Loan Application for Credit Committee Approval

15 October 2024

Borrower: Grove PCP Limited (a special purpose vehicle ("SPV"))
Purpose of loan: Purchase of PCP claims
Amount requested: Up to £500,000
Term of loan: 18 months
Rate of interest: 8%
Security: Charge over the settlement proceeds of the PCP claims
Recommended rating: A+

Background

The company that will be operating the SPV was set up in 2020. However, it remained dormant with £5,000 of share capital until September of this year when it was purchased by David Ishag. David has over 40 years of experience in financial services and has been regulated by both the FCA and the Solicitors Regulation Authority (SRA). Originally, he studied law at the London School of Economics and then received an MBA from Harvard Business School.

The reason that David purchased the company was for its name, which he felt would be particularly useful in the claims industry. David and his team are looking for funding for PCP claims. He believes that the market will be worth around £29bn with an average claim size of £2,400 and over 12 million claimants. The FCA has estimated the average claim size at £2,000 and other commentators have estimated that the market size will be around £15bn.

There are four elements to the company: legal & regulatory, technology, lead generation and operations. The head of the legal & regulatory team has twenty years of experience in financial services. The person leading the technology team has thirty years of experience in digital transformation and has overseen 18,500 Data Subject Access Requests with 97% extraction accuracy. The lead generation team has had ten years of experience in generating and processing leads for the claims industry and, finally, the head of operations has come from a blue chip firm which supported 80+ brands including Barclays and Netflix. Collectively, the team has already been involved with 27,000 PCP claims to date.

Litigation Premium Finance

Litigation premium finance, also called third-party litigation funding or legal finance, allows a claimant to litigate without having to pay the legal costs directly. Litigation funders take on the cost of the litigation until a verdict is reached and either advance the funding as a loan or take a proportion of the compensation awarded to a successful claimant. Litigation finance in the UK was introduced by the Access to Justice Act (1999) as an alternative to state-funded Legal Aid.

Litigation finance is now a multibillion-dollar global industry, with funding coming from debt funds and big institutional investors on the promise of double-digit returns. The global litigation funding market has seen significant growth over the years and is on track to exceed $57.2 billion by 2035, demonstrating a notable compound annual growth rate (CAGR) of 13.14% throughout the forecast period from 2023 to 2035 (Source: Nester Research).

The UK litigation funding market quadrupled between 2013 and 2021 with $2.7 billion on the balance sheet of the country's top 15 funding firms according to data from law firm RPC. There are various categories or sectors within litigation finance including mass tort, international arbitration and commercial litigation. One of the biggest growth sectors in the UK is consumer or individual related litigation such as Plevin, Personal Contract Purchase (PCP), Housing Disrepair (HDR), Personal Injury and Stamp Duty Tax. The Borrower is a Special Purpose Vehicle (SPV) and it is looking to purchase a book of PCP claims.

PCP agreements came to the fore in 2007. In 2021, PCP agreements that fell into the category of Discretionary Credit Arrangements (DCAs) were banned by the FCA. The SPV will target PCP claims DCAs relating to the period 2007 – 2021 and focus on the largest car finance companies. It is estimated that there are 9 million PCP claims available within this period (Source: Statista).

Most consumers enter into a Personal Contract Purchase (PCP) agreement when purchasing a car. PCP claims have arisen as a result of the use of Discretionary Commission Agreements (DCAs) where the broker (the car dealer) had discretion to negotiate the rate of interest. The FCA estimates that 75% of PCP agreements are DCAs. On 11 January 2024, the Financial Ombudsman Service (FOS) found in favour of two claimants who alleged that this arrangement was unfair. These decisions are legally binding on the car finance companies. At the same time as the FOS published these decisions, the FCA put out an announcement saying that there would be a moratorium on PCP claims until 25 September 2024 to allow it time to decide how car finance houses should deal with compensation for wronged consumers. This has now been extended to 4 December 2025 with an announcement due from the FCA at the end of May. The FCA has said that it is considering setting up a redress scheme for claimants. The fact that the claims will go through the FCA or the FOS rather than the courts will greatly reduce the cost of funding. The claims that the SPV will purchase are already at an advanced stage and so the Borrower will be waiting for the FCA 'pause' to be lifted and then the claims will start to settle. That is why the term of the loan is 18 months.

On 15 November 2023, the Supreme Court handed down its judgment for Potter v Canada Square. Mrs. Potter had argued that the limitation period of 6 years should start running from when the undisclosed commission was discovered in a Plevin claim and not from when the policy was purchased. The Supreme Court upheld the decision of the Court of Appeal who had found in favour of Mrs. Potter. The decision related to a Plevin claim, but it will also have implications for the PCP market. This is why the PCP claims that are likely to be valid will be for the period from 2007 to 2021. Estimates vary between £13bn and £30bn for the likely amount of compensation that will be paid to consumers who entered into DCAs during this period and have a valid claim.

The History of Litigation Funding

Litigation funding, also known as third-party litigation financing or legal funding, is a practice that involves a third party providing financial support to a party involved in a lawsuit in exchange for a share of the eventual settlement or judgment.

Litigation funding has its roots in ancient Rome, where it was known as "champerty." The modern era of litigation funding began in the late 20th century. In the United States, it gained popularity in the 1990s, primarily in response to the rising costs of litigation and the need for plaintiffs to access justice when they lacked the financial means to pursue their claims.

