



The Marketplace Lending Operating Standards

Marketplace lending is lowering the cost of credit, increasing access to capital, providing opportunities to investors of all sorts, and contributing to a stronger financial system. The growth of marketplace lending, and the benefits it provides, depend on marketplace lending platform operators (“marketplaces”) upholding operating standards that protect borrowers and investors. To promote responsible practices industry-wide, members of the Marketplace Lending Association (MLA) commit to following these Operating Standards.

The MLA recommends that these Operating Standards be adopted by all credit marketplaces, which we define as platforms that match at least 75% of loans, by dollar, with commitments for funding from investors, before the loans are issued.

1) Investor Transparency and Fairness

The marketplace lending model can provide a higher level of transparency to investors than many traditional investments, through detailed loan-level data and investment in specific loans. MLA members provide investors with highly transparent data and fair access to loans within the marketplace investment programs they participate in.

- Investor Disclosure Standards
 - Loan-level historical data
 - Provide investors access to detailed loan-level data on all loans previously issued through the marketplace that are relevant to the investment program being considered. This data should include loan performance and applicable credit data, enabling investors to develop an informed understanding of the historical performance of loans issued through the marketplace.
 - Overall marketplace performance data
 - Provide investors access to overall performance data for investments in all loans previously issued through the marketplace that are relevant to the investment program being considered, except where not permitted by regulators. This data may be segmented by criteria such as product, vintage, or investor type where appropriate.
 - Investment selection data
 - For investment programs where investors acquire interests in individual loans on a discretionary or active selection basis, provide those investors access to detailed, loan-level data on each loan available for investment.
 - For investment programs where investors elect to acquire interests in individual loans on an automated selection basis, provide those investors with the ability to determine the criteria for loans in which they will invest.
 - For investment programs where accredited or institutional investors acquire interests in a portfolio of loans (*e.g.*, an investment fund, etc.), or on a passive selection basis, provide those investors with a clear explanation of what loans may be selected for investment and how such loans will be selected.



- Investor portfolio data
 - Provide investors with access to regularly updated, loan-level performance data on the loans in which they have invested.
- Additional Standards for Non-Accredited Investors
 - These additional standards are applicable to marketplaces that accept investment from non-accredited investors to the extent of their interactions with such non-accredited investors. Such marketplaces should provide non-accredited investors the following information:
 - Expected returns net of fees and losses, where permitted
 - An explanation of how those expected returns are calculated
 - Any fees or charges that may be assessed to the investor
 - Clear indication that these investments are not FDIC insured
 - Disclosure of the risks of marketplace lending
 - Description of the loan product available for investment
 - Description of any automated investing program the marketplace offers that may be available to the investor
 - Notice of potential delays that may occur in deploying money allocated to the marketplace and result in “cash drag”
 - The process for withdrawing money or liquidating investments, if applicable
 - General description of how creditworthiness is evaluated, including how loan pricing is determined
 - Any requirements for investment, including eligibility and minimum investment amounts
 - Information on arrangements in the event of the marketplace ceasing operations
- Fair Loan Selection
 - If the marketplace’s business strategy involves retaining an interest in a meaningful portion of the loans that are relevant to a specific investment program, such as 10% or more of the loans within a given loan product, disclose to investors considering investing in the same investment program how the marketplace selects which interests in loans it retains and which interests are offered to investors, and the overall performance for those interests in loans the marketplace retains.
 - Maintain a policy with respect to employees investing in loans issued through the marketplace, to address potential conflicts or use of nonpublic information.
 - Treat different categories of investors fairly. If an investment program is available to non-accredited as well as accredited investors, maintain allocation policies to ensure that each class of investors is provided fair access to loans.



2) Responsible Lending

MLA members provide access to responsible, borrower-friendly loan products.

- Transparency
 - Disclose transparent prices to all borrowers, including the APR for consumer loans and annualized interest rate or APR for commercial loans, and any fees or scheduled charges for a loan including any effective prepayment penalty. Disclose this information in plain English terms, in writing, when the loan offer is presented to the applicant.
- Responsible Products
 - Ensure, in cooperation with any originating bank if applicable, that all loans offered through the marketplace are made with high confidence that the borrower can repay their entire debt burden without defaulting or re-borrowing.
 - Do not issue payday or high-cost installment loans, as defined by CFPB, through the marketplace.
 - To prevent debt-traps, extend new credit, in cooperation with any originating bank if applicable, to a borrower who is unable to make their loan payments only if due diligence indicates that the borrower's situation has changed, enabling them to repay their outstanding and new debts.
 - Report loan repayment information to major credit bureaus and ensure that the borrower's credit data is consulted in the loan underwriting process.
- Non-Discrimination
 - Do not discriminate on the basis of race, color, religion, national origin, sex, marital status, age, sexual orientation or identity, or any other protected class. Lesbian, Gay, Bisexual and Transgender (LGBT) customers should be afforded the same protection, even though not yet covered under most fair lending laws.
 - If online alternative data (*e.g.*, social media) is used as part of credit approval or pricing decisions, consider, in cooperation with any originating bank if applicable, the unique challenges posed by such online alternative data and take steps designed, as necessary or advisable, to prevent unintentional discrimination and address other legal concerns, including quantitative testing where appropriate.
- Collections and Debt Sale
 - Protect the rights of borrowers in a collections process. Comply with relevant regulations as well as by the spirit of the Fair Debt Collection Practices Act when working on loans such as small business loans where this law may not directly apply. Require that collections vendors and debt buyers adhere to this standard for loans issued through the marketplace, and conduct appropriate monitoring and due diligence.



