loanpad

Loanpad Guide To Peer-To-Peer Risks & Features

The Financial Conduct Authority requires all investors to take an Appropriateness Test before investing funds in peer-to-peer loans.

This is designed to ensure that investors have the necessary knowledge, experience and understanding of the features and risks involved in peer-to-peer lending.

We encourage you to read our guide below which covers the main features and risks of peer-to-peer lending along with the Invest page of our website together with the FAQs.

Please note that you will be unable to invest new funds (including via Auto Lend) until the test has been successfully completed.

If anything is unclear, please contact our customer support team at support@loanpad.com or via our live chat function.

Loanpad's Role

Loanpad Limited's ("Loanpad") role is to match investors and borrowers through the Platform. With our lending partners, we take care of everything – from finding and approving loans to managing them day-to-day and to collecting and distributing interest to you. At no point should you need to speak or liaise with the borrowers or lending partners.

Your money is invested in loans that are typically shared between our investors and experienced lending partners who take on the higher risk part of each loan for a higher rate of interest. To reduce the risk to you, we limit Loanpad investors' share of every loan to an initial maximum of 50% of the total property value and your money will be the first to be repaid if any borrower defaults on their loan.

We may increase the loan to value to a maximum of 55% at a point in time when the borrower has stopped servicing interest on a loan and we consider there is no material risk of capital loss. This is to help ensure that investors continue to receive interest throughout the term of the loan.

We spread your money across our entire portfolio of loans daily. This is to help protect your money and keep things simple and easy for you. Details of all loans are available on the platform (updated daily) and you can download a copy any time.

It's your responsibility to pay any tax you owe on interest you receive through Loanpad. We don't deduct tax from your interest or any other money we pay to you. You can download an income statement at any time.

Don't invest unless you're prepared to lose money. This is a high-risk investment. You may not be able to access your money easily and are unlikely to be protected if something goes wrong. Take 2 mins to learn more.

Investment Structure

Loanpad is a peer-to-peer lender regulated by the Financial Conduct Authority (FCA). We allow you operate an online account to earn interest through lending your money directly to borrowers through our platform.

Each Loan made via the Platform will be made directly by you as an investor to the borrowers. If the borrowers fail to make payments under the loan when due, you may suffer a loss of capital and / or interest.

Loanpad will arrange for Loanpad Security Trustee Limited, a non-trading company, to hold all loan security for your benefit.

Differences between peer-to-peer lending and cash savings accounts

Your money is being lent to borrowers and there is a risk that they will not repay. This is different to depositing money with a bank because your capital and returns are not guaranteed and The Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover investments in peer-to-peer loans.

Here's a summary of the key differences between an investment in Loanpad and depositing money in a savings account:

- You won't be covered by the FSCS for potential future losses.
- You may not be able to access your money easily.
- As with any investment, your capital is at risk and your investment may go up or down in value.
- As with all investments, past performance is not an indicator of future results.

You may be able to claim from the FSCS if you received regulated advice to invest in peer-to-peer lending and the adviser has since failed. Try the FSCS investment protection checker here.

Investment Returns

Advertised rates of return aren't guaranteed. When you lend money with Loanpad, you rely on the borrower repaying it. If, for example, a borrower's credit circumstances take a turn for the worse, they may struggle to repay the loan. And if this happens, you run the risk of not getting back any of the money you've loaned to that borrower.

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Loanpad provides property finance to borrowers looking for shorter-term (3 to 24 months) property development, bridging or business funding. Our loans are typically shared with established lending companies (lending partners) and all our loans are supported by property, which means we have tangible security to sell if we need to recover the loan and repay our investors.

We spread your money across our entire portfolio of loans daily. This is to help protect your money and keep things simple and easy for you.

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated platform, the FOS may be able to consider it. Learn more about FOS protection here.

Interest Rates

You receive your interest every day at Loanpad based on the prevailing rates in the Classic and / or Premium Accounts.

The interest rates could go up or down and advertised rates of return are not guaranteed. If a borrower doesn't pay you back as agreed, you could earn less money than expected.

We monitor interest rates against the performance of the loans on our portfolio. If our rates do change, we'll let you know in advance and clearly explain the reason for the change. The target interest rate for each account is displayed on our website.

As with all investments, past performance is not an indicator of future results.

Risk Management

We consider protecting your money to be our most important responsibility. Some of those mechanisms are summarised below.

- Secured Lending

We provide property finance to borrowers (companies or individuals) looking for shorter-term (3 to 24 months) property development, bridging or business funding.

