

Lending Fintechs and Embedded Finance: The Private-Credit Opportunity in Funding Fintech Lending Books

How private-credit and growth investors can underwrite, structure and price the warehouse, forward-flow and first-loss capital that funds the next generation of GCC lending fintechs

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ABSTRACT

A lending fintech is, in financial terms, two businesses bolted together: a technology business that acquires and underwrites borrowers, and a balance-sheet business that funds the loans those borrowers take. The first attracts venture and growth equity; the second, far larger and growing faster, is funded by debt. As embedded finance pushes credit into checkout flows, marketplaces, payroll systems and business software across the Gulf, the capital that funds the resulting lending books has become a distinct and attractive private-credit opportunity. This paper sets out how an investor should think about funding a fintech lending book. It distinguishes the equity that funds the company from the debt that funds the loans, and shows why the two carry different risks and require different underwriting. It describes the principal structures through which private credit funds a lending book, the senior warehouse facility, the mezzanine layer, the forward-flow purchase agreement and the first-loss position, and sets out the unit economics, the loss curve and the protections that determine whether a position is sound. Using a transparent, stylised framework calibrated to 2026 Gulf conditions, the paper shows how the net spread on a lending book is built and eroded, how a warehouse waterfall protects the senior lender, how loss curves differ by book quality, and how the return ladder rewards each position for the risk it bears. The figures in this paper are illustrative and are clearly labelled as such; they are intended to convey mechanics and orders of magnitude, not to forecast the performance of any particular firm or facility. The paper concludes that funding fintech lending books is neither venture risk nor conventional corporate credit, but a structured-credit discipline in its own right, and that the investor who masters its underwriting can earn an attractive, asset-backed return in a market the banks have been slow to serve.

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Keywords: embedded finance, lending fintech, private credit, warehouse facility, forward flow, loss curve, unit economics, first-loss, asset-backed lending, GCC fintech

1. INTRODUCTION

A consumer in Riyadh buys a sofa and pays in four instalments at the checkout. A small merchant in Dubai draws a working-capital advance inside the dashboard of the platform that processes its card payments. A salaried worker in Abu Dhabi takes a short-term advance against next month's wages through an app embedded in a payroll system. None of these borrowers visited a bank, filled in a paper form or waited for a committee. Each of them, without necessarily knowing it,

borrowed from a lending fintech, and the money they borrowed was funded not by the fintech's own equity but by a facility provided, in growing measure, by a private-credit investor.

This is the quiet shift that sits beneath the visible growth of embedded finance. The headlines describe the front end: the buy-now-pay-later button, the merchant-cash-advance widget, the earned-wage-access feature woven into software people already use. The economics, however, are decided at the back end, in the capital that funds the loans. A lending fintech can build an elegant app, acquire borrowers cheaply and underwrite them well, and still fail if it cannot fund the loans it originates at a cost and on terms that leave a margin. Conversely, an investor who understands how to fund those loans, and how to protect that funding, can earn an attractive, asset-backed return while the fintech does the work of finding and serving the borrowers.

This paper is written for two audiences whose interests meet at the lending book. The first is the private-credit, direct-lending and special-situations investor seeking yield and complexity, the kind of investor who already provides warehouse lines and forward-flow capital in more mature markets and is now looking at the Gulf. The second is the venture, growth and fintech investor assessing the GCC ecosystem, who needs to understand the debt side of a lending fintech in order to value the equity side. The two are connected: the availability and cost of debt funding is one of the largest determinants of a lending fintech's equity value, because it sets the ceiling on how fast the company can grow and how much margin it keeps. An equity investor who does not understand the lending book is valuing only half the business.

The central argument is simple to state and consequential in practice. Funding a fintech lending book is a structured-credit discipline, distinct from both venture investing and conventional corporate lending. It is not venture risk, because the investor is lending against a diversified, self-liquidating pool of receivables protected by over-collateralisation and a loss waterfall, not betting on a single company's success. It is not conventional corporate credit either, because the borrower of record is not the fintech but a remote, bankruptcy-protected pool of consumer or merchant loans, and the analysis turns on the behaviour of that pool rather than on the fintech's own balance sheet. The investor who treats it as either of those things will misprice it. Treated correctly, as asset-backed structured credit, it offers a defensible, repeatable return.

The Gulf context sharpens the opportunity. The region has a young, digitally native, under-banked-at-the-margin population, high smartphone penetration, supportive regulators in the UAE and Saudi Arabia who have built licensing regimes for finance companies and BNPL providers, and a wave of well-funded fintechs that have raised equity but are constrained by the scarcity of local debt capital. Gulf banks, with low-cost deposit funding and conservative risk appetites, have been slow to provide warehouse lines to young lending fintechs. That gap, between the equity that has been raised and the debt that is needed to deploy it, is precisely the space a private-credit investor can occupy, and it is wider in the Gulf than in markets where specialist warehouse lenders are abundant.

The paper makes four contributions. First, it separates cleanly the two kinds of capital a lending fintech needs, the equity that funds the company and the debt that funds the loans, and explains why conflating them is the most common analytical error. Second, it sets out the principal structures, the senior warehouse, the mezzanine layer, the forward-flow purchase and the first-loss position, and the unit economics and protections of each. Third, it provides a transparent, stylised framework, with clearly labelled illustrative figures, for reasoning about the net spread, the loss curve, the return ladder and the sensitivity of returns to the drivers that matter. Fourth, it

draws out what is specific to the Gulf, in regulation, data, currency and enforcement, that an investor must weigh before committing capital.

The remainder of the paper is organised as follows. Section 2 reviews the relevant literature on financial intermediation, securitisation and structured credit, and states the propositions the analysis tests. Section 3 describes the data and the stylised framework. Section 4 presents the results: the two kinds of capital, the unit economics, the warehouse structure, the loss curve, the return ladder and the structuring choices. Section 5 stresses the conclusions under adverse scenarios. Section 6 sets out implementation considerations specific to the Gulf. Section 7 concludes. Three appendices record the base-case assumptions, a diligence checklist and a glossary.

2. LITERATURE REVIEW AND PROPOSITIONS

The analysis draws on four strands of the literature: the theory of financial intermediation and why specialist lenders exist; the economics of securitisation and asset-backed funding; the structure and incentives of warehouse and forward-flow arrangements; and the growing literature on fintech credit and embedded finance. Each contributes a building block to the framework that follows.

2.1 Financial Intermediation and the Funding of Lending

The foundational literature on financial intermediation explains why specialist institutions exist to make loans rather than savers lending directly to borrowers. Intermediaries reduce the cost of screening and monitoring borrowers, pool and diversify idiosyncratic credit risk, and transform the maturity and liquidity of claims. A lending fintech is, in this light, a modern intermediary: it screens and monitors borrowers using data and software, and it pools their loans into a diversified book. What it typically lacks, in its early years, is the deposit base or the balance sheet that a bank uses to fund those loans. The literature on the separation of origination from funding, developed in the context of the originate-to-distribute banking model, is directly relevant: it shows both the efficiency of letting the best originator originate and the best funder fund, and the incentive problems that arise when the originator keeps none of the risk. That tension, between specialisation and aligned incentives, runs through every structure in this paper.

2.2 Securitisation and Asset-Backed Funding

A second literature concerns the economics of securitisation and asset-backed funding, in which a pool of receivables is financed separately from the originator that created them. The key insight is bankruptcy remoteness: by transferring the receivables to a special-purpose vehicle, the funder of the pool is protected from the originator's own insolvency, so the credit analysis turns on the pool rather than on the originator. This is what makes funding a lending book different from lending to the fintech as a company. The literature also sets out the central protections of asset-backed structures, over-collateralisation, excess spread, reserve accounts and the loss waterfall, and shows how they allocate losses so that the senior funder is paid first and the originator's own capital absorbs the first losses. These protections, rather than the creditworthiness of any single borrower, are what make a senior warehouse position investment-grade in substance even when the underlying borrowers are not.

