
Analysts' Ideas of the Week – An Attractive Opportunity in Consumer Finance Receivables

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An Attractive Opportunity in Consumer Finance Receivables

On January 19, 2016, we issued a report on Beacon Consumer Holdings Inc. (Series Alpha 1). Beacon Consumer Holdings Inc. (“BeaCH”), formed in April 2012, is offering investors an opportunity to invest in notes backed by consumer finance receivables. We assigned an overall rating of 2-, and a risk rating of 3, on the notes.

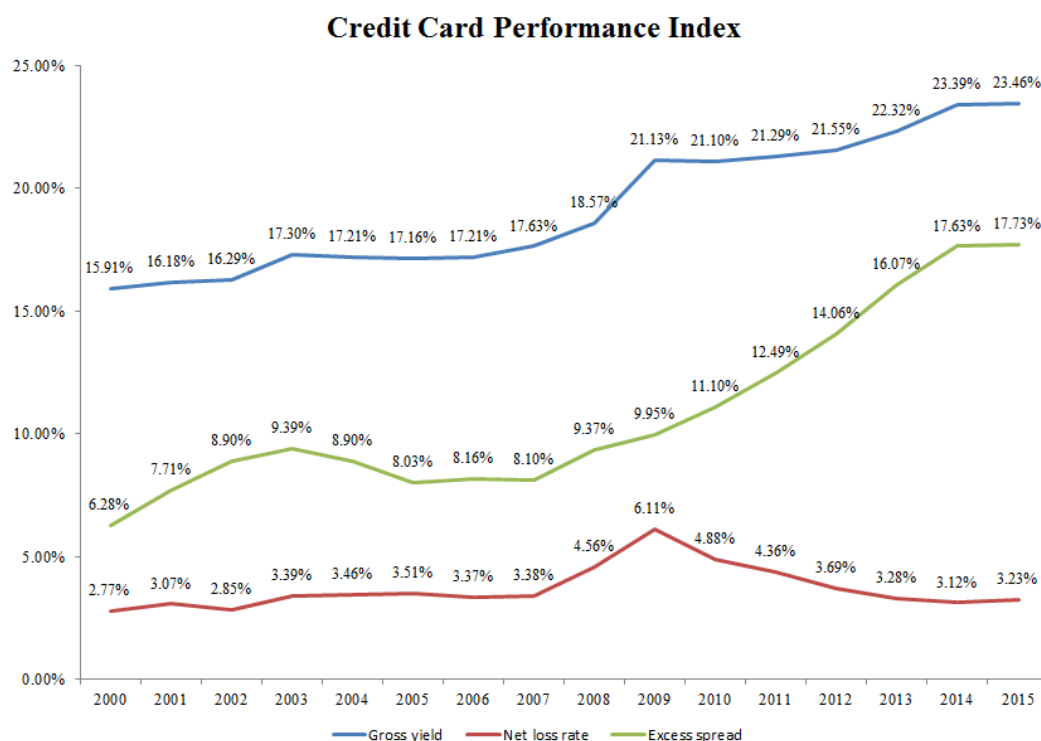
FRC Rating	
Expected Annual Yield	6.00% - 9.25%
Rating	2-
Risk	3

The following section provides a quick summary of the investment opportunity:

The Series Alpha1 notes, offered through the current offering memorandum by BeaCH, have interest rates (paid monthly) ranging between 6.00% p.a. and 9.25% p.a., depending on their term and seniority. The funds raised in the offering will be used to acquire notes of Beacon Trust (“trust”), which in turn will use the funds to acquire an undivided co-ownership interest in a pool of consumer loans. Consumer finance loans are basically loans provided by lenders to consumers for personal purposes, such as home renovation, purchase goods / recreational

vehicles, pay medical or unexpected bills, etc. At the end of Q3-2015 (September 30, 2015), the trust had held \$42.12 million in loans receivables, net of the provision for losses.

The spreads in this space are higher than most other lending markets, making consumer finance lending a highly attractive market. The chart below shows the performance of the six largest trusts managing Canadian credit card receivables. Credit cards are comparable to consumer finance loans.



Source: DBRS

As shown above, the annual net loss rate has ranged between 2.77% and 6.11% since 2000. The excess spread has increased from 6.28% in 2000, to 17.73% by 2015.

Management of this offering has extensive experience in credit rating and financial services. The team is headed by Greg Nelson, who was the head of DBRS's Structured Finance Group, and its Rating Committee, from 1994 to 2005. Chief Financial Officer, Dara Coulter, has significant financial, operational and corporate governance experience.

The eligibility criteria for purchasing the receivables are as follows:

- loan amounts range between **\$500 and \$40,000**, with an average loan amount of approximately \$5,000;
- terms range between **5 and 62 months**;
- the APR (annual percentage rate) currently charged to borrowers ranges between **9.9% and 39.9%**;
- loans are **typically fully amortizing**,

The notes are distributed through Raintree Financial Solutions. Interested investors can contact Raintree directly. Here is a link to their website: <http://raintreeemd.com/>

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