During the late 20th and early 21st centuries, litigation funding expanded as a global industry. Companies specializing in litigation financing emerged to provide capital to plaintiffs, law firms, and even defendants in some cases. Litigation funders typically evaluate the merits of a case and provide funding for legal fees, court costs, and other litigation expenses in exchange for a portion of the eventual recovery if the case is successful.

The global litigation funding market has seen significant growth over the years and had a value of around $13 billion in 2022. According to Nester Research, it is on track to exceed $57.2 billion by 2035, demonstrating a notable compound annual growth rate (CAGR) of 13.14% throughout the forecast period from 2023 to 2035. This upward trajectory in litigation funding can be attributed to the escalating demand for financial support among both individuals and corporations engaged in legal disputes coupled with a growing number of firms and investors entering the market. Litigation proceedings often entail substantial costs, and these associated fees can act as a significant impediment for prospective plaintiffs. To address this financial hurdle, litigation funding has emerged as a viable solution, bridging the gap by providing the necessary monetary resources, thus expanding the pool of potential cases that can be pursued.

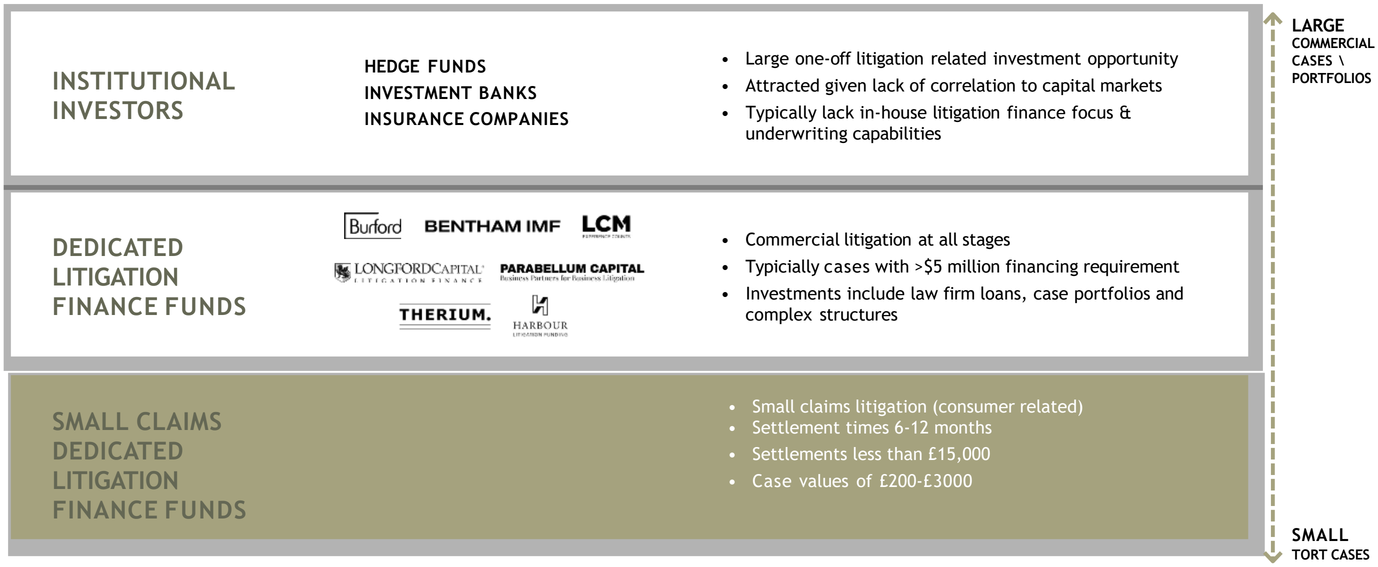
A recent survey (as reported by Reuters in March 2022) revealed a 53% increase in the claim's portfolios of law firms in recent years, accompanied by a heightened awareness and acceptance of litigation finance within the legal community, including lawyers, legal practitioners, and the judiciary. Initially met with scepticism and criticism, litigation funding is now being increasingly acknowledged for its advantages. In the current year, it is anticipated that litigation finance will be a catalyst for 41% of legal actions. This market expansion is largely attributable to the growing recognition and embracing of this financial mechanism.

UK Litigation Market

The size of the UK litigation funding market has expanded substantially. Research published by City law firm RPC showed that the top 15 UK litigation funders had a record £2.2bn of assets on their balance sheets in 2020/21, an 11% increase on the previous year. By comparison, assets were £1.3bn in 2017/18 and just £198m in 2011/12.

In the UK, litigation funding has been used in various types of cases, including commercial disputes, personal injury claims and class actions. The UK litigation funding industry has three major categories broken down by the size of the litigation case and the corresponding funders in that market.

Litigation Finance Industry Landscape



The SPV will operate in the small claims market where current funding is insufficient to meet the increasing demand by law firms dedicated to this market and it will only focus on PCP claims.

The SPV's Target Market

PCP agreements are used for the purchase of cars and other vehicles. The purchaser pays an initial deposit and then makes fixed monthly payments over the life of the contract. At the end of the contract, the purchaser either makes a final bullet payment and owns the car outright or sells the car and puts any excess over and above the balance of the debt owed towards the deposit for a new car. The purchaser also has the option to simply hand the car back and walk away.

There are a number of reasons why the purchaser might have a PCP claim including: the failure of the car dealer to disclose a commission received from the finance company, high-pressure selling techniques being used, or the car being sold to someone who cannot afford the payments. The most common PCP claim will be for the non-disclosure of commission in breach of the Consumer Credit Act 1974. These claims draw on the case law created by the mis-selling of PPI insurance and the non-disclosure of commissions paid by insurers to lenders.