2.3 Warehouse and Forward-Flow Structures

A third strand examines the specific arrangements through which specialist credit funds originators: the revolving warehouse facility, under which the funder advances against a borrowing base of eligible receivables, and the forward-flow agreement, under which the funder commits in advance to purchase receivables as they are originated. The literature on these structures emphasises the borrowing base and the eligibility criteria as the operative controls, the advance rate as the embodiment of the over-collateralisation, and the covenants, on delinquency, default and dilution, as the triggers that protect the funder if the pool deteriorates. It also draws out the difference in risk between lending against a pool that the originator continues to own, where the originator's first-loss equity protects the funder, and purchasing the pool outright, where the funder takes the credit risk directly and prices accordingly.

2.4 Fintech Credit and Embedded Finance

A fourth and newer literature concerns fintech credit itself: how technology changes the origination and underwriting of loans, whether algorithmic underwriting on alternative data outperforms or merely differs from traditional credit scoring, and how embedding credit at the point of need, in a checkout, a marketplace or a payroll system, changes both the demand for credit and the information available to underwrite it. The embedded-finance literature stresses that distribution through a host platform lowers customer-acquisition cost and can improve selection, because the platform observes the borrower's behaviour, but it also notes the risks: thin credit files, short loss-emergence histories, and the temptation to grow originations faster than the underwriting can be validated. For an investor funding the book, these are not abstractions; they are the reasons loss curves differ by book and the reasons diligence on the originator's underwriting matters as much as diligence on the structure.

2.5 Synthesis and Propositions

Taken together, these literatures imply that a fintech lending book can be funded by capital that is largely insulated from the fintech's own corporate risk, provided the structure is sound; that the protections of asset-backed funding, over-collateralisation, excess spread and the waterfall, allocate risk along a ladder from senior to first-loss; that each position on that ladder should earn a return commensurate with its place; and that the quality of the originator's underwriting, expressed in the loss curve, is the master variable that determines whether any position is sound. The paper tests five propositions.

Proposition 1. The equity that funds a lending fintech and the debt that funds its loans are distinct claims with distinct risks; the debt can be made largely remote from the fintech's corporate risk, and must be analysed against the loan pool rather than the company.

Proposition 2. The net spread on a lending book is built from the gross portfolio yield less funding cost, expected credit loss and servicing cost; the residual spread, not the headline yield, is what the capital structure divides among its layers.

Proposition 3. A warehouse waterfall, through the advance rate, excess spread and reserves, protects the senior funder so that the originator's first-loss capital absorbs the early losses; the senior position is sound even when the underlying borrowers are not prime.

Proposition 4. The loss curve is the master variable; its level and shape, which differ markedly by book quality, determine the sizing of every protection and the soundness of every position.

Proposition 5. Each position on the funding ladder, senior warehouse, mezzanine, forward-flow purchase and first-loss, should earn a return commensurate with its risk; the investor should

choose its position to match its risk appetite, its need for control and the maturity of the originator.

3. DATA AND METHODOLOGY

This study is analytical. It uses a transparent, stylised framework whose assumptions are stated explicitly rather than an econometric estimation on proprietary loan-tape data, which is neither available at the market level nor appropriate to disclose at the firm level. The purpose is to illuminate the mechanics of funding a lending book and the trade-offs an investor faces, not to forecast the performance of any particular fintech or facility. Every figure in the paper is illustrative and is labelled as such.

3.1 The Lending-Book Funding Framework

The framework has four components. The first is a capital decomposition that separates the equity funding the company from the debt funding the loans and sets out the layers of that debt. The second is a unit-economics model that builds the net spread on a lending book from its gross yield by subtracting funding cost, expected credit loss and servicing cost. The third is a structural model of the warehouse, the advance rate, the excess spread, the reserve and the waterfall, that shows how losses are allocated between the originator's first-loss capital and the senior funder. The fourth is a return model that places each funding position on a risk-return ladder and tests the sensitivity of returns to the drivers that matter. The framework is deliberately organised around the trade-offs rather than around a single optimal structure, because the right structure depends on the investor's appetite and the originator's maturity.

3.1a What the Framework Does and Does Not Do

It is important to be clear about scope. The framework is a tool for reasoning about how to fund a lending book and how to protect that funding. It is not a credit model of any specific loan pool, and it does not produce a rating, a price or a recommendation for any actual facility. It abstracts from many real-world details, the precise eligibility criteria of a borrowing base, the tax and regulatory treatment of a particular special-purpose vehicle, the mechanics of a specific servicing transfer, that matter greatly in execution but would obscure the structure if included here. Its value is in making the relationships, between the loss curve and the advance rate, between the advance rate and the senior return, between the originator's first-loss and the senior funder's protection, visible and intuitive.

3.2 Assumptions and Their Justification

The stylised inputs, the gross yield, the funding cost, the loss rate, the servicing cost, the advance rate and the position returns, are chosen to be representative of conditions a private-credit investor would plausibly encounter when funding a Gulf lending fintech in 2026, and are calibrated so that the mechanics are clear. They are not drawn from any single firm's loan tape and should not be read as such. The gross yields reflect the high nominal rates available on short-duration consumer and small-merchant credit in the region; the funding costs reflect a dollar-linked rate environment under the currency pegs plus a spread for the structure; the loss rates span the range from prime to thin-file books; and the position returns reflect the subordination ladder. The full set is recorded in Table 1 and, in expanded form, in Appendix A.

Table 1. Base-Case Illustrative Assumptions for the Funding Framework

Indicative, forward-looking values used to illustrate mechanics; not forecasts and not drawn from any firm's data. See Appendix A.

Parameter	Illustrative value
Gross portfolio yield (blended)	~22% p.a.
Senior warehouse advance rate	~80% of eligible receivables
Senior warehouse cost (all-in)	~9% p.a.
Mezzanine target return	~14% p.a.
Forward-flow purchase target return	~13% p.a.
First-loss / equity target return	~22%+ p.a.
Expected net credit loss (near-prime book)	~5-7% of origination
Servicing and operating cost	~3-4% of average book
First-loss / over-collateralisation cushion	~12-15% of book

4. RESULTS AND DISCUSSION

This section presents the framework in the order of the propositions: the two kinds of capital (Proposition 1), the unit economics that produce the net spread (Proposition 2), the warehouse waterfall (Proposition 3), the loss curve (Proposition 4) and the return ladder and structuring choices (Proposition 5). The figures are illustrative throughout.

4.0a Why the Same Fintech Carries Two Different Risks

Before setting out the structures, it is worth establishing the proposition that motivates the whole paper: that a lending fintech presents two different risks to two different kinds of capital. The equity investor in the company bears the risk that the business fails, that customer acquisition proves too costly, that a competitor wins the distribution, that the unit economics never turn positive, that the regulator withdraws the licence. That is venture risk, and it is rewarded with the upside of ownership. The investor who funds the loans bears a different risk: that the pool of receivables underperforms, that more borrowers default than the loss curve predicted, that the originator stops servicing well. That risk is borne against collateral, the receivables themselves, and is protected by the structure. The same firm, financed two ways, presents venture risk to one investor and asset-backed credit risk to the other. Confusing the two is the central error this paper exists to prevent.

4.1 The Two Kinds of Capital

A lending fintech needs two kinds of capital, and Figure 1 shows how the larger of them, the debt that funds the loans, is itself layered. The equity that funds the company, the venture and growth capital that pays for engineers, marketing and the regulatory licence, is small relative to the debt that funds the loans once the company is scaling, because every loan made requires funding many times the size of the company's own cost base. The figure decomposes the funded lending book into its layers: a thin slice of the originator's own equity as first-loss, a mezzanine layer, a large senior warehouse, and a forward-flow or securitisation take-out that recycles capital as loans season.

