assetz capital

A guide to peer-to-peer lending for businesses

from Assetz Capital

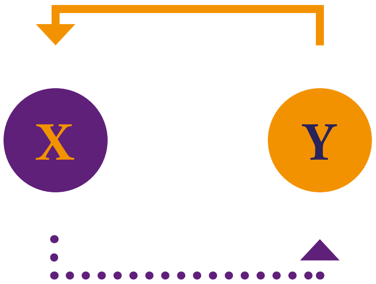
www.assetzcapital.co.uk/invest - 0800 470 0430

What is it?

Peer-to-peer lending is often talked about as being something new, but in reality it's as old as the hills.

It's the simplest and oldest form of lending where people lend to other people through a loan management specialist, and that practice goes back many thousands of years. It's far less complex than modern banking and perhaps that simplicity and transparency is part of its appeal, as well as the potential returns available from a low-cost and straightforward model. There's also the warm feeling of helping fund peoples' and businesses' aspirations and growth.

At its core, peer-to-peer lending is simply:



X requires money

Y has money

Y lends to X

X pays Y back

The difference here is, Y is never a bank. Instead, Y is a person, business or a mix of the two.

And because Y is never a bank, it means there is direct benefit from the majority of the interest that X pays – a lot fairer, we feel, than going through typical mainstream channels like banks. Unlike a bank though, there is a risk of loss for Y if X can't repay the loan.

These loans take place via a peer-to-peer lending platform. These are essentially online marketplaces that match those looking to lend money with those looking to borrow. They take a small portion of the repaid interest, but most is passed on to the investors. There are over 50 in the UK alone, all varying in scale and the types of loans they offer.

After X takes the loan, Y then gets paid back over time, receiving an attractive headline rate of gross interest on top of the initial amount lent (there are risks though – see chapter three).

While historically businesses have usually been the ones taking out peer-to-peer loans, it's becoming increasingly popular for businesses to invest too – allowing them to earn attractive target interest rates.

How it works

With some loans varying in size, the funding of each loan is often split across a number of different investors, or lenders as we sometimes call them. In some cases that will be thousands of investors all with a small stake in the loan. Although an investment is usually for the lifetime of the loan, most platforms offer a secondary trading market, so that investors can sell their loan parts if they want their money back early – providing there is enough demand for those loan parts and other lenders are willing to buy them.

And with the large number of loans now available on some platforms, investors can choose to automatically invest in loans that meet certain criteria – often offered by the platforms in the form of automatic investment accounts.

While the basics are simple enough, there are many different types of peer-to-peer lending depending on what each platform specialises in. Variations include:

Business lenders

Loans are offered directly to private sector companies and can help grow the economy

The finance can be used for many things – including growth capital, commercial mortgages and development finance

Loans are usually larger and can reach over £20 million

Vs

Consumer lenders

Finance is provided directly to consumers

This can typically be used for anything the individual wants

Loans are smaller but can reach above £50,000

Secured

Loans are secured against an asset

If the loan cannot be repaid the asset can be sold to recoup all or some of the money

Vs

Non-secured

Loans have no asset security

If it cannot be repaid there is no simple way to recoup the money

All of the different variations come with pros and cons for prospective investors, so make sure you understand the differences and pick the one that's right for you. Assetz Capital is a secured business lender.

What are the risks?

Peer-to-peer lending is a form of investment, not a savings account, and that is reflected in the rate of interest on offer. And as with all forms of investment there is a degree of risk to your business' capital.

In the case of peer-to-peer lending, that risk comes in the form of a borrower being unable to repay their loan and that is one of the reasons that a diverse portfolio of investments in many loans is a good idea.

While peer-to-peer lending is regulated by the Financial Conduct Authority (FCA), it is not protected under the FSCS. Therefore, if the borrower cannot repay the loan, the lender could lose out on both the interest payments and the initial capital invested. However – most peer-to-peer lending platforms put safeguards in place to lessen the impact of any borrower default. These include:

Secured loans

By asking for security against any loans made, these asset(s) can be sold in the event that a borrower defaults. In some cases, this can recover 100% of the outstanding debts and interest although a full recovery is by no means guaranteed.

Provision funds

Also known as reserve funds, these pots of money are added to by taking a small percentage of the interest paid back on a loan. They can then be used in the event of a default to pay investors either their lost capital, or both the capital and interest. However, provision funds typically cannot promise to cover all potential losses so the presence of a provision fund does not eliminate the possibility of loss.

Loan selection

The more investigation done at the beginning of the process to see if a borrower has the means to repay the loan – and setting the repayment levels at an appropriate level – the less issues arise further down the line. The established platforms have rigorous sanctioning teams making these decisions based on years of experience.

Diversification

The more loans you invest in, the more you spread the risk of defaults – so a broad and diverse mix of loans is important.

With peer-to-peer lending being an investment, it is in many ways about your business' risk appetite. The higher the rates of return, usually the riskier the investment.

But a platform that closely examines each individual loan application and offers an appropriate interest rate – as well as adding other layers of protection such as a provision fund and taking security on loans – helps to manage the risk.

Before making your first investment, it's important to check out providers' historical records and defaults and losses. Make sure you make an informed decision and pick the right platform based on what you want to achieve from your business' investment.

What are the benefits?

As a model, peer-to-peer lending aims to benefit all parties. Many believe it to be the 'democratisation of finance', as it shifts power away from the mainstream financial institutions and into the hands of the people. As peer-to-peer platforms are more like a marketplace than a bank, the vast majority of the value in each transaction remains with the lender and the borrower. In fact, with Assetz Capital, our efficiency means that the small part of the interest rate that we take is an even lower level than a building society.