The main data is obtained from the Finance & Leasing Association (FLA) – which is the UK's leading trade association for the asset, consumer and motor finance sectors in the UK, and due to the diversity of its membership is the largest organisation of its kind in Europe.

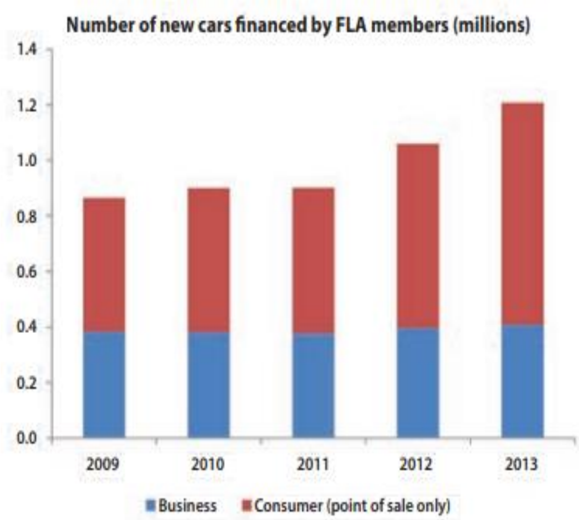
Its members include BMW & Black Horse – but Volkswagen Financial Services (UK) Limited is not a member. They are of course a main claimant in the on-going Angel v Black Horse proceedings at Birmingham CC.

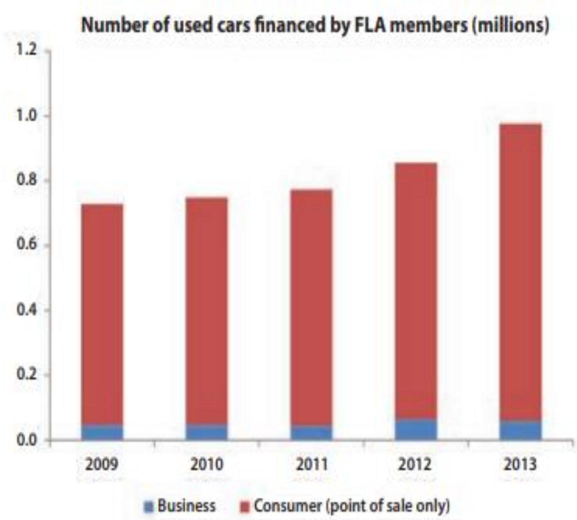
2013

The number of new and used cars financed by FLA members in 2013 grew by 14% to reach almost 2.2 million. The corresponding value of car finance new business grew by 18% to £27.5 billion over the same period.

The consumer new car finance market has reported strong new business growth since the beginning of 2012. In 2013, this market saw new business volumes grow by 20% to almost 798,000. **About three quarters of all private new car sales in the UK are financed by FLA members** and almost 70% of those are on PCP agreements.

The consumer used car finance market has reported double-digit growth in each month since April 2013. New business volumes grew by 16% in 2013 to almost 916,500, the highest level since 1999. The majority of new business in the used car finance market (64%) is provided through hire purchase agreements, although PCP has grown significantly over the past year. The strong performance in the consumer car finance market showed no signs of weakening in the first quarter of 2014.





2014

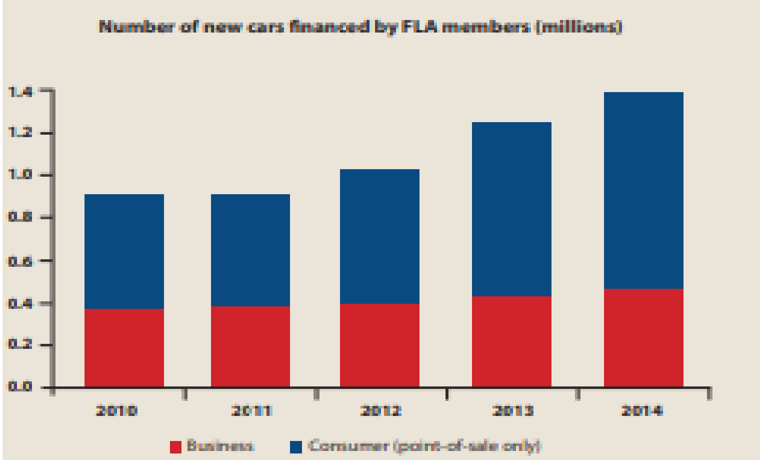
The motor finance market recorded another strong performance in 2014 as the number of cars financed by FLA members grew by 11% to almost 2.5 million. The corresponding value of new business was £32.7 billion, 17% higher than in 2013. This growth was primarily driven by a record year in the consumer new and used car finance markets.