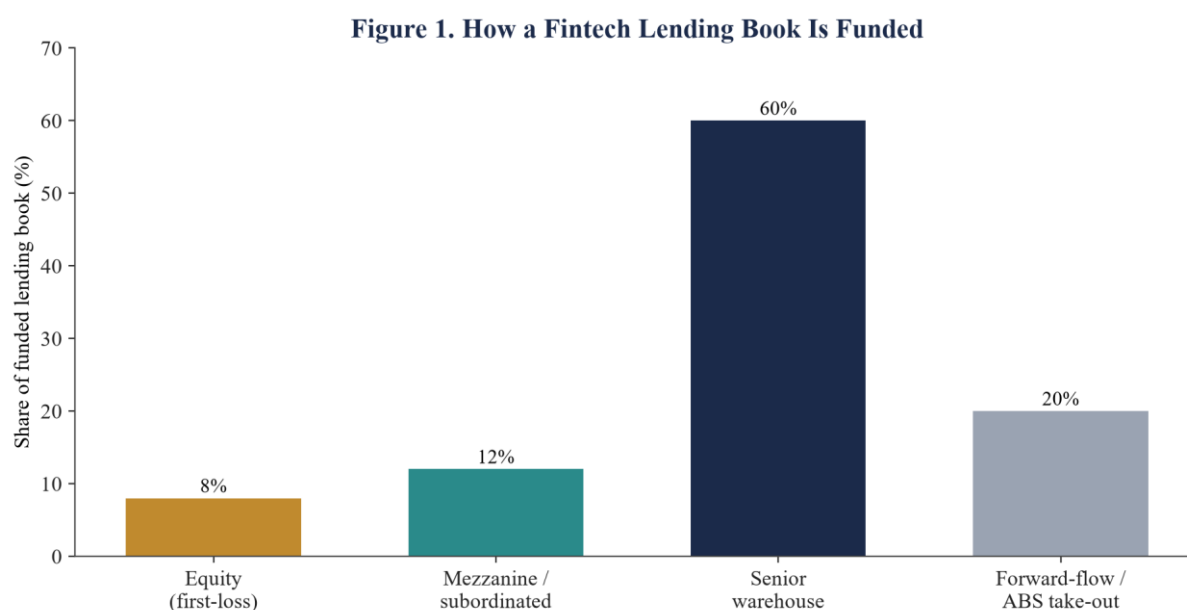


Figure 1. How a Fintech Lending Book Is Funded

Illustrative; the senior warehouse is the largest funding layer, the originator's first-loss equity the smallest.

The figure supports Proposition 1. The originator's first-loss equity, though small, is doing disproportionate work: it absorbs the early losses and so makes the senior layer safe. The senior warehouse, the largest layer, is the cheapest because it is the best protected, advanced against eligible receivables at a conservative rate and paid first from collections. The mezzanine sits between, bearing more risk than the senior for a higher return. The forward-flow or securitisation take-out, at the right of the figure, is not so much a layer as a recycling mechanism: as a vintage of loans seasons and proves itself, it can be sold or refinanced, returning capital to fund new originations. The practical implication is that the investor must decide which layer to occupy, because each is a different risk and a different return, and a single investor may occupy more than one.

4.2 The Unit Economics of a Lending Book

The viability of funding a lending book rests on its unit economics: whether the gross yield on the loans is enough to cover the funding cost, the credit losses and the servicing, and still leave a net spread to divide among the providers of capital. Figure 2 builds the net spread as a waterfall.

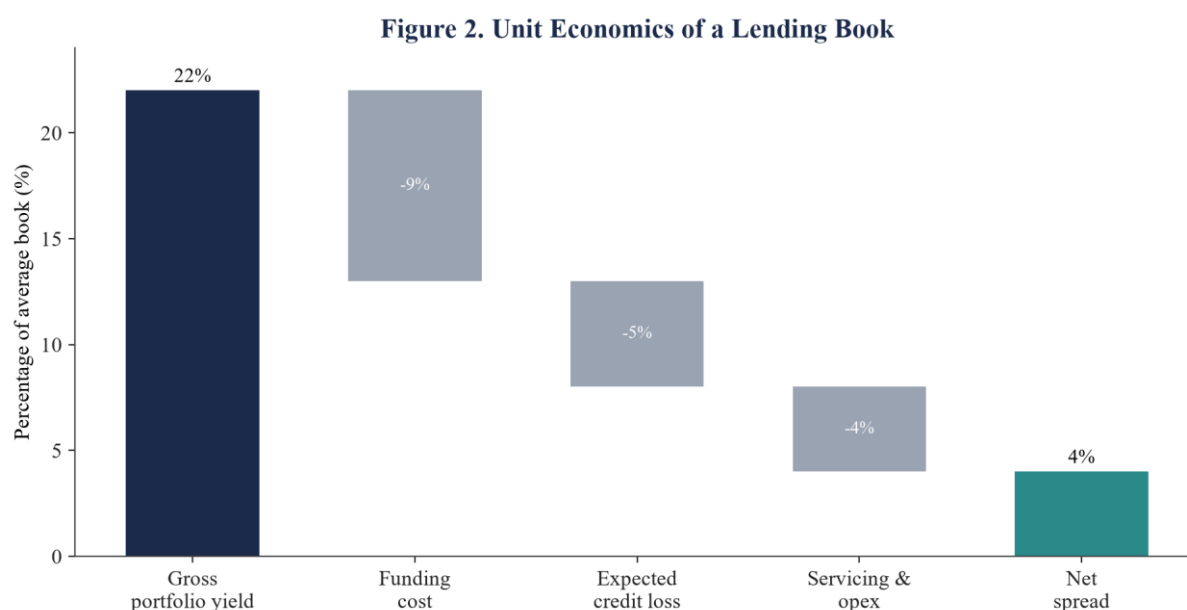


Figure 2. Unit Economics of a Lending Book

Illustrative; the gross yield is eroded by funding cost, credit loss and servicing to leave a thin net spread.

The figure supports Proposition 2. The gross portfolio yield, high in nominal terms because the loans are short and the borrowers pay for convenience and speed, is eroded in three steps. Funding cost is the largest deduction, reflecting the cost of the warehouse and the layers above it. Expected credit loss is the second, and the most uncertain, because it depends on the loss curve. Servicing and operating cost is the third, covering collections, fraud control and the technology that runs the book. What remains, the net spread, is thin relative to the headline yield, and it is this residual, not the gross yield, that the capital structure divides. The lesson for the investor is that the headline yield is deceptive: a book yielding twenty-two per cent gross may leave only a few points of net spread, and a small deterioration in the loss rate or the funding cost can consume it entirely. This is why the loss curve and the funding cost dominate the analysis.

A corollary worth drawing out is that the net spread is the originator's margin, not the funder's. The senior funder earns its contractual rate; the originator earns the residual after the funder, the losses and the servicing are paid. A book whose net spread is too thin cannot support the originator's own costs, however attractive the senior position looks in isolation. The funder therefore has an interest in the originator's whole economics, not only in its own slice, because a funder whose originator goes out of business inherits a servicing problem and a stranded pool.

4.3 The Warehouse Structure and the Loss Waterfall

The structure through which private credit most commonly funds a lending book is the warehouse facility, and its defining feature is the waterfall that allocates losses. Figure 3 shows the structure as a stack of commitments.

