensuring all details are correct. Once your bid had been placed, you can't change or remove it.



Guide to the Secondary Market

Auction Summary

AMOUNT: £808.37 | AVG RATE: 13.00% | MAX RATE: 13.00%

100.00 % Funded | Time left: 16.94 hours | £0 Left

#	Buyer Alias	Offer Date	Offer Amount	Offer Rate	Allocation	Allocated Amount	Current Price	State
1	Michael Czerwinski Investments	14 November, 2016 09:03:27	£808.37	10.90 %	100.00 %	£808.37	£822.21	Open
2	JM Investments	12 November, 2016 16:25:47	£808.37	11.00 %	0.00 %	£0.00	£0.00	Closed
3	Michael Czerwinski Investments	14 November, 2016 09:02:13	£808.37	11.00 %	0.00 %	£0.00	£0.00	Closed

Once you have placed the dynamic bid, the computer will reset the bid rate in order to keep you in the auction if the rate decreases. When your bid has been accepted the loan part will transfer to you and will be seen on your list of debt obligations.

Other things to note when using the secondary market:

- When the offer rate is above the original bid rate you pay less for the loan part. If the offer rate is below the original bid rate you are paying more for the loan part.
- Buyers want the HIGHEST rate possible as this means they are paying less for the amount they are buying. This in turn means the seller is making a loss on their loan part.
- Sellers want the LOWEST rate possible as this means they will be making more on their loan part.
- Sellers currently earn the 'original bid rate' on their debt obligation amount. The buyer, if successful, will earn the 'original bid rate' on their allocated amount. However, they are paying the 'current price' for that allocated amount.
- The main point to note on the secondary market is that loan parts will not necessarily be bought at par value and can be bought at above or below this. This in turn means sellers will ultimately be making a profit or a loss.

Timing

When selling your loan on the secondary market you should note that you are only selling the capital part of the loan and that you do not get any interest paid after the listing has been put up into pending. To avoid missing any interest payments, you should not put a loan part up for sale if the auction will end between the 12th or 20th of the month (depending on the loan payment dates) and the completion of the monthly interest crediting process (usually two working dates after the date stated previously).

Fees

Buyers do not pay any fees but the seller will be charged a fee for using the Secondary Market service of 1% of the capital outstanding that is sold (rounded to the nearest whole pound).

Liquidity

The secondary market is a tool to provide liquidity so that you are able to get your money out. However, just as importantly it may allow you to build a portfolio much faster as you put your money in. One drawback of the primary market is that there is always an indeterminate delay between committing your funds and them being disbursed into paying loans. As some of you have observed, this reduces returns as you build your portfolio because uncommitted and suspense funds earn no interest. Once you have built a primary portfolio it is usually possible to reinvest repayments in a reasonable timescale, but even here the secondary market will allow you to reinvest more rapidly.

Appendix A – Calculations for the secondary market

The following formula is used to calculate the monthly repayment **P**:

$$P = A \cdot r \frac{(1+r)^N}{(1+r)^N - 1}$$

Where: A = principal (e.g. £10,000)
 N = number of repayment periods (e.g. 17 months)
 r = effective interest rate which is calculated below

To calculate r:

$$r = \left(1 + \frac{R}{m}\right)^{\frac{m}{q}} - 1$$

Where: R = nominal interest rate (e.g. 0.12 for 12%)
 m = compounding frequency (e.g. 360 days)
 q = payment frequency (e.g. 12 months)

The total repayment calculation is:

$$P \times N$$

To calculate the target price for a DO, the monthly repayment should be the same for both nominal and target interest rates, consequently:

$$A \cdot r_A \cdot \frac{(r_A+1)^N}{(r_A+1)^N - 1} = X \cdot r_x \cdot \frac{(r_x+1)^N}{(r_x+1)^N - 1}$$

Where: r_A = effective interest rate (calculated above)

r_x = effective target rate (calculated above)

The price is calculated by:

$$X = A \cdot \frac{r_x}{r_A} \cdot \frac{((r_A+1)^N - 1)(r_x+1)^N}{((r_x+1)^N - 1)(r_A+1)^N}$$

The difference between **X** and **A** (principle) is the target capital gain/loss for the seller or the capital discount/premium for the buyer.