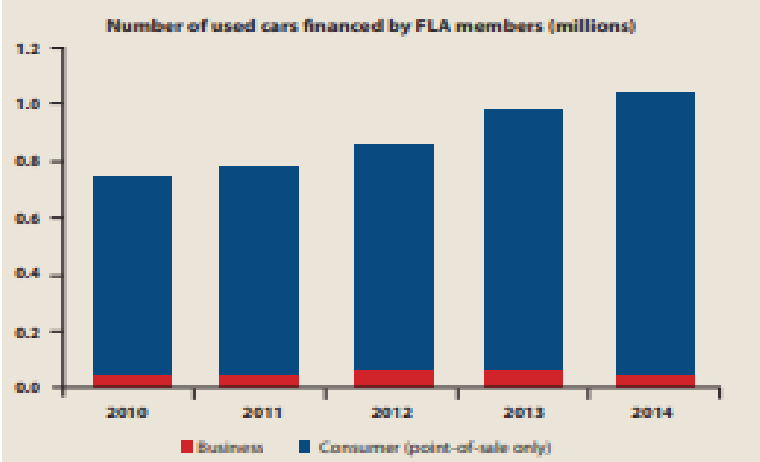
The number of new cars bought by consumers using finance provided through dealerships by FLA members grew by 13% to more than 895,000. As a result, the percentage of private new car registrations financed by FLA members increased from

73.9% in 2013 to 75.9% in 2014. A similar rate of growth was reported by the point-of-sale consumer used car finance market, where volumes increased by 14% to more than 1 million.

Personal contract purchase (PCP) has become a popular finance option in both the consumer new and used car finance markets. PCP finance for consumer new cars grew by 23% in 2014 to £10.2 billion, while for consumer used cars it increased by 56% to £3.5 billion over the same period.

Hire purchase remains the most popular option for financing consumer used cars and rose by 10% in 2014 to £6.3 billion. The first quarter of 2015 saw further growth in the motor finance market. Overall, volumes increased by 7% compared with Q1 2014 to reach 680,000. Point-of-sale consumer new and used car finance volumes increased by 6% and 8% respectively over this period.



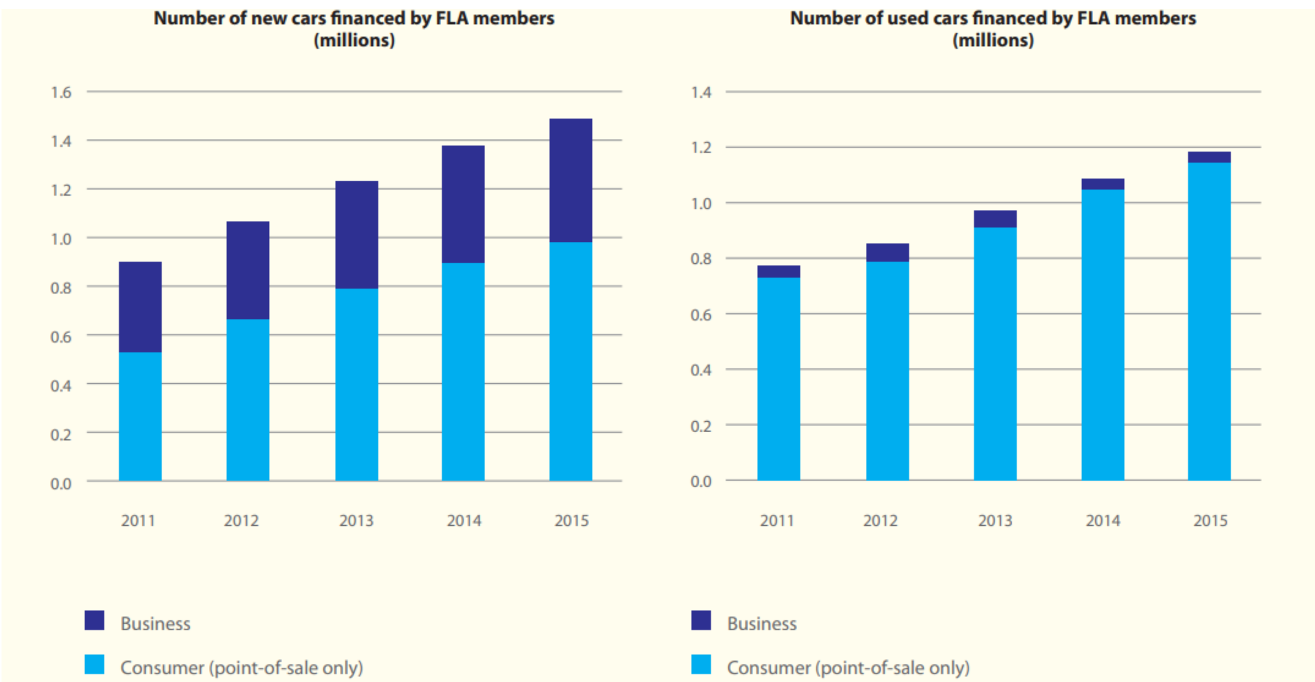


<u>2015</u>

In 2015, the number of cars financed by FLA members grew by 9% to reach almost 2.7 million. The corresponding value of new business was £37.3 billion, 14% higher than in 2014. The point-of-sale consumer car finance market continued to grow in 2015, although at a slightly slower rate than in 2014.

The number of new cars bought by consumers using point-of-sale finance provided by FLA members grew by 10% to more than 984,000. The percentage of private new car registrations financed by FLA members in 2015 was 81.4%, up from 75.9% in 2014. A similar rate of growth was reported by the point-of-sale consumer used car finance market in 2015 as volumes increased by 9% to more than 1.1 million.

The recent growth in point-of-sale car finance has to a large extent mirrored a reduction in the use of unsecured personal loans and means that the majority of car finance taken out by consumers is secured against the car. Personal contract purchase has increased in popularity and in part reflects changing consumer attitudes towards car ownership. The first quarter of 2016 saw further growth in the motor finance market. Overall, volumes increased by 11% compared with Q1 2015 to almost 755,200. Point-of-sale consumer new and used car finance volumes increased by 13% and 12% respectively over the same period.