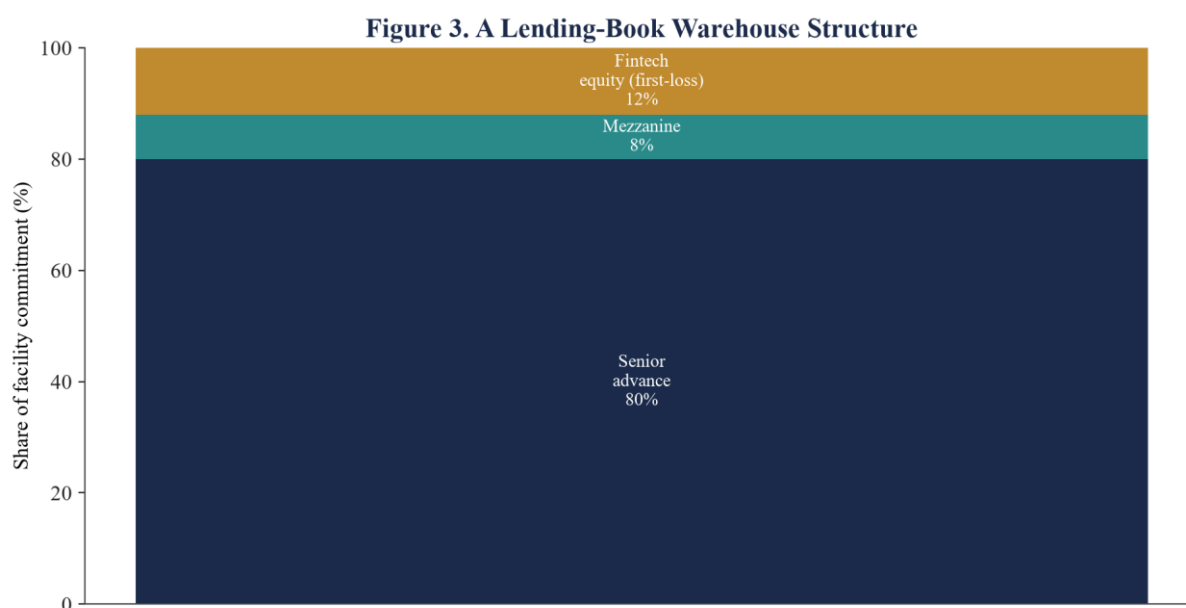


Figure 3. A Lending-Book Warehouse Structure

Illustrative; the senior advance is protected by mezzanine and the originator's first-loss equity beneath it.

The figure supports Proposition 3. The senior advance, here eighty per cent of eligible receivables, is the commitment the private-credit investor most often provides. Beneath it sit the mezzanine and the originator's own first-loss equity, together the over-collateralisation that protects the senior. The mechanics are these. Borrowers repay into a collection account. The waterfall pays, in order: the costs of servicing, the senior interest and scheduled principal, the mezzanine, a reserve account if it is below its target, and only then the residual to the originator. Losses are absorbed in the reverse order: the originator's first-loss equity is exhausted first, then the mezzanine, and only if both are gone does the senior bear a loss. Because the first-loss and mezzanine together are sized to a multiple of the expected loss, the senior is protected against a substantial deterioration in the pool before it is touched. This is why a senior warehouse position can be sound, in substance investment-grade, even when the underlying borrowers are near-prime or thin-file: the senior is not lending to the borrowers but to a protected slice of a diversified pool.

Three controls make the protection real rather than nominal. The first is the borrowing base and the eligibility criteria, which exclude delinquent, concentrated or out-of-policy loans from the pool against which the senior advances, so that the advance rate is applied only to performing collateral. The second is the set of covenants, on delinquency, default, dilution and excess spread, that trigger an early amortisation if the pool deteriorates, switching the waterfall to repay the senior first and fast. The third is the reserve account, a cash buffer that absorbs timing mismatches and early losses. Together these turn the static advance rate into a dynamic protection that tightens automatically as the pool worsens. For the investor, diligence on these controls is the diligence that matters: a generous advance rate with weak eligibility criteria and loose covenants is more dangerous than a conservative advance rate with tight ones.

4.4 The Loss Curve, the Master Variable

Every protection in the structure is sized to the loss curve, the cumulative loss a vintage of loans is expected to incur as it seasons. Figure 4 shows stylised loss curves for three qualities of book.

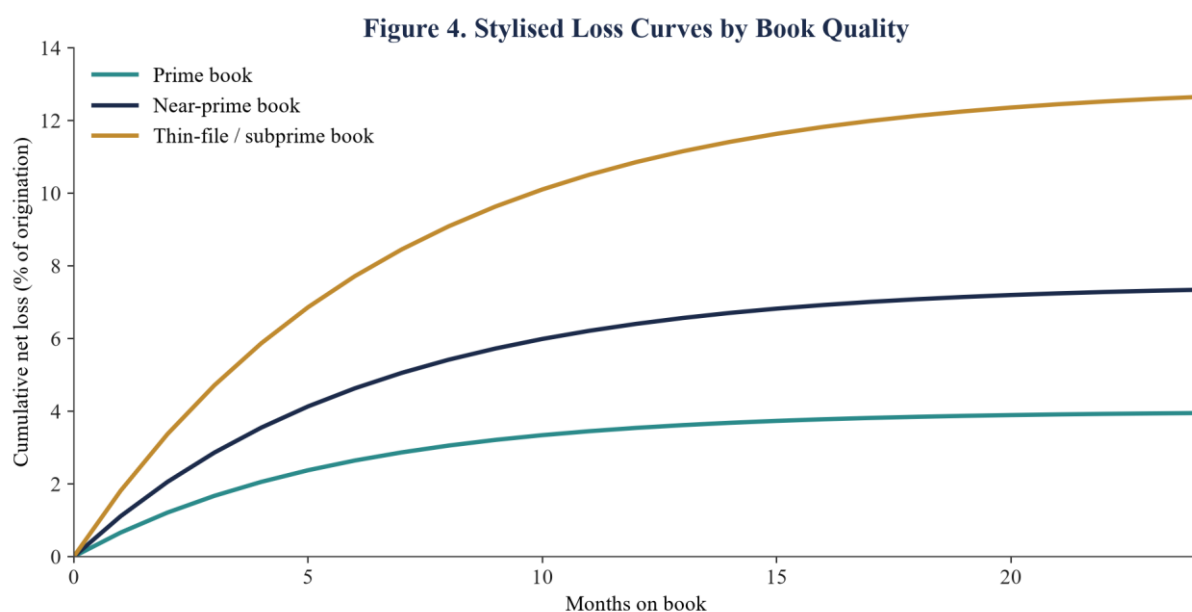


Figure 4. Stylised Loss Curves by Book Quality

Illustrative; losses emerge and plateau higher for thinner-file books; shape and level differ by underwriting.

The figure supports Proposition 4. Each curve rises steeply in the first months as the weakest loans default, then flattens as the surviving loans prove themselves and the vintage seasons. Two features matter to the funder: the level at which the curve plateaus, the ultimate cumulative loss, and the speed at which it gets there, the loss-emergence period. A prime book plateaus low and the funder can advance generously against it. A thin-file or subprime book plateaus far higher and emerges faster, so the funder must advance less, demand more first-loss beneath it, and price for the greater risk. The most dangerous situation for a funder is a young book whose loss curve has not yet had time to plateau, because the ultimate loss is still unknown and the originator may, in good faith, have under-estimated it. This is why the seasoning of the originator's vintages, the length of its loss history, is as important to the funder as the level of its losses: a short history is itself a risk, because it means the loss curve is an extrapolation rather than an observation.

The loss curve also explains why diligence on the originator's underwriting is inseparable from diligence on the structure. The structure protects the funder against losses up to the size of the cushion; the underwriting determines whether actual losses stay within it. An investor who builds a beautiful waterfall on top of an originator whose underwriting is deteriorating, perhaps because it is growing originations faster than it can validate the new cohorts, has protected itself against the wrong risk. The funder must therefore monitor the loss curve continuously, vintage by vintage, and must have the covenant rights to act, to stop new advances, to require more first-loss, to trigger early amortisation, if the curve drifts above plan. The loss curve is not a number set at closing; it is a living variable the funder watches for the life of the facility.

4.5 The Return Ladder by Position

Because each funding position bears a different risk, each earns a different return. Figure 5 sets out the ladder.