Lender benefits

For a business investor on a peer-to-peer platform, the benefits on offer centre around the (typically) attractive headline rates of return. At a time when the Bank of England base rate is so low, the interest rates on offer from peer-to-peer loans can be very attractive. It's worth remembering though, as it's an investment, your capital is at risk so the returns cannot be guaranteed. As with many things in life though, some additional risk can often lead to an additional reward.

With Assetz Capital for instance, at the time of writing (March 2019) gross rates on offer start from a 4.1% p.a. target rate in one of our automated accounts. The returns vary depending on your risk appetite – but crucially you have the choice and can invest as you see fit.

Borrower benefits

After rigorous vetting of their applications, borrowers get access to finance that banks may have rejected. With all of the corrective measures put in place by the government in the last crisis, to bolster the strength of banks, one of the unfortunate consequences is that many businesses have found it harder to get the finance they need to grow. Peer-to-peer lending helps address that issue and is one of the reasons for the government support. The lending terms can be fairer to all parties too, as the peer-to-peer platforms can pass on most of the interest paid by a borrower to a lender, meaning lower rates for borrowers and higher income for investors.

With business peer-to-peer lenders like Assetz Capital there are real benefits to the economy. We only lend to quality small and medium sized companies (SMEs) – and it's SMEs that have been frozen out by the banks since the financial crash in 2008 and have seen a reduction in facilities available to them of around £35 billion in just a few short years.

Peer-to-peer lending offers these businesses a much needed alternative source of finance to help them grow .It's astounding to note that Assetz Capital and our investors funded around 40% again of the entire UK banking system's new money lent into the economy in the 12 months to June 2018.

Societal benefits

It's worth mentioning the benefits to wider society too. While consumer lending can boost financial inclusion, it is those loans delivered by business peer-to-peer lending platforms that we feel show a real positive societal impact.

By lending to SMEs that otherwise couldn't access finance you can play a part in driving UK economic growth and in turn hep grow jobs, wages and the economy as a whole. It is SMEs that are the lifeblood of our economy, and when they succeed the country succeeds. The financial crash meant they were neglected, but peer-to-peer lending – and the wider alternative finance industry – are changing that.

Getting started

Once you've weighed up the pros and cons of peer-to-peer lending and decided that you want to get started with an initial investment, the first thing you'll need to do is to pick the right platform, and this means understanding what's important to you.

For starters you'll need to find a platform – like Assetz Capital – that allows business investors.

Then there are several questions you'll want to ask yourself:

- Do you want flexibility or personalised investments?
- Would you rather lend to a business or an individual, and in what sectors?
- Would you prefer your loans to have security?
- Is the possibility of faster access to your money via a secondary market important to you?

There are plenty of platforms available, so it's worth doing your research to find one that both meets your specific needs and has a solid track record.

From there, the best approach may be to start small and test the waters to see if peer-to-peer lending is the right kind of investment for your business. If you find that it's working, then you can begin to increase your investment gradually over time – but only invest what you can afford. This will allow you to minimise the potential risk, whilst still giving you access to the target rates that accompany this sort of investment.

Join the peer-to-peer lending revolution today.

A note from Assetz Capital

Peer-to-peer lending is a simple concept. But while the theory is straightforward, its impact on both the finance industry and even society as a whole is enormous – with the potential to be even bigger in the years to come.

It's why we created Assetz Capital in 2013, and why we've been able to grow to the point where we have over 33,000 in our investor community who have earned over £69 million in gross interest while lending over £0.7 billion to UK businesses.

But history is repeating itself. As our economy struggles, businesses are again being let down by banks – and not just through access to finance. Inflation is eroding cash value sat in bank accounts with minimal interest being paid. This surplus cash could be a significant driver for the UK economy.

We feel we can help solve both of these problems. It's quality businesses that will lead us to a brighter economic future, and we are fusing together borrowers and lenders to make this happen. Whether you want invest your surplus capital, or if you need finance to grow, we are here for you. This is the hub where quality businesses come to invest or borrow.

At Assetz Capital we are driven by a desire for fairer growth for all. We feel we can achieve that through peer-to-peer lending.

Stuart Law,

CEO at Assetz Capital

March 2019

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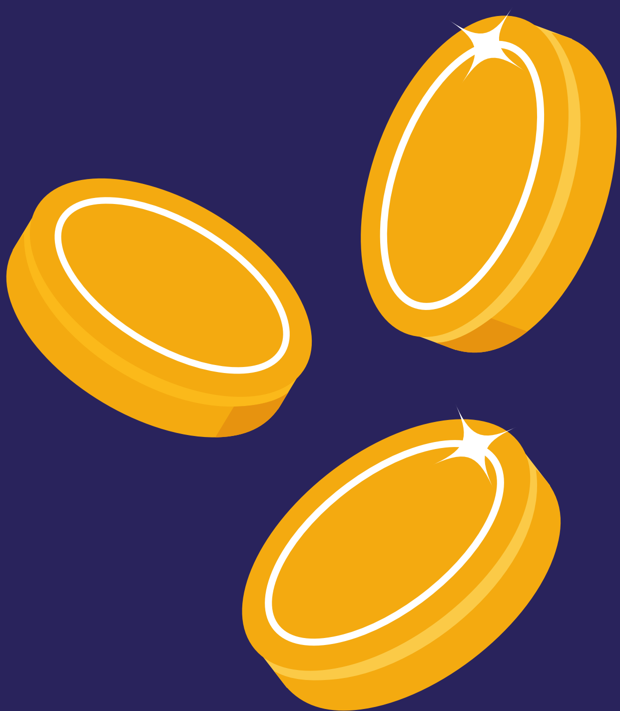

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