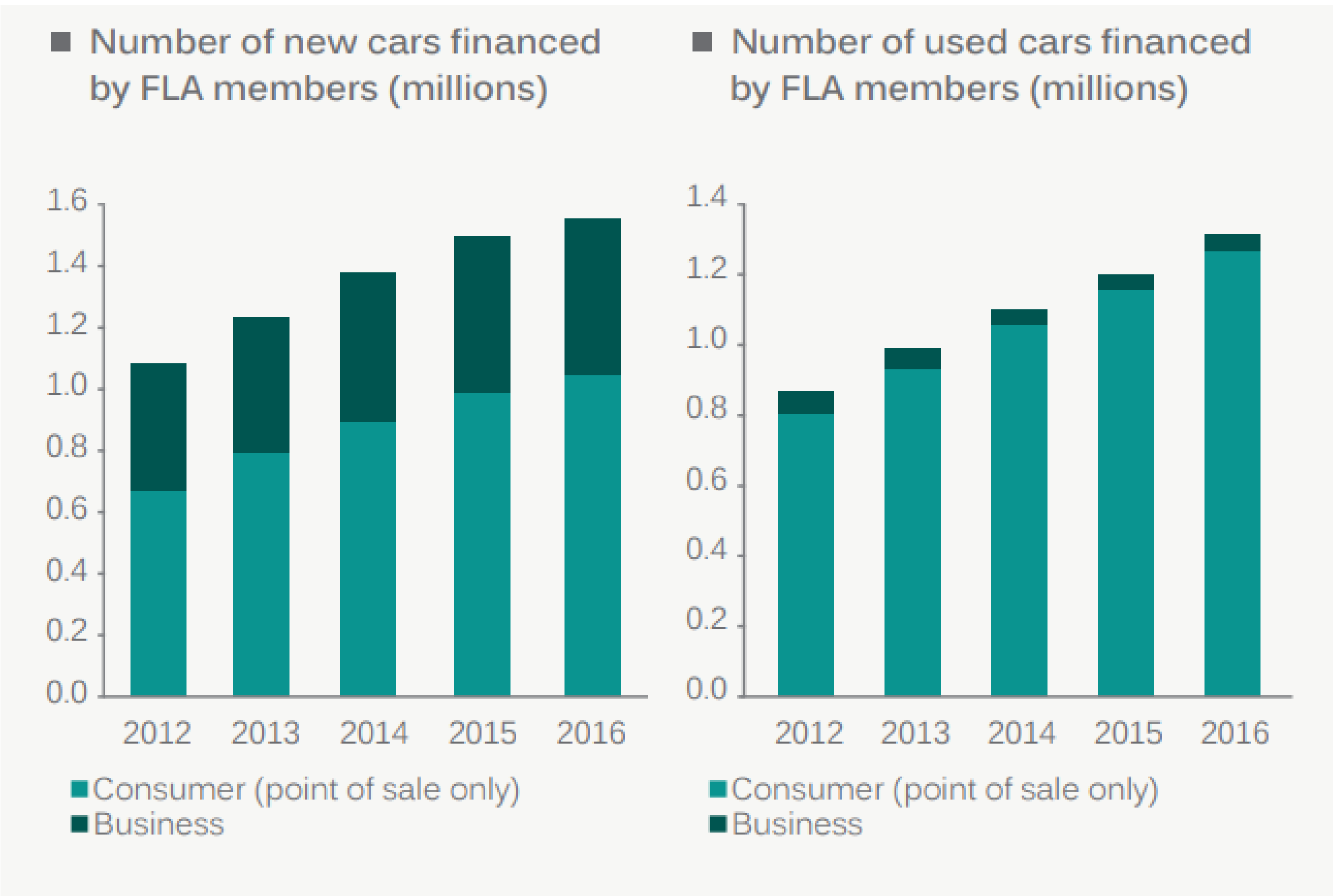
<u>2016</u>

In 2016, the number of cars financed by FLA members grew by 6% to almost 2.9 million. The corresponding value of new business was £40.9 billion, 10% higher than in 2015. The point-of-sale consumer car finance market continued to grow in 2016, although at a slightly slower rate than in 2015.

The number of new cars bought by consumers using point of sale finance provided by FLA members grew by 6% to more than 1.0 million. The percentage of private new car registrations financed by FLA members in 2016 was 86.6%, up from 81.4% in 2015.

The point-of-sale consumer used car finance market reported new business volumes in 2016 of almost 1.3 million, 9% higher than in the previous year. The growth in point-of-sale car finance in recent years has to a large extent mirrored a reduction in the use of unsecured personal loans and means that the majority of car finance taken out by consumers is now secured against the car.

Personal contract purchase has increased in popularity, in part reflecting changing consumer attitudes towards car ownership. The first quarter of 2017 saw further growth in the car finance market. Overall, volumes increased by 5% to over 793,800, compared with Q1 2016. Point of sale consumer new and used car finance volumes increased by 3% and 6% respectively over the same period.



2017

In 2017, the number of cars financed by FLA members remained stable at almost 2.9 million. The corresponding value of new business was £43.7 billion, 6% higher than in 2016. The point of sale (POS) consumer car finance market overall continued to grow in 2017, although at a slower rate than in 2016.