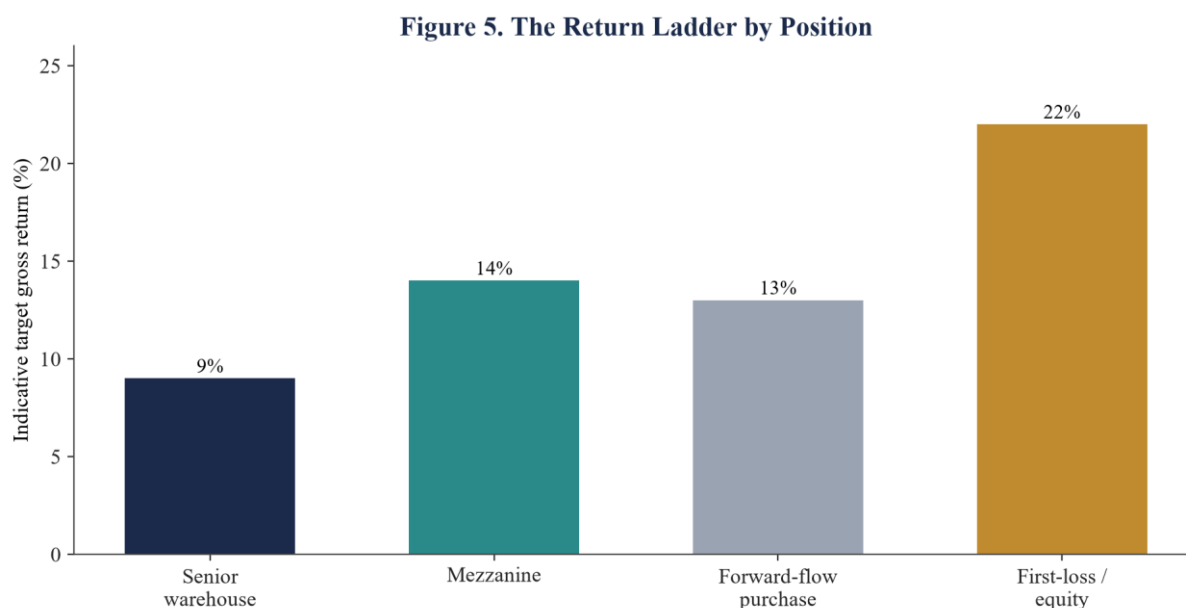


Figure 5. The Return Ladder by Position

Illustrative; the required return rises with subordination, from the senior warehouse to the first-loss position.

The figure supports Proposition 5. The senior warehouse, best protected and paid first, earns the lowest return, in the high single digits, commensurate with its near-investment-grade risk. The mezzanine, subordinated to the senior but ahead of the first-loss, earns a low-to-mid teens return. The forward-flow purchase, in which the investor buys the receivables outright and so takes the pool's credit risk directly, earns a return similar to the mezzanine but with a different risk profile, less reliant on the originator's continued solvency because the investor owns the assets, but more exposed to the pool itself. The first-loss or equity position, which absorbs the early losses, earns the highest return, in the low twenties or above, commensurate with its place at the bottom of the waterfall. The ladder is not arbitrary: each step up in return is a step down in protection, and the investor's task is to find the position whose risk it understands and whose return compensates it.

It is worth distinguishing the senior position from the forward-flow purchase, because they are often confused. In a senior warehouse, the investor lends against receivables the originator continues to own, and is protected by the originator's first-loss equity beneath it; the investor's risk is that losses exceed the cushion, and its recourse depends partly on the originator surviving to service the book. In a forward-flow purchase, the investor buys the receivables, owns them outright, and takes their credit risk directly with no first-loss beneath it unless separately negotiated; the investor is more insulated from the originator's insolvency but more exposed to the pool. Which is preferable depends on the investor's view of the originator and the pool: a funder confident in the pool but wary of the originator may prefer to own the assets; a funder confident in the originator but wanting protection against the pool may prefer the senior position with first-loss beneath it.

4.6 What Drives the Return, and What Puts It at Risk

The returns in Figure 5 are not fixed; they depend on a handful of drivers, and the investor should know which matter most. Figure 6 places the sensitivity of a mezzanine position to its principal drivers in a single view.

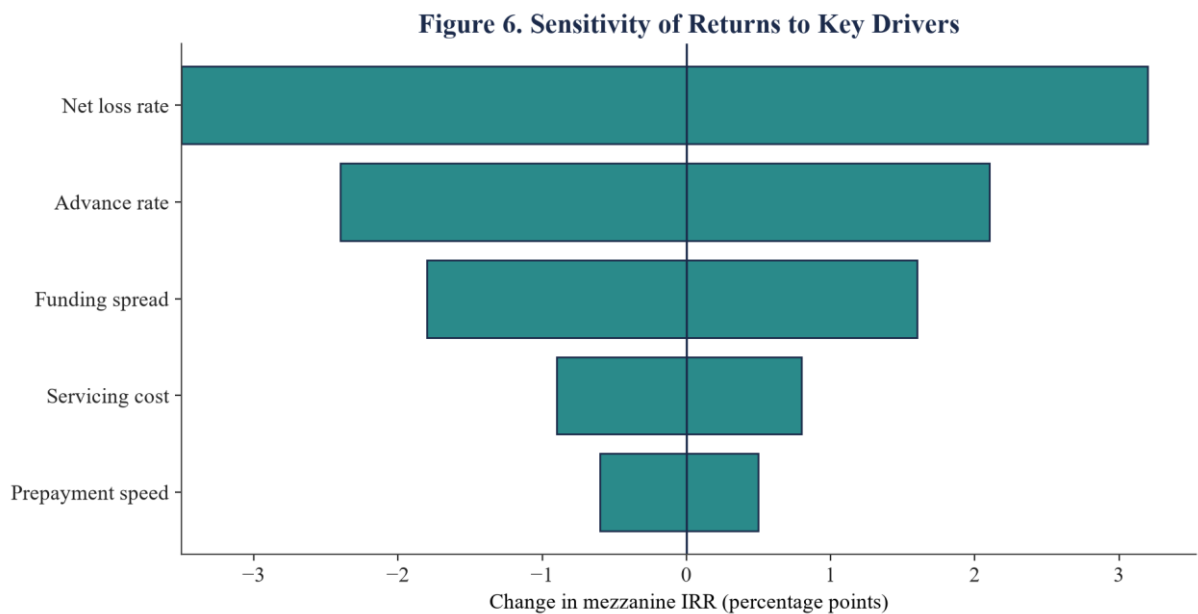


Figure 6. Sensitivity of Returns to Key Drivers

Illustrative; the net loss rate and the advance rate dominate the return; funding spread and servicing matter less.

The sensitivity analysis confirms the hierarchy. The net loss rate is the largest driver, because losses, once they exceed the cushion, fall directly on the subordinated positions; a book whose losses run materially above plan can erase the mezzanine return entirely. The advance rate is the second, because it determines how much over-collateralisation protects the position. The funding spread and the servicing cost matter, but less, because they are more predictable and more contractually fixed. The prepayment speed matters least in the central case, though a very fast prepayment can shorten the book and reduce the spread earned. The lesson for the investor is to spend its diligence where the sensitivity is greatest: on the loss curve and the advance rate, not on the second-order terms. A facility can survive a higher funding cost; it cannot survive a loss curve that plateaus well above the cushion.

4.7 The Gulf Context and Its Trajectory

The opportunity described in this paper is sharpened by the trajectory of embedded lending in the Gulf. Figure 7 sketches an illustrative path for the originations that need funding.

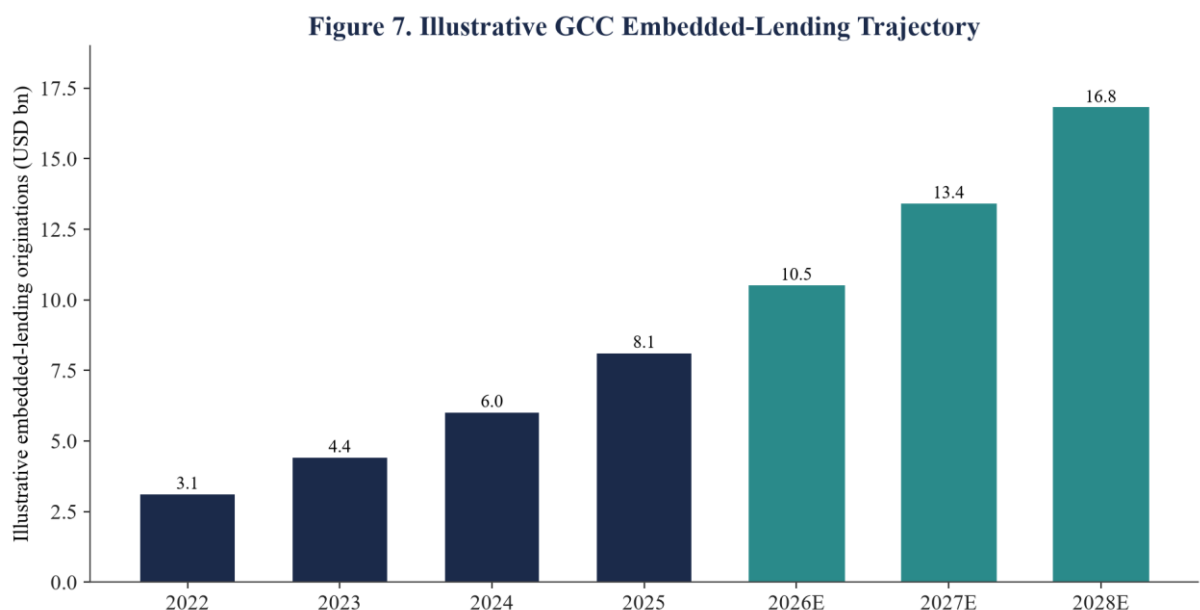


Figure 7. Illustrative GCC Embedded-Lending Trajectory

Illustrative orders of magnitude, not a forecast; intended to convey the direction and scale of the funding need.

