



A journey through the P2P Crowdlending sector

April 2015



An introduction to P2P Crowdlending, where people and forces work together.

*“Growth is never by mere chance;
it is the result of forces working together”*

James Cash Penney

Strength in numbers is pivotal to business growth and investment opportunity. That’s why the UK crowdfunding market is going places. And fast.

Estimated to be worth **£1.74 billion** in 2014 (UK Crowdfunding – Nesta), this figure is expected to reach **£4.4 billion** in 2015.

Increasingly, entrepreneurs, SMEs and investors are showing growing enthusiasm for the sector.

In the UK, this form of lending has already proven to be a lifeblood to thousands of businesses, with many enjoying the benefits of lower rates and swift access to borrowing. For investors, Crowdlending offers them the opportunity of higher returns through keener rates compared with conventional methods of investing.

This report will provide you with a clear and concise overview of the market and its development and growth potential. It also explains the factors investors should consider regarding risks, likely returns, and the different types of security used to protect investors’ money. Official sources for the report are detailed in the pages that follow.

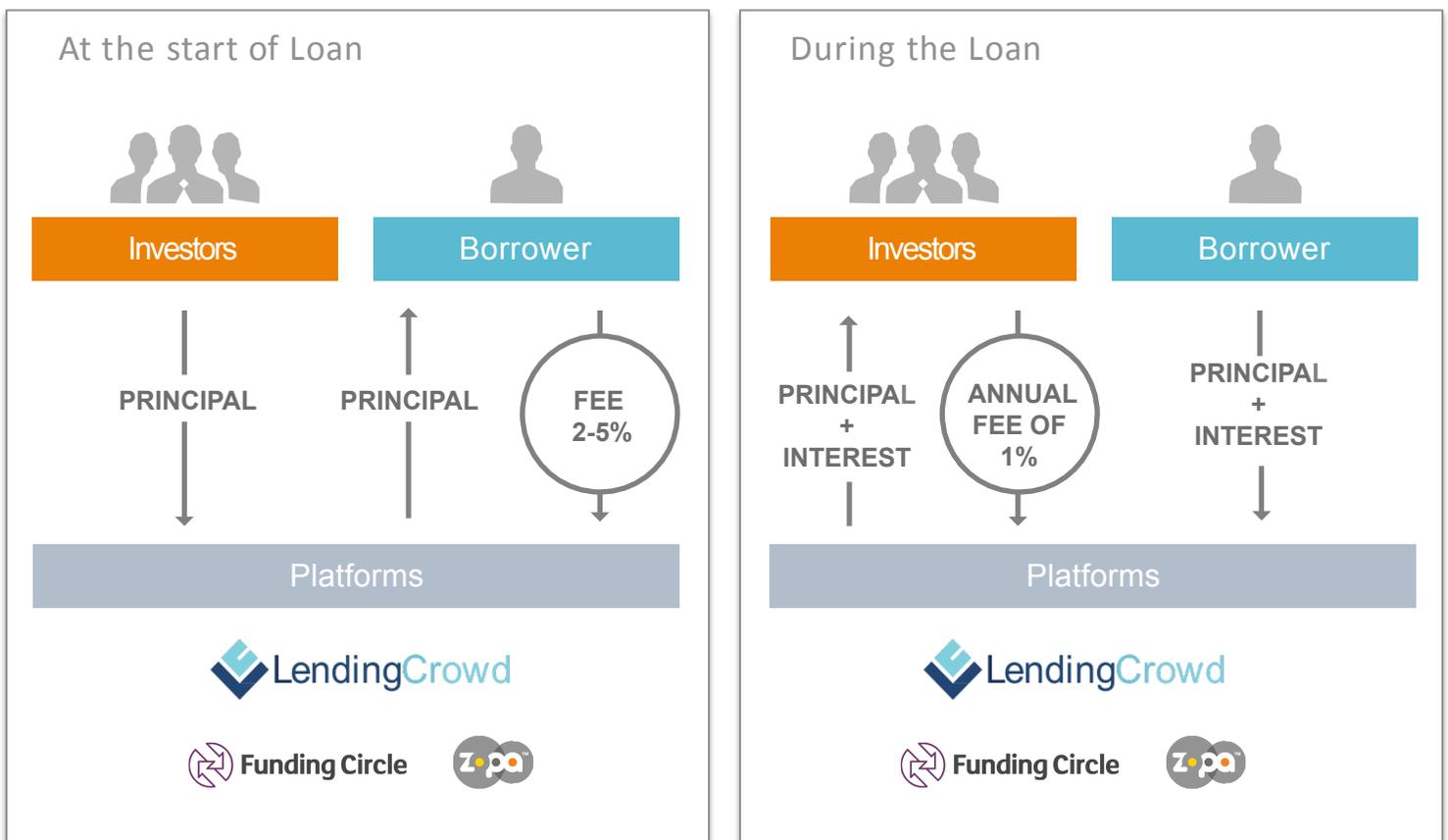


What is Peer-to-Peer Crowdlending?

As the name suggests, Peer-to-Peer Crowdlending works using a crowd of investors who bid to fund an SME's loan application. The business has been credit-assessed and given a risk grade with a minimum rate of interest for loan bids.

The result? A competitive and transparent funding model for SMEs seeking loan finance.

P2P Crowdlending – A simple guide



How does Crowdlending work?

Crowdlending operates through online lending platforms. The process enables people who invest their money to ask questions of the business that seeks to secure funding. Investors can read detailed credit and financial information to make an informed decision on the rate of interest at which they are willing to invest their money in funding part of the loan.

LendingCrowd offers a clear and easy to use customer experience for Investors and Borrowers

If I am a borrower