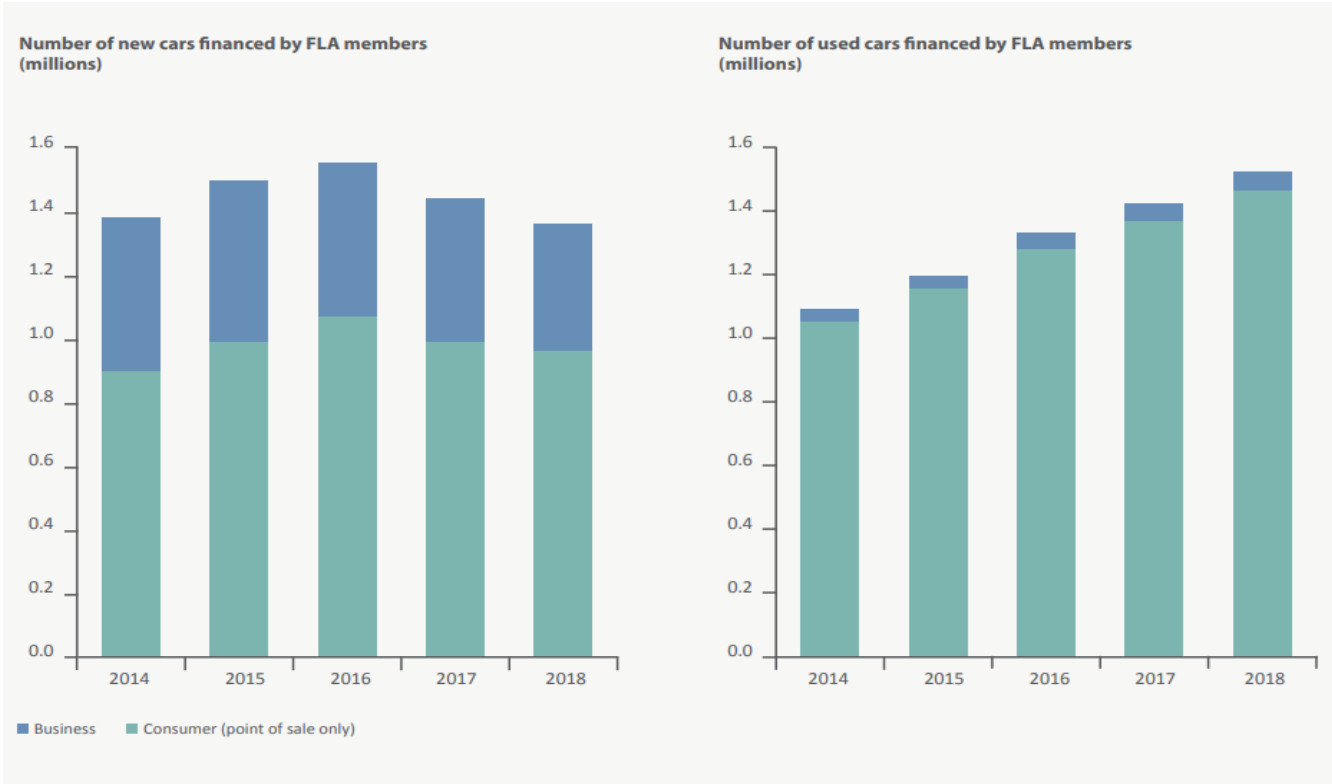
Trends in the POS consumer new car finance market in 2017 reflected falling demand for private new cars. The number of new cars bought by consumers using POS finance provided by FLA members was down by 7% at around 1 million. The percentage of private new car registrations financed by FLA members in 2017 was 88.2%, unchanged from 2016. The POS consumer used car finance market reported new business volumes in 2017 of almost 1.4 million, 6% higher than in the previous year.

In the first quarter of 2018, POS consumer car finance new business volumes were 1% lower than in the same period in 2017, with a fall of 11% in new car finance volumes largely offset by growth of 7% in used car finance volumes.

2018

In 2018, the number of cars financed by FLA members increased by 1% to reach almost 2.9 million. The corresponding value of new business was £45.9 billion, 5% higher than in 2017. Trends in the new car finance market in 2018 were affected by changes to emission standards for new cars introduced in September 2018 to ensure compliance with the Worldwide Harmonised Light Vehicle Test Procedure (WLTP).