The figure is illustrative and is not a forecast; its purpose is to convey direction and scale, not a number. The drivers behind such a trajectory are real and well documented in qualitative terms: a young, digitally native population; high smartphone and e-commerce penetration; supportive regulation, with the UAE and Saudi Arabia having built licensing regimes for finance companies and BNPL providers; and a cohort of well-funded fintechs that have raised equity and now need debt to deploy it. The point for the investor is that the funding need grows with the originations, and the supply of local warehouse capital has not kept pace, because Gulf banks have been slow to lend to young lending fintechs. That gap between the equity raised and the debt needed is the opportunity, and it is structural rather than cyclical: it reflects the immaturity of the local structured-credit market, which a specialist private-credit investor is well placed to serve.

4.8 Three Ways to Fund a Book, Compared

The investor's structuring choice can be summarised by comparing the three principal positions on the dimensions that matter. Figure 8 sets them side by side.

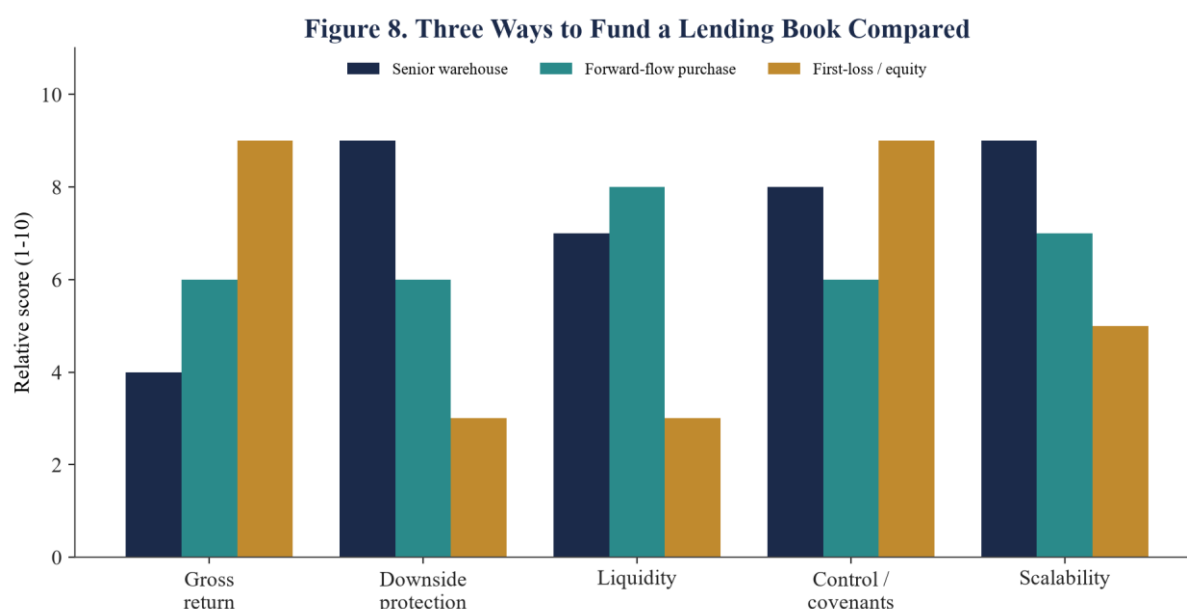


Figure 8. Three Ways to Fund a Lending Book Compared

Illustrative; the senior warehouse maximises protection, the first-loss the return, the forward-flow the balance.

The comparison supports Proposition 5. The senior warehouse scores highest on downside protection, liquidity and the strength of its covenants, but lowest on return, the profile of an investor seeking a defensive, asset-backed yield. The first-loss or equity position scores highest on return and on control, because the first-loss provider usually negotiates strong rights, but lowest on protection and liquidity, the profile of an investor with venture-like appetite and deep underwriting capability. The forward-flow purchase sits between, offering a balanced profile with good liquidity, because the assets can often be resold or securitised, and moderate protection. There is no single best position; there is only the position that matches the investor's appetite, capability and view of the originator. The disciplined investor chooses deliberately rather than taking whatever the originator offers.

4.9 A Worked Illustration of Structuring a Facility

To make the framework concrete, consider a private-credit investor evaluating a warehouse line for a Gulf BNPL fintech that has raised growth equity and originates short-duration consumer instalment loans. The investor begins, correctly, with the loss curve, requesting the originator's vintage loss data and finding that the oldest vintages have seasoned to a plateau around six per cent, while the newest are too young to read. It treats the seasoned vintages as evidence and the young ones as risk, and sizes the cushion to the seasoned loss plus a margin for the unknown in the young cohorts. It sets the advance rate at eighty per cent, requiring the originator to hold twenty per cent first-loss beneath it, a multiple of the expected loss. It defines tight eligibility criteria, excluding loans past thirty days delinquent, capping concentration by merchant and by borrower, and requiring minimum seasoning before a loan enters the base. It writes covenants on delinquency and net loss that trigger early amortisation if the pool drifts above plan, and requires a reserve account funded from excess spread. It prices the senior at a spread over the dollar-linked base rate that reflects the structure rather than the borrowers. Having built the protection, it monitors the loss curve monthly, vintage by vintage, and retains the right to halt new advances if the curve drifts. The illustration shows the framework guiding the structuring in priority order: the loss curve first, the cushion and advance rate next, the eligibility and covenants next, the price last. The investor did not begin with the return it wanted and work backwards; it began with the risk and let the return follow from the protection.

4.10 Bringing the Funding Choices Together

The elements of the framework, the two kinds of capital, the unit economics, the warehouse waterfall, the loss curve, the return ladder and the structuring choice, fit together into a single discipline. The investor first decides which risk it wants to bear, the company's or the pool's, and so whether it is an equity or a debt investor in the fintech. If debt, it decides which position on the ladder matches its appetite. It then underwrites the loss curve, because the loss curve sizes every protection. It structures the waterfall, the advance rate, the eligibility, the covenants and the reserves, to the loss curve and to its position. It prices for the residual risk after the protection. And it monitors the loss curve for the life of the facility, with the rights to act if the curve drifts. This is structured credit, practised with discipline, and it is neither venture investing nor conventional corporate lending. It is its own thing, and the investor who masters it can fund the growth of embedded finance in the Gulf at an attractive, defensible return.

5. ROBUSTNESS AND SCENARIO ANALYSIS

Because the framework is stylised, its value lies in whether its conclusions hold under different assumptions. This section stresses the central conclusions, that the senior position is well protected, that the loss curve dominates, and that the return ladder is rational, under three adverse scenarios and one favourable one. The scenarios stress different parts of the structure and should be read as a set.

5.0a Reading the Scenarios as a Set

The scenarios that follow, a worse loss curve, a higher funding cost, and an originator failure, stress the three things that can go wrong with a funded lending book: the pool, the funding and the originator. No single scenario is a forecast; together they map the boundary within which the conclusions hold and beyond which they fail, and they tell the investor where to concentrate its protection.