- 1 Apply for a loan**
Sign up, fill in our simple application form and submit. Quick and easy.
- 2 We run the numbers**
Our experienced credit team reviews each application individually. Your business is assigned a Credit Band. The better the band, the lower the interest you'll pay.
- 3 Join the Loan Market**
Successful businesses appear on the Loan Market, where investors compete to fill your loan at the best possible rate.
- 4 Get your money**
Once your loan is filled, you're in control. Accept and you can get your money in days.

If I am an investor

- 1 Set up your account**
Getting started is easy. Sign up as an Investor and transfer funds to make your first investment.
- 2 Start Lending**
Choose your businesses and compete against other Investors by placing bids at a rate right for you.
- 3 Close the deal**
Once the loan reaches its target, the most competitive bids are accepted. Your investment is made!
- 4 Get your money**
Receive monthly payments from each of the businesses you have invested in.

Why are SMEs struggling to raise funds?

SMEs are spreading their wings through Crowdlending. It is giving businesses a helping hand to secure finance. Historically, SMEs experienced difficulties in securing loan finance from traditional sources. Loan approvals were slow and their competitiveness was poor.

SMEs, a key component of the UK economy

48.1%

of private sector annual turnover
(£1,600 billion).

59.3%

of private sector employment
(14.4 million people).

Source: Department for Business Innovation & Skills, October 2013



FINANCE NOT EASY TO SECURE

17% of SMEs rated access to finance
as a major obstacle in Q2 2014.
27% in Q1 2013



MANY APPLICATIONS UNSUCCESSFUL

53% of loan applications were successful in the 18
months to Q2 2014, 10% took other funding and
37% ended with no facility



BANK DECLINES DETER BORROWING

5% of all SMEs said that a previous decline
by the bank had made them more
reluctant to apply for finance



LACK OF AWARENESS

Only 21% of SMEs were aware of
Crowd-funding at the end of Q2 2014



The solution?

P2P Crowdlending has become an easy, fast and affordable option for SMEs

#CrowdlendingWorks

What is driving the strong growth of the Crowdlending market?