3) Safety and Soundness

The marketplace lending model offers advantages of financial stability and resiliency, relative to traditional lending models. Nonetheless, MLA members must maintain strong internal policies that ensure their reliability for the benefit of borrowers and investors alike.

- Operating Liquidity
 - To preserve stability if faced with unexpected pressures, maintain a cash operating reserve (liquid cash and short term assets) in an amount sufficient to continue necessary and contractual operations for at least six months.
- Business Continuity Plan
 - Maintain a plan that adequately addresses possible risks to the business, designed to enable the marketplace to resume reasonable operations without material disruption to investors or borrowers.
- Orderly Wind Down
 - Ensure investors have access to a backup loan servicer, if they choose, able to assume full servicing responsibility for existing loans issued through the marketplace without material disruption in the event that the marketplace is unable to continue performing servicing functions.

4) Governance and Controls

MLA members must develop and maintain strong internal controls that ensure compliance with laws, as well as the integrity of their investment programs and the marketplace's financial transactions.

- Compliance Management
 - Demonstrate compliance with regulatory requirements. Maintain a compliance framework in accord with expectations relevant regulators have for the size and risk profile of the marketplace. Designate one or more executives responsible for overseeing compliance (*e.g.*, a chief compliance officer).
- Client Money Management
 - Appropriately separate investor funds from company operating funds. Take appropriate steps to protect investor assets from possible business disruptions to the marketplace (*e.g.*, bankruptcy remote structures).
- Audit Standards
 - Undergo a financial statement audit conducted by an independent accounting firm at least annually.
- Business Information
 - Make publicly available, on the marketplace's website, details of the executive leadership of the marketplace and the location of its headquarters.
- Regulatory Responsiveness
 - Respond in a timely manner to inquiries addressed to the marketplace by any domestic or foreign governmental or regulatory authority.



- Complaint Resolution
 - Maintain a complaint resolution system that tracks complaints and provides, where appropriate, fast and reasonable resolution to any investors or borrowers who complain.
 - Participate in regulator-sponsored complaint portals that are applicable to the marketplace's business and operations.

5) **Risk Management**

Managing risk is a core function of the marketplace lending model. MLA members must maintain robust programs to manage the risks they face.

- Model Risk Governance
 - Marketplaces and banks that originate loans through marketplaces generally utilize sophisticated risk models to provide investors and borrowers with sound underwriting. Marketplaces, in cooperation with originating banks if applicable, should maintain an effective model governance program including periodically monitoring and validating credit risk and fraud risk models, and using recent and appropriate data in model development. When developing and evaluating risk models, conduct appropriate analysis to consider the potential impact of economic cycles on loan performance.
- Customer Authentication, Fraud Detection, and Money Laundering Prevention
 - Maintain a robust customer identification program to protect investors, borrowers, originating banks and unaffiliated consumers from fraud and identity theft.
 - Establish and follow a rigorous anti-money laundering (AML) compliance program, in cooperation with originating banks if applicable. Identify and report suspicious activities. Conduct training as necessary to ensure compliance.
 - Monitor for terrorism financing and comply with government sanctions programs by monitoring watch lists (*e.g.*, OFAC).
- Enterprise Risk Management
 - Maintain a governance framework for managing enterprise risk appropriate to the size and risk profile of the marketplace.
- Information Security
 - Protect private customer information by maintaining proper security controls, including recurring penetration tests and remediation within a reasonable period.
 - When sharing anonymized data, ensure that the data is fully de-identified and does not include personally identifiable information.
- Privacy
 - Clearly disclose privacy practices to all customers by providing a privacy policy at all times on the marketplace's website. Honor customer privacy by complying with all applicable privacy laws. Do not share a customer's personally identifiable information with third parties, except as related to providing requested services to a customer, with a customer's consent or after providing a customer a clear disclosure, and an opportunity to opt-out, of such sharing.



MARKETPLACE LENDING ASSOCIATION

- Vendor Management
 - Maintain a vendor management program that identifies and addresses vendor risks.
 - Perform appropriate due diligence and oversight of third-party service providers.
 - If working with collections vendors and debt buyers, transmit accurate, current, and complete information about the relevant loans.

- 6) **Operating Standards Management**
 - Revision
 - These Operating Standards are subject to review and revision by the board of directors of the MLA from time to time.