5.1 A Worse Loss Curve

The first and most important scenario is a loss curve that plateaus higher than underwritten. This is the risk the whole structure is built to absorb, and the structure holds up to the size of the cushion. If losses rise from the underwritten level towards the cushion, the originator's first-loss equity is consumed, then the mezzanine, while the senior remains protected. The senior is touched only if losses exceed the entire over-collateralisation, a substantial deterioration. The scenario therefore validates the senior position and prices the subordinated ones: the mezzanine and first-loss returns are high precisely because they bear this risk. The practical lesson is that the cushion must be sized to a plausible adverse loss, not to the central case, and that the covenants must trigger early amortisation before the cushion is exhausted, so that the senior begins to be repaid while protection remains. A structure that waits until the cushion is gone before acting has waited too long.

5.2 A Higher Funding Cost

The second scenario is a rise in the funding cost, whether from higher base rates under the dollar-linked pegs or a widening of the spread the warehouse demands. A higher funding cost compresses the net spread, as Figure 2 makes clear, and so squeezes the originator's residual margin. The senior position is largely insulated, because it earns the higher rate; the squeeze falls on the originator and, through it, on the originator's ability to absorb losses and to keep originating. The risk to the funder is therefore indirect: a funding cost that rises enough to make the originator's book unprofitable threatens the originator's survival, which threatens the servicing and the first-loss beneath the funder. The implication is that the funder should test the originator's economics at a stressed funding cost, not only its own position, and should prefer originators whose gross yields leave enough net spread to survive a funding-cost shock. A book with a thin net spread is fragile to this scenario even if the senior position looks safe in isolation.

5.3 An Originator Failure

The third scenario is the failure of the originator itself, whether through a venture-risk event, running out of equity, losing its licence, or a corporate insolvency. This is the scenario that most distinguishes funding a lending book from lending to a company, and it is where bankruptcy remoteness earns its keep. If the structure is sound, the receivables sit in a special-purpose vehicle remote from the originator's insolvency, the collections continue to flow to the funder, and a back-up servicer, named in advance, steps in to run the book. The funder's loss in this scenario is not the loss of the company but the friction of the servicing transfer and any deterioration in collections during it. The implications for structuring are concrete: the funder must insist on true bankruptcy remoteness, on a named and tested back-up servicer, on data and systems access that allows the book to be run without the originator, and on the right to transfer servicing on a trigger. A forward-flow purchaser that owns the receivables outright is better insulated against this scenario than a senior warehouse lender relying on the originator's first-loss, which is one reason an investor wary of the originator may prefer to own the assets. This scenario is where the two kinds of capital diverge most sharply: the equity investor loses everything, while the well-structured debt investor recovers from the pool.

5.4 A Favourable Scenario

A candid analysis should also consider the favourable case, in which the loss curve plateaus at or below the underwritten level, the funding cost is stable, the originator thrives and the book scales. In this case the protections are never tested, the subordinated positions earn their full returns, the originator builds a track record that lowers its future funding cost, and the funder can grow the

facility and recycle capital through forward-flow or securitisation as vintages season. The favourable scenario is not merely the absence of the adverse ones; it is the base case for a well-underwritten book with a sound originator, and it is why the opportunity is attractive. The investor should structure for the adverse scenarios but should expect, on a well-chosen originator, the favourable one. The asymmetry, modest downside if structured well, attractive return if the book performs, is the essence of good structured credit.

5.5 When to Decline

The robustness analysis also marks out when an investor should decline. It should decline when the originator's loss history is too short to read the loss curve and the originator will not hold enough first-loss to cover the resulting uncertainty. It should decline when the structure is not genuinely bankruptcy-remote, so that an originator failure would strand the pool. It should decline when the eligibility criteria and covenants are too loose to control a deteriorating pool, however generous the headline advance rate. And it should decline when the net spread is too thin to survive a funding-cost or loss shock, because such a book is fragile regardless of the senior position's apparent safety. Declining well is part of the discipline: the investor that funds every book it sees will, sooner or later, fund the one whose loss curve had not yet plateaued.

6. IMPLEMENTATION CONSIDERATIONS

Translating the framework into practice in the Gulf involves diligence on the loss curve, structuring the bankruptcy-remote vehicle, sizing the protections, and navigating the region's specific features of regulation, data, currency and enforcement. This section sets out the practical steps in priority order.

6.1 Underwriting the Loss Curve First

Because the loss curve is the master variable, the first implementation step is to obtain and validate the originator's vintage loss data. The investor should request loss tapes by vintage, observe how far the oldest vintages have seasoned, and treat the seasoned plateaus as evidence and the young vintages as risk. It should test the originator's own loss assumptions against this data, look for any break in the curve that signals a change in underwriting, and size the cushion to a stressed loss rather than the central case. Where the history is too short to read, the investor should either decline or demand first-loss large enough to cover the uncertainty. This step precedes all others because every protection is sized to its output.

6.2 Structuring the Bankruptcy-Remote Vehicle

The second step is to structure the special-purpose vehicle so that the receivables are genuinely remote from the originator's insolvency. In the Gulf this requires care, because securitisation and true-sale law is less settled in some jurisdictions than in established markets, and the choice of jurisdiction for the vehicle, an onshore finance-company structure, a DIFC or ADGM vehicle under English-law-based frameworks, or an offshore structure, materially affects the strength of the remoteness and the ease of enforcement. The investor should take local legal advice on true sale and remoteness, should prefer jurisdictions whose insolvency and security regimes are tested, and should not assume that a structure that works in one market transfers unchanged to another. The remoteness is not a formality; it is the thing that makes the debt different from the equity.

6.3 Sizing the Protections and Writing the Covenants

The third step is to size the advance rate, the first-loss, the reserve and the covenants to the loss curve and to the investor's position. The advance rate should leave over-collateralisation that is a multiple of the stressed loss; the first-loss should be held by the originator so that its incentives are aligned; the reserve should absorb timing and early losses; and the covenants, on delinquency, default, dilution and excess spread, should trigger early amortisation while protection remains. The eligibility criteria should exclude weak collateral from the base. These protections should be negotiated as a coherent set, because a weakness in one, a loose eligibility criterion, a covenant set too high, undermines the others. The investor should also secure a named back-up servicer and the data and systems access to transfer servicing on a trigger.

6.4 Navigating Regulation, Data and Currency

The fourth step is to navigate the Gulf's specific features. On regulation, the investor must understand the licensing regime the originator operates under, finance-company, BNPL or otherwise, in the UAE, Saudi Arabia or the relevant jurisdiction, and the consumer-protection rules that govern the loans, including any caps on rates or fees that bear on the gross yield. On data, the investor should weigh the maturity of credit-bureau coverage, which is improving across the Gulf but is less deep than in established markets, and should value the alternative data the embedded originator observes, while testing whether that data has been validated through a full loss cycle. On currency, the dollar-linked pegs that anchor the dirham and the riyal simplify the funding, because a dollar-based funder faces little currency mismatch, but the investor should understand the funding-cost implications of a dollar-linked rate environment. These features are not obstacles so much as the specific texture of the Gulf opportunity, which the investor must read accurately to price and protect a facility well.

7. CONCLUDING COMMENTS

A lending fintech is two businesses: a technology business funded by equity and a balance-sheet business funded by debt. As embedded finance pushes credit into the checkouts, marketplaces and payroll systems of the Gulf, the debt that funds the resulting lending books has become a distinct and attractive private-credit opportunity, and the way an investor underwrites, structures and prices that debt determines whether the opportunity is realised or the risk is mispriced.

The analysis supports five conclusions. First, the equity that funds the company and the debt that funds the loans are distinct claims with distinct risks; the debt can be made largely remote from the fintech's corporate risk and must be analysed against the loan pool, not the company. Second, the net spread on a lending book, not its headline yield, is what the capital structure divides, and it is thin enough that the loss curve and the funding cost dominate the analysis. Third, the warehouse waterfall, through the advance rate, the first-loss and the covenants, protects the senior funder so well that a senior position can be sound even when the borrowers are not prime. Fourth, the loss curve is the master variable, and its level and shape, which differ markedly by book quality and seasoning, size every protection. Fifth, each position on the funding ladder earns a return commensurate with its risk, and the investor should choose its position deliberately to match its appetite, its capability and its view of the originator.