The rapid growth of P2P will be fuelled by:

- ✓ The highly competitive rates that P2P platforms provide to both investors and borrowers compared with banks.
- ✓ The Crowdlending platforms greater willingness and capacity to innovate compared with the large incumbent banks.
- ✓ The interest differential is likely to persist due to: **1)** low capital intensity, **2)** P2P platforms lower operating costs due to the absence of branches, obsolete processes and no legacy IT systems, **3)** less onerous regulatory and capital requirements.
- ✓ Greater convenience and speed that P2P offers borrowers and investors.
- ✓ SMEs are finding it hard and slow to secure loans from banks.

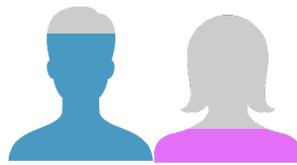


Who invests in P2P Crowdlending?

Survey shows P2P investors are experienced individuals



The majority of investors are located in London and South East England.



80% of investors are men.
20% of them are women.



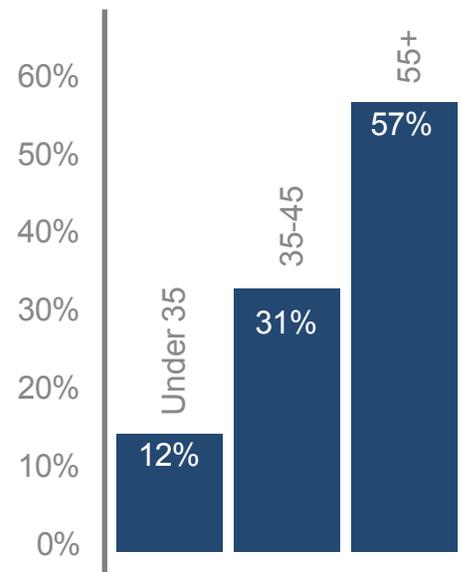
25% have some form of post graduate qualification, including 10% with MBAs or Phds.



Investors are around 50 years old.
48% had over 10 years' experience working with large corporates and
38% have more than 10 years' experience working with SMEs.



The average sum invested is £8,000, although the median is £2,000, reflecting some rather large high-end investors. They typically come from engineering, accountancy, business and IT backgrounds.



Age Range of P2P funders 2014.

Good news!

The government is backing Crowdlending for SMEs to fuel economic expansion and to stimulate competition

The government-backed British Business Bank has been provided with £500 million to promote finance to SMEs.

This form of lending will be allowed within ISAs for the first time following George Osborne's announcement in the 2014 budget.

Industry consultation has begun with a view to seeing P2P ISAs operating, perhaps by the summer of 2015.