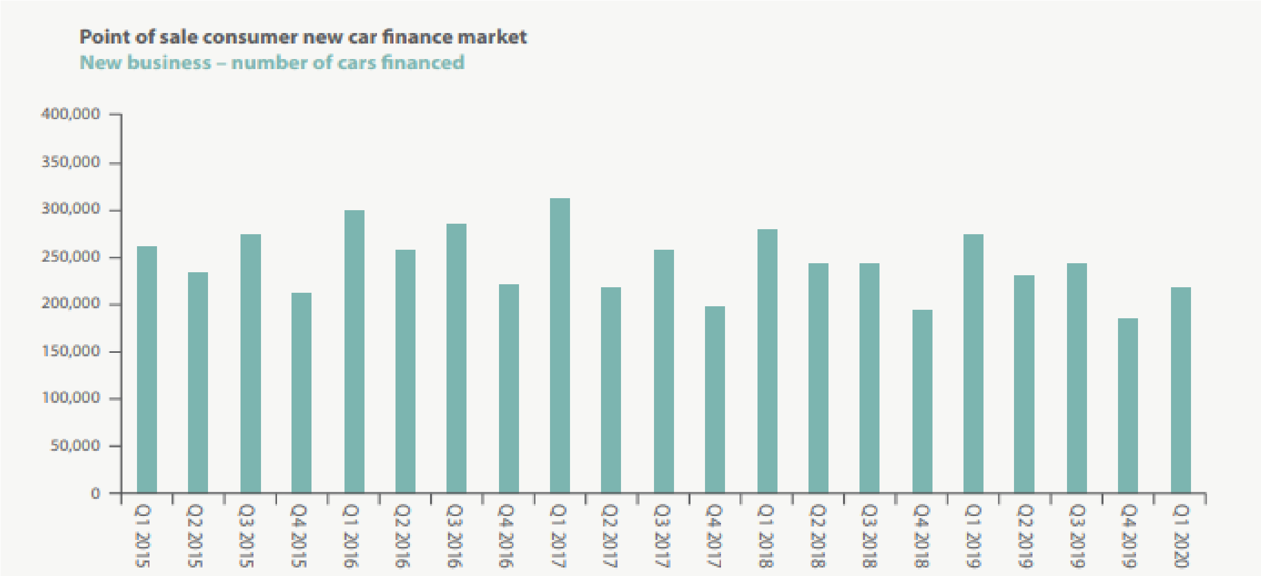
The number of new cars bought by consumers using point of sale (POS) finance provided by FLA members fell by 3% in 2018 to 960,000. The percentage of private new car registrations financed by FLA members in 2018 was 91.2%, up from 87.7% in 2017. The POS consumer used car finance market reported new business volumes in 2018 of almost 1.5 million, 7% higher than in 2017. In Q1 2019, POS consumer car finance new business volumes were stable compared with the same quarter in 2018, with a fall of 2% in new car finance volumes offset by growth of 2% in used car finance volumes.

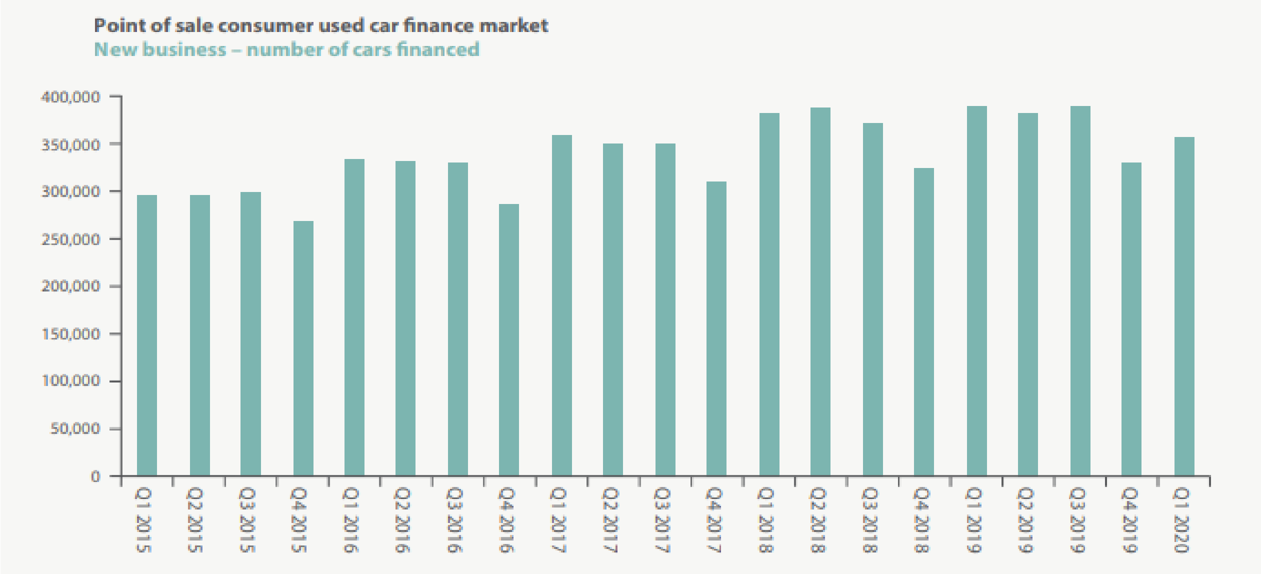


<u>2019</u>

FLA members reported motor finance new business of £48 billion in 2019, 3% higher than in 2018. Of this total, £38 billion was provided to consumers for new and used car purchases.
The motor finance market has been hit hard by the lockdown in March as the main route to customers through dealerships closed. Point of sale consumer car finance new business volumes fell in March by 27% compared with the same month in 2019.

The consumer new car finance market fell in March by 29% compared with the same month in 2019. This market closely tracks private new car registrations, with the percentage of private new car sales financed by FLA members reaching a record-high of 95.6% in the twelve months to March 2020. The Society of Motor Manufacturers and Traders (SMMT) has forecast that the number of new car registrations in the UK is likely to fall by 27% in 2020 compared with 2019. The consumer used car finance market contracted in March by 24% compared with the same month in 2019, and fell by 8% in Q1 2020 as a whole.