Situating this paper within its cluster, it is the funding counterpart to the strategic and ecosystem papers on Gulf fintech and private credit. Where those describe the opportunity and the market, this describes the mechanics of how a private-credit investor actually funds a lending book and protects that funding. For the venture and growth investor, it supplies the debt-side understanding

needed to value the equity side, because a fintech's access to and cost of debt funding is one of the largest determinants of its equity value. For the private-credit investor, it supplies a discipline: structured credit, practised with care, that offers an asset-backed return in a market the banks have been slow to serve.

These conclusions are subject to limitations that also mark out avenues for further work. The framework is stylised and illustrative, not an estimation on loan-tape data, which is neither available at the market level nor disclosable at the firm level; its figures convey mechanics and orders of magnitude, not forecasts. The loss curves, the most important inputs, are necessarily extrapolations for young originators, and the principal risk to the whole approach is a book whose curve has not yet plateaued. The legal robustness of bankruptcy remoteness varies across Gulf jurisdictions and is less tested than in established markets. And the embedded-finance market is young, so its through-cycle behaviour is not yet observed. Further work, as loss histories lengthen and securitisation law settles, can replace the stylised loss curves with observed ones and the illustrative trajectory with measured data. Until then, the discipline this paper sets out, underwrite the loss curve first, structure the remoteness, size the protections to a stressed loss, price for the residual risk and monitor the curve for the life of the facility, is the investor's best protection and its route to a defensible return.

DISCLOSURES

This paper is provided for general information and educational purposes only. It does not constitute investment, legal, tax or financial advice, nor an offer or solicitation to buy or sell any security or financial instrument, nor a recommendation regarding any investment strategy, transaction or counterparty. All figures, tables and scenarios are illustrative and stylised; they are not forecasts, are not drawn from any specific firm's data, and should not be relied upon as representing the performance of any actual fintech, lending book or facility. Readers should obtain independent professional advice before acting on any matter discussed. The views expressed are those of the author in an independent research capacity.

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APPENDIX A. BASE-CASE ILLUSTRATIVE ASSUMPTIONS

The table below records the stylised assumptions used in the framework. They are indicative, forward-looking choices made to illustrate the mechanics of funding a lending book, calibrated to plausible 2026 Gulf conditions. They are not forecasts and are not drawn from any specific firm's data.

Table A1. Full Base-Case Illustrative Assumptions

Indicative and illustrative; see Section 3. Not forecasts; not drawn from any firm's data.

Parameter	Illustrative value	Rationale
Gross portfolio yield (blended)	~22% p.a.	Short-duration consumer and merchant credit; speed and convenience priced in
Funding cost (senior warehouse, all-in)	~9% p.a.	Dollar-linked base rate plus structural spread
Expected net credit loss	~5-7% of origination	Near-prime book; varies with quality and seasoning
Servicing and operating cost	~3-4% of average book	Collections, fraud control, technology
Net spread (residual to originator)	~3-5% of average book	Gross yield less funding, loss and servicing
Senior advance rate	~80% of eligible receivables	Conservative over-collateralisation
First-loss / over-collateralisation	~12-15% of book	Multiple of expected loss; held by originator
Mezzanine target return	~14% p.a.	Subordinated to senior, ahead of first-loss
Forward-flow purchase target return	~13% p.a.	Direct pool risk; insulated from originator insolvency

First-loss / equity target return	~22%+ p.a.	Absorbs early losses; highest required return
Reserve account (target)	~2-3% of book	Buffers timing mismatches and early losses

APPENDIX B. LENDING-BOOK FUNDING DILIGENCE CHECKLIST

The following checklist distills the framework into the questions an investor should answer before funding a fintech lending book. It is organised in the priority order the paper recommends.

1. Loss curve: Have we obtained vintage loss data, observed how far the oldest vintages have seasoned, and sized the cushion to a stressed loss rather than the central case?
2. Seasoning: Is the loss history long enough to read the curve, and if not, is the first-loss large enough to cover the uncertainty?
3. Underwriting: Have we tested the originator's underwriting for any break in the loss curve that signals deterioration or over-fast growth?
4. Remoteness: Is the special-purpose vehicle genuinely bankruptcy-remote in the relevant Gulf jurisdiction, on tested local legal advice?
5. Advance rate and first-loss: Does the over-collateralisation leave a multiple of the stressed loss beneath our position, held by the originator?
6. Eligibility: Do the eligibility criteria exclude delinquent, concentrated and out-of-policy loans from the borrowing base?
7. Covenants: Do the delinquency, default, dilution and excess-spread covenants trigger early amortisation while protection remains?
8. Reserves: Is there a reserve account, funded from excess spread, to absorb timing and early losses?
9. Back-up servicing: Is there a named, tested back-up servicer and the data and systems access to transfer servicing on a trigger?
10. Net spread: Does the book's net spread survive a stressed funding cost and a stressed loss, so the originator can keep originating?
11. Position: Have we chosen our position on the ladder, senior, mezzanine, forward-flow or first-loss, deliberately, to match our appetite and view of the originator?
12. Monitoring: Do we have the data and rights to monitor the loss curve vintage by vintage and to act if it drifts above plan?
13. Regulation and currency: Do we understand the originator's licensing regime, the consumer-protection rules bearing on the gross yield, and the dollar-linked funding environment?

APPENDIX C. GLOSSARY OF KEY TERMS

The following glossary defines the principal technical terms used in this paper for readers who may be less familiar with structured credit.

Lending fintech. A technology company that originates and underwrites loans, typically funding them with debt rather than its own equity or deposits.

Embedded finance. The provision of credit and other financial services inside a non-financial platform, such as a checkout, marketplace or payroll system.

Lending book. The pool of loans a fintech has originated and holds, funded by a stack of debt and a thin slice of equity.

Warehouse facility. A revolving credit line under which a funder advances against a borrowing base of eligible receivables that the originator continues to own.

Forward-flow agreement. An arrangement under which a funder commits in advance to purchase receivables as they are originated, taking the pool's credit risk directly.

Advance rate. The proportion of eligible receivables against which the senior funder advances; the complement is over-collateralisation.

Over-collateralisation. The excess of pledged receivables over the senior advance, which protects the senior funder against losses.

First-loss. The most subordinated position, usually held by the originator, that absorbs the early losses and so protects the layers above it.

Mezzanine. A subordinated layer ranking behind the senior and ahead of the first-loss, earning a higher return for its greater risk.

Loss curve. The cumulative loss a vintage of loans is expected to incur as it seasons; its level and shape are the master variable for the funder.

Vintage. A cohort of loans originated in a given period, tracked together so that its loss curve can be observed as it seasons.

Seasoning. The maturing of a vintage as time passes and its loss curve approaches its plateau, reducing the uncertainty in its ultimate loss.

Excess spread. The margin between the gross yield on the pool and the funding cost, losses and servicing, available to absorb losses and build reserves.

Reserve account. A cash buffer, often funded from excess spread, that absorbs timing mismatches and early losses before the structured layers are touched.

Waterfall. The contractual order in which collections are applied and losses are allocated among the layers of a structure.

Borrowing base. The pool of eligible receivables, net of exclusions, against which the senior advance is sized.

Eligibility criteria. The rules that determine which loans may enter the borrowing base, excluding delinquent, concentrated or out-of-policy loans.

Early amortisation. A covenant trigger that switches the waterfall to repay the senior first and fast if the pool deteriorates.

Bankruptcy remoteness. The legal isolation of the receivables in a special-purpose vehicle from the originator's insolvency, so the funder is protected if the originator fails.

Back-up servicer. A servicer named in advance to take over collections and administration if the originator can no longer service the book.

Net spread. The residual after funding cost, expected credit loss and servicing are deducted from the gross portfolio yield; the originator's margin.

Currency peg. The fixed link of the dirham and riyal to the US dollar, which limits currency mismatch for a dollar-based funder.