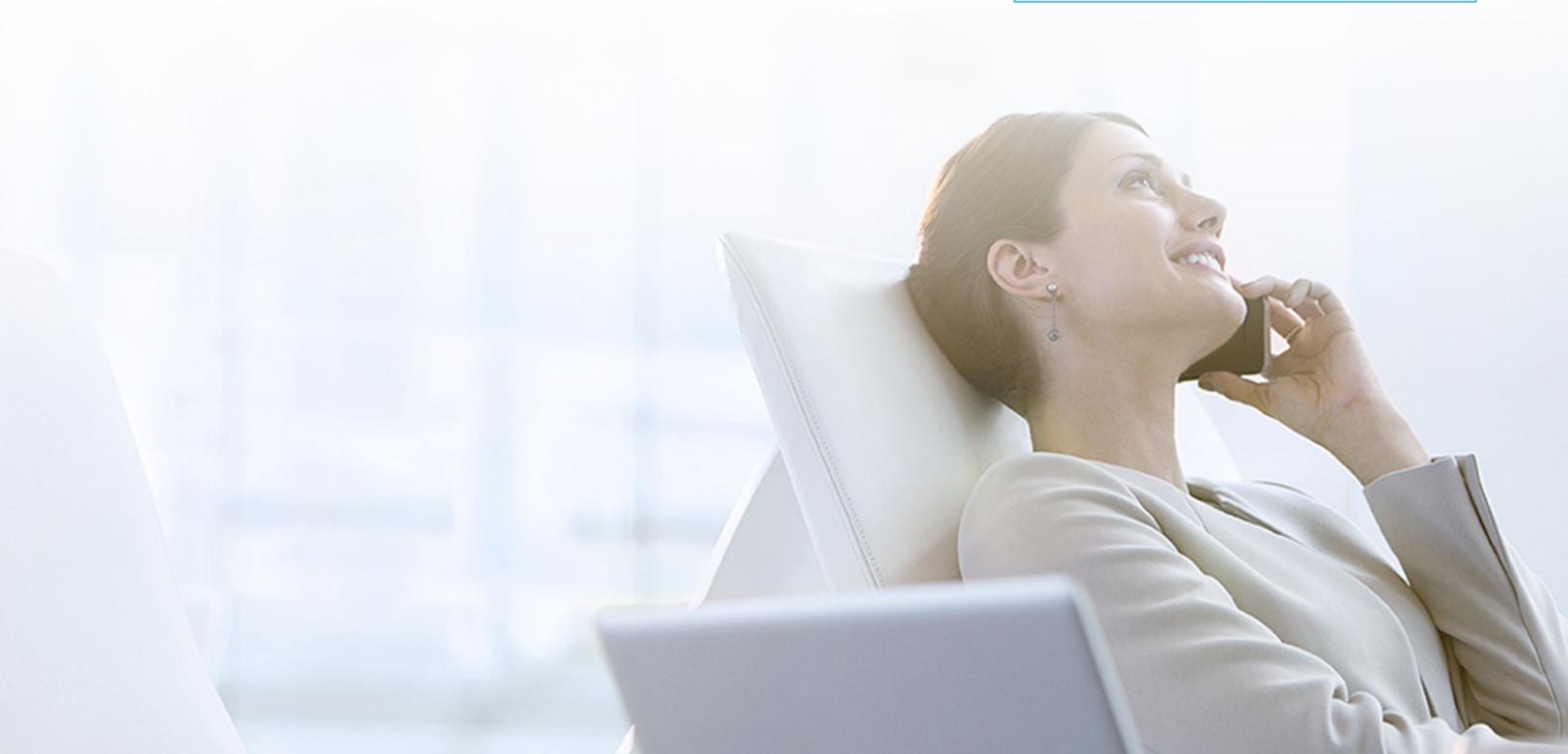
It has already committed several tranches of funding of between £20-£40 million to Crowdlending providers. The aim? To create a more effective and efficient finance market to SMEs.

SME loans that are nearly fully funded have the remaining 5-10% topped up by British Business Bank funds at a commercial rate agreed under these arrangements.

Lancashire County Council to finance local business growth through Funding Circle:

- ✓ First local authority in UK to use Funding Circle's new technology.
- ✓ Pilot scheme to become potential blueprint for small business lending in the public sector.
- ✓ £100k investment with potential for £millions commitment over 5 years.

Council Press Release Nov 2012



Understanding the risks and rewards of Crowdlending.

LendingCrowd adopts a considered approach to balance and protects the interests of both Investors and Borrowers

Potential Risks

Life has its fair share of risks. And lending your money for a return is no exception. Savings accounts protect up to £85,000 of your money through the government-backed Financial Services Compensation Scheme. Yet there is no such scheme when investing through peer-to-peer lending platforms.

Risks include:

- ✓ Borrowers do not pay back.
- ✓ Borrowers repay early.

Minimising Risks

There are two simple ways to de-risk your investment.

- ✓ Carefully review individual businesses in which you choose to invest using LendingCrowd's credit assessments.
- ✓ Diversify your funds across many businesses.

Actual lifetime bad debt rate

When the borrower stops their repayments LendingCrowd will ask for full repayment of the loan. If the borrower does not have sufficient assets to repay the outstanding debt the lenders could lose their investment, otherwise known as bad debt rate. The industry average reflects the bad debt experience across several providers over three years and is therefore a reasonable indication of possible losses.

Source: Peer-2-Peer Finance Association. Industry average 2012/2014 combined SME/personal.



What are Defaults?

