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## P2P-linked bond makes first appearance in Europe, HJCO

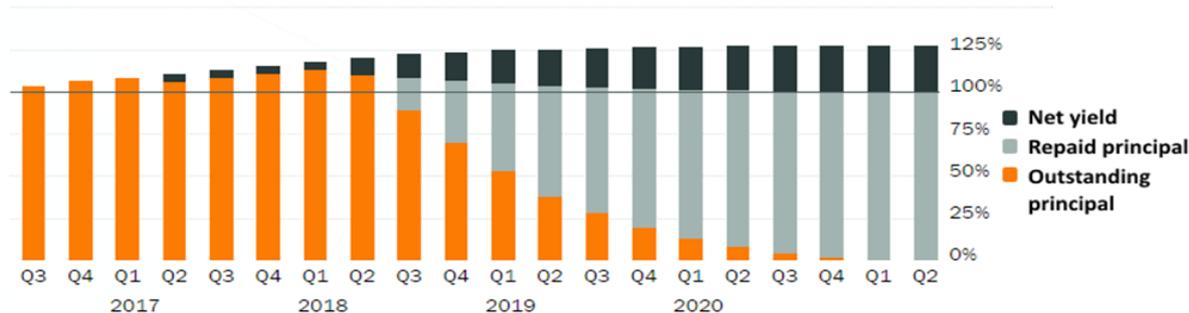
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Dutch investors have responded positively to the first peer-to-peer (P2P) linked bond in the Netherlands, according to Arthur Hopstaken (*pictured*), director and partner at HJCO Capital Partners (HJCO), the company behind the launch. "We are very happy with the number of subscriptions, especially given the lack of advertising and the registration limit," said Hopstaken. "We had set ourselves a limit of US\$3m related to adequate spread and we have exceeded that limit."

The five-year *Windmill P2P Income Bond USD 04-2016*, which is constructed with portfolios of loans of US P2P platforms Prosper and/or Lending Club, offers a fixed annual coupon of 5% for the first two years of investment, with the remaining cash flow reinvested in new loans with a 36-month term. The following year's investors will receive quarterly repayments of the nominal invested plus a variable coupon. "The level of the coupon after two years is the result of the interest on the loans minus the default rate," said Hopstaken.

Expected cashflow



Source: HJCO

The bond does not get a listing and requires a minimum investment of €100,000 or the equivalent in US dollars. "This is a private placement: we cannot offer this product to the general public," said Hopstaken. After talks with the Dutch National Bank (De Nederlandsche Bank - DNB), HJCO decided to set up a fund, according to Hopstaken. "The DNB is of the opinion that, for this type of asset-backed security, a banking status is required. We discussed this at length and did not share their opinion, but the DNB does not agree and that's how we ended up in a fund structure."

Returns on the P2P bonds depend on the default rate of the loans, the rate at which borrowers fail to pay back these loans, a feature that is mainly affected by the economic cycle measured by the unemployment rates in the region or country where the platforms operate (ie. the US). Therefore, the expected return of portfolios is calculated in four different economic scenarios, with corresponding unemployment rates and default rates assumptions.

Other risk factors are: platform bankruptcy (although the loans are not part of the assets of the platforms, services and payments on the P2P bonds can be negatively impacted), new regulatory burdens, which could result in higher costs and decrease of net returns, and competition (interest

rate compression will decrease net returns). There is no secondary market, which means no guaranteed liquidity, although a continuous cashflow is generated by the underlying portfolio of loans.

The bond is available via HJCO's Windmill investment platform, which gives private investors access to highly innovative asset classes, strategies and asset managers that typically have only been available to the largest professional investors, according to Hopstaken. "We use Windmill as the name for our product line, purely as branding for our own products."

Windmill primarily aims for investment opportunities where finance and technology are aligned. The first launch under this label was the Windmill Trend Evolution Fund in April 2014.

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