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In *Conversation*

with Shivraj Mundy, LL Funds

Cross River's Director of Principal Finance Group, Leonard Losquadro, sits down in conversation with LL Fund's Partner, Shivraj Mundy. The two strategists discuss market cycles, investing, and noteworthy takeaways from the most recent fintech downturn.

You've been through many market cycles. What makes this most recent downturn different?

Although some economic downturns are caused by severe dislocations such as financial crises, most are driven by business cycles that have potential to develop into recessions. In either scenario, unemployment spikes, interest rates fall, and while demand for new credit falters, rising delinquencies result in ongoing supply shortages, paradoxically leading to favorable lending conditions for those with the fortitude to do so.

In the current environment, we've seen only part of this manifest. Delinquencies have risen across most asset classes and investors, for both debt and equity, have become risk averse, but there's been no slowdown in business activity and no increase in unemployment -- rates have remained elevated. The result has been a confusing environment where players are waiting for the other shoe to drop. There is, however, a growing belief in the soft landing. When that becomes sufficiently entrenched, we'll see a return to risk-on.

If this is the "bottom", why aren't investors diving into credit platforms? Where are the bold equity investors?

Uncertainty kills enterprise, and there's still quite a lot of uncertainty surrounding us. Those with prior experience know that the least promising time to take on credit exposure is just before the cycle has turned. During the great recession, the worst business booked was during the year before the recession official began. The best is of course was in the 1-2 years following the trough. Until there is conviction that things have bottomed out there will, understandably, be reluctance to any increased exposure.

The headwinds, which include rising delinquencies, delayed impact of a rate rise, exhaustion of excess savings, resumption of student loan repayments, and potential geopolitical risks, continue to be weighed against the skill and luck of the Fed accomplishing a soft landing. When there is conviction that the Fed is winning, the investment tide will turn as well creating yet another paradoxical situation – the investing advantage is diminished when players act with the herd.

If you're a fintech founder today, what should be your takeaway from this most recent cycle?

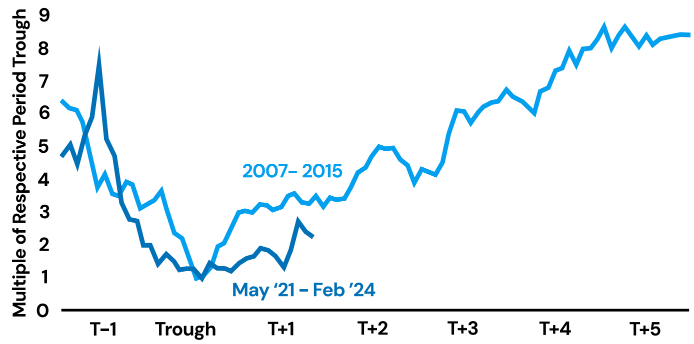
Make hay when the sun shines. Those savvy or lucky enough to have established lengthy runways in 2021 have avoided (or at least delayed) the reckoning that came to others in 2022 and 2023. Remember, fintech is not pure-tech, and it is risky to bet purely on top line growth. The bottom line matters and if there's not a credible, short-term path to attractive margins, investor support can quickly dissipate.

Are there examples of companies that were able to leverage the circumstances you previously outlined and benefit from these headwinds?

I imagine there were some great discounts available to investors but its worth noting that these seldom tend to be advertised. I know we were very pleased with a couple of our investments wherein these discounts made a compelling case for a prior round and in a subsequent (conservative) assessment of the company's prospects.

The customary pattern of investor exuberance and exhaustion can be exaggerated in fintech both because of undelivered transformations, and the impending peril of credit underperformance. Historic patterns, however, tend to be repeated and fallen valuations eventually revive for those strong enough to remain.

Speciality Finance Performance through the Cycle



2007 – 2015: COF, DFS, SLM
2021 – 2024: OPRT, ATLC, OPFI, AFRM, OPEN, Z

Source - Company filings

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Shivraj (Raj) Mundy

Partner, LL Funds

Mr. Mundy joined LL Funds in February 2016. He is a member of the Board of Directors of Strike Acceptance, Tammac, Billd, Renew Finance, Mission Lane, Leif and Guardinex, all portfolio companies of LL Funds. Mr. Mundy is a senior financial services executive with over 20 years of experience building/growing lending businesses in consumer finance, banking, and strategy consulting.

About LL Funds | llfunds.com

Founded in 2009, LL Funds, LLC is an SEC registered independent investment firm focused on investing in asset-backed securities (ABS) and specialty consumer finance companies who rely on the ABS marketplace for growth and success. Our private equity funds provide growth equity to specialty finance companies; our lending funds provide warehouse lines to such companies; our public market funds invest in ABS securities of all types.

Len Losquadro

Director, Principal Finance Group, Cross River

Mr. Losquadro leads go-to-market for Cross River's Principal Finance Group focusing on structuring asset-based credit investments across ABS Sectors and partnering with originators as well as their investors. Previously, he was an operator inside of fintech and specialty lending platforms such as C2FO & SLR.

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Cross River provides technology infrastructure powering the future of financial services. Leveraging its proprietary real-time banking core, Cross River delivers innovative and scalable embedded payments, cards, and lending solutions to millions of consumers and businesses. Cross River is backed by leading investors and serves the world's most essential fintech and technology companies. Leading the industry, Cross River is reshaping global finance and financial inclusion. Member FDIC.