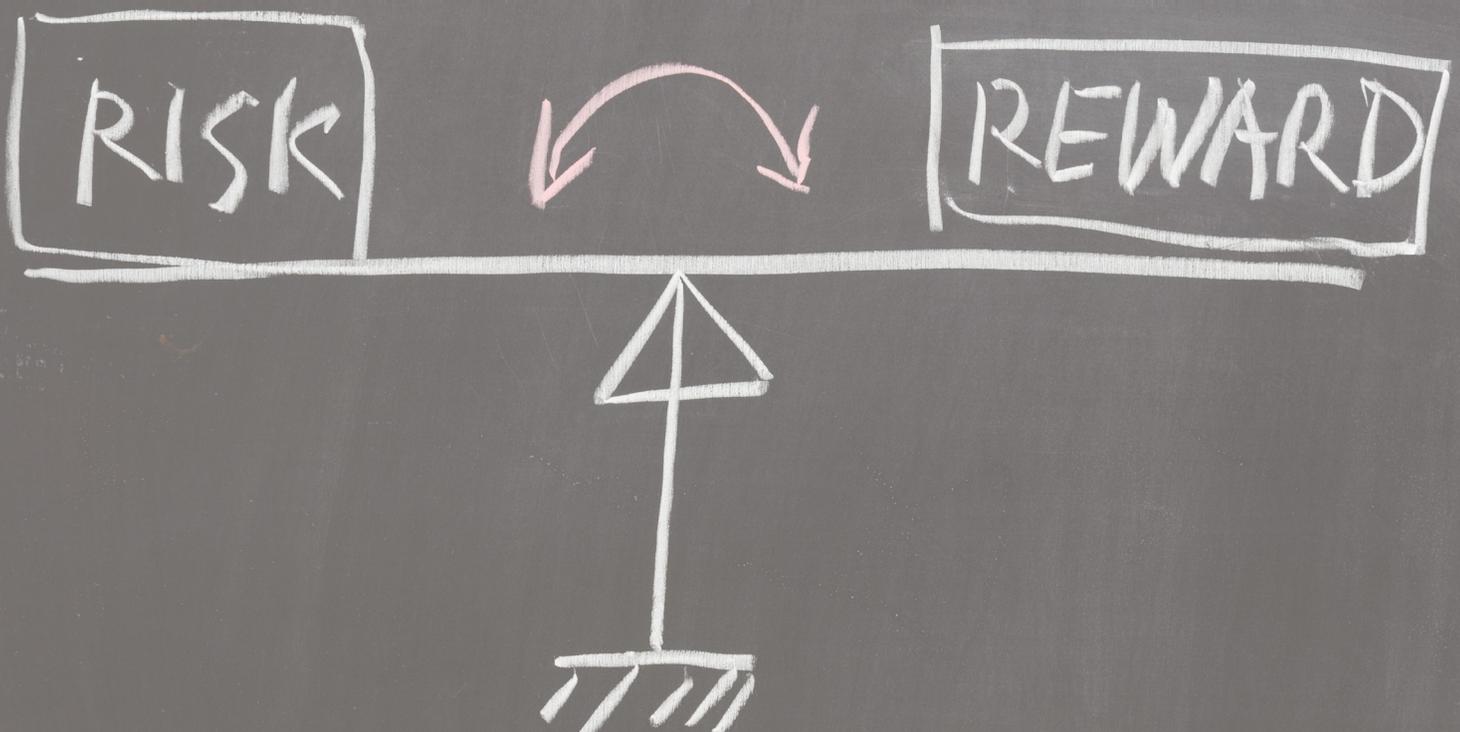
This is when a borrower fails to make a repayment, breaking the conditions in the loan agreement. The consequence is known as a default, allowing the lender to take action, including immediate repayment of late payments.

What are Losses?

Losses arise after default but not on every occasion. The borrower will have stopped their repayments, creating a default and the lender will have asked for full repayment of the loan. If this is not forthcoming, legal action can begin to recover the money from the borrower.

LendingCrowd

only places creditworthy business loan applications onto the loan market. And we ensure appropriate security is taken against every loan to provide protection for investors.