Our loans are typically shared with established lending companies (lending partners) and all our loans are supported by property, which means we have tangible security to sell if we need to recover the loan and repay our investors. In many cases, we also take additional security such as a Personal Guarantee from the borrower.

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To reduce the risk to you, we limit Loanpad investors' share of every loan to an initial maximum of 50% of the total property value - and your money will be the first to be repaid if any borrower defaults on their loan.

However, this is not a guarantee. When you lend money, you rely on the borrower repaying it. If, for example, a borrower's credit circumstances take a turn for the worse, they may struggle to repay the loan. And if this happens, you run the risk of not getting back the money you've loaned to that borrower.

We may increase the loan to value to a maximum of 55% at a point in time when the borrower has stopped servicing interest on a loan and we consider there is no material risk of capital loss. This is to help ensure that investors continue to receive interest throughout the term of the loan.

- **Diversification**

Your money is spread across all the loans in our portfolio at any one time, and we redistribute (or re-diversify) your money daily – this is one of the ways we reduce your risk.

However, this is not a guarantee. If a borrower is unable to repay the loan, you run the risk of not getting back the money you've loaned to that borrower.

- **Interest Cover Fund**

If a borrower falls behind on their agreed repayments, we'll take every possible step to collect the money owed.

In order to help maintain your daily interest payments, we may first seek that interest is either serviced or is covered by way of an increase in the loan. If neither are possible, we may use the Interest Cover Fund.

This ring-fenced fund is designed to help maintain your daily interest payments in the event that any loan repayments are missed. You can see real-time details of this fund on our plat-form at any time.

We may also use the Interest Cover Fund to cover interest payments for short-term loan extensions and/or recovery periods.

The Interest Cover Fund is designed to cover interest payments only (not money you have invested in loans) – and we can't guarantee that it will cover all interest at all times.

Withdrawing your money

You can leave your money in Loanpad for any length of time – it's completely flexible.

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It's important to us – and no doubt to you – that you can access your money when you want it.

Loanpad gives you the opportunity to sell your investment early through a 'secondary market' or to withdraw your money if there is sufficient money available which is not invested in loans. If there is insufficient money available not invested in loans and / or there is no one willing to buy your investment, it could take longer to get your money back. When you request a withdrawal from your lending accounts, your request goes into our sale queue which is processed once a day. We do our best to clear the sale queue in full each day, but there's no guarantee that we'll always be able to.

Just because you can't withdraw your money straight away, it doesn't necessarily mean that it's at higher risk. It means there isn't enough available money (funds not tied up in loans) on the platform to process your withdrawal. Potential withdrawal delays are a possibility with peer-to-peer lending – and it's important that you understand this and should not treat your Loanpad account like an easy-access bank account.

Our Classic account allows you to withdraw money at any time, subject to liquidity as mentioned above. Our Premium account pays higher interest and you have to give 60 days' notice to take out your money, subject to liquidity as mentioned above.

Innovative Finance ISA (IFISA)

An ISA, or Individual Savings Account, is a type of account that allows you to take income and profits free of income and capital gains tax.

Each tax year, the UK government allows people who meet certain conditions to invest a certain amount of their savings into ISAs. For the current tax year, the annual ISA allowance is £20,000.

Loanpad offers an Innovative Finance ISA, which we call the Loanpad ISA.

For the most part, the Loanpad ISA works in exactly the same way as our standard Classic and Premium accounts – you just enjoy tax-free interest. There are differences in how you put money into your Loanpad ISA and how you take it out. Please see the FAQs about this.

An IFISA does not reduce the risk of the investment or protect you from losses, so you can still lose all your money. It only means that any potential gains from your investment will be tax-free

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Investment Diversification

Putting all your money into a single business or type of investment for example is risky. Spreading your money across different investments makes you less dependent on any single investment.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments.

Loanpad's Wind Down Plan

As with any business, there is no guarantee that Loanpad can or will continue to operate forever.

As part of our commitment to you and in line with FCA regulations, we must take reasonable steps to ensure that we have arrangements in place to ensure that all loans continue to be managed and administered in the unlikely event that the business is no longer viable for any reason.

These reasonable steps are called wind-down plans and are designed to help ensure that existing loans continue to be managed, monies are recovered from borrowers in a timely and efficient manner and then ultimately repaid to you as the investor, although it is not guaranteed.

If the platform fails, it could take years to get your money back as loans are repaid and you may get back less than you have invested, even with our wind-down plan in place. You can read more about our wind-down plan here.

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