Calculating your rate of return.

To calculate your return as an investor, you need to take into account return, fees and any losses due to bad debt and taxation.

Investor Portfolio example

Investors place money into a range of businesses at interest rates they choose given the risk grading.

AMOUNT	INTEREST RATE	COMPANY	CREDIT BAND
£1000	7.2%	Crewe Hotel	A+
£1500	7.95%	Apple Robot	A
£500	8.2%	Foxwood Nursery	A
£1200	9.8%	Arches Taxis	B+
£800	11.25%	Hunters Foods	B
TOTAL	WEIGHTED AVERAGE		
£5000	8.8%		

Investor Returns

Having deposited investment funds into the platform, Investors review listings and place bids to invest in businesses they find attractive.

Monthly Income & Fees

Every month, investors receive an income comprising their interest and part repayment of the capital. A 1% fee is applied.

Bad Debts

These need to be factored into any assessment of likely return. The figures on page 14 provide details.

Tax

Your LendingCrowd returns are paid gross, with no tax deducted. Investors are responsible for payment of any tax due to HM Revenue & Customs. Tax will be payable at the Investors' marginal rate.

When introduced, ISA wrappers could boost P2P returns.

In George Osborne's 2015 budget, it was announced that the government will be holding consultations during Summer 2015 about the introduction of P2P ISAs.

Including P2P in tax-free ISAs (when they are introduced) will help to boost net returns and, as a result, will widen the pool of those wishing to invest in peer-to-peer. Below are illustrative calculations to show the significant uplift in returns, which could appeal to higher rate taxpayers investing in crowdlending platforms like LendingCrowd.

To keep the calculations clear and simple, we focus on an account with £15,000 (the maximum allowable under current ISA rules) fully invested in loans.

RETURN MINUS TAX AT	5.95% PA (LOW RISK)	13% PA (HIGH RISK)	POTENTIAL INCREASE IN NET RETURN FOR TAX PAYERS
45%	£490.9	£1,072.5	82%
40%	£535.5	£1,170	66%
20%	£714	£1,560	25%
No Tax Deducted	£892.5	£1,950	

Who can get a Loan?

- ✓ Business owners and Directors.
- ✓ Limited Companies and Partnerships (4 or more partners) that have been trading for generally 2 years.
- ✓ Ideally profitable and with a turnover of typically between £100,000 and £20 million.
- ✓ Seeking loans of between £10,000 and £1 million.
- ✓ Loan terms from 6 months to 5 years.
- ✓ Clear evidence the business can afford loan repayments.
- ✓ All lending is subject to status and compliance with appropriate regulatory requirements.

Key Benefits of fixed rate loans for SMEs

- ✓ Competitive lending rates on loans starting at 5.95% depending on risk grading.
- ✓ No penalties if you choose to repay the loan early.
- ✓ Fast decision turnaround.
- ✓ Clear fee structure of 2-4% dependent on duration.
- ✓ Fixed monthly repayments enable better planning.
- ✓ Money in account quickly.
- ✓ Easy application process.
- ✓ Build relationship with LendingCrowd.

The right crowd: a proven leadership team.



Stuart Lunn
CEO

LendingCrowd is led by co-founder, Stuart Lunn, CEO, who has been working with high growth tech companies for over 10 years, providing investment banking advisory services and supporting their capital funding.



Bill Dobbie
Chairman

Bringing deep knowledge of growing innovative IT companies, Bill Dobbie is Chairman, and cofounder. From iomart, Cupid, to Maximiser, Bill has a record of starting and growing successful businesses.

Want to know more about Crowdlending?

The great aspect of CrowdLending is that it's a fascinating sector. At LendingCrowd, we have produced some FAQs aimed at both Borrowers and Investors. Please go to www.LendingCrowd.com and take a closer look at our website FAQ section to find out more.

Get in touch

Interested in fast, easy, affordable borrowing to grow your business or fixed interested returns from 5.95%?

Apply now!

Go to our website at www.LendingCrowd.com and let us help you secure the finance you need.

Give us a call

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