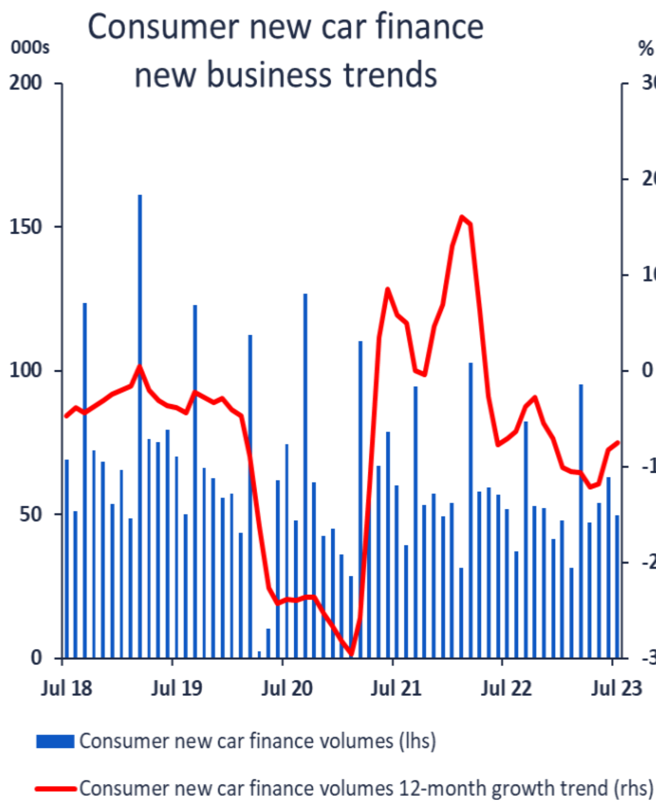


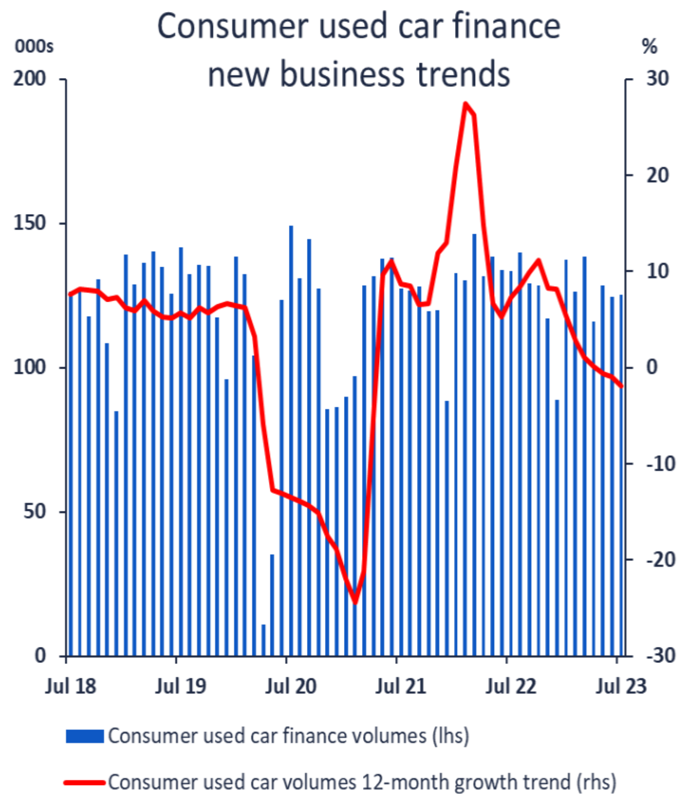
<u>2020</u>

The motor finance market was severely impacted by lockdown restrictions over the last year when showrooms, the primary route to customers, have been closed. The consumer motor finance market reported a fall in new business volumes of 60% in Q2 2020 compared with the same quarter in 2019.

However, demand rebounded once showrooms were reopened, and this market was quick to adopt click and collect or delivery services to support demand in between lockdowns.

In March 2021, the consumer motor finance market reported growth for the first time in six months as new business volumes increased by 10% compared with the same month in 2020. Growth was driven by the consumer used car finance market, with new business volumes up by 24% in March – the fastest rate of growth for seven years. Consumer new car finance new business volumes fell by 2% over the same period. FLA members have maintained a high penetration rate of financing new car sales, which reached 93.2% in the twelve months to March 2021.





Source: FLA Research Team

Commission Structures

There are broadly three types of discretionary commission structure banned by the Financial Conduct Authority ('FCA') under CONC 4.5.6R, as set out in CONC 4.5.7G:

(1) "An agreement under which the lender sets a minimum rate of interest and the commission payable by the lender to the credit broker in respect of a regulated credit agreement entered into by the lender is calculated by reference to the difference between the rate of interest negotiated by the credit broker and payable by the customer under the regulated credit agreement and the minimum rate of interest. These types of arrangements are often referred to as "increasing difference in charges" or "interest rate upward adjustment" arrangements." (These are referred to as "**increasing DiC**" structures.)

(2) "An agreement under which the lender sets a maximum rate of interest and the commission payable by the lender to the credit broker in respect of a regulated credit agreement entered into by the lender is calculated by reference to the difference between the rate of interest negotiated by the credit broker and payable by the customer under the regulated credit agreement and the maximum rate of interest. These types of arrangements are often referred to as "decreasing difference in charges" or "interest rate downward adjustment" arrangements." (These are referred to as "**reducing DiC**" structures.)

(3) "An arrangement or agreement under which the commission payable by the lender to the credit broker in respect of a regulated credit agreement entered into by the lender varies (within set parameters) according to the rate of interest negotiated by the credit broker and payable by the customer under the regulated credit agreement. These types of arrangement are often referred to as "**scaled models**".

Collectively the FCA now refers to these as Discretionary Commission Agreements (DCAs).

The other common commission structure is a fixed commission or flat fee arrangement where the commission payable by the lender to the credit broker is fixed and not dependent on the interest rate charged to the customer. The FCA did not consider that these types of commission presented the same level of risk of conflict of interest on the part of the broker and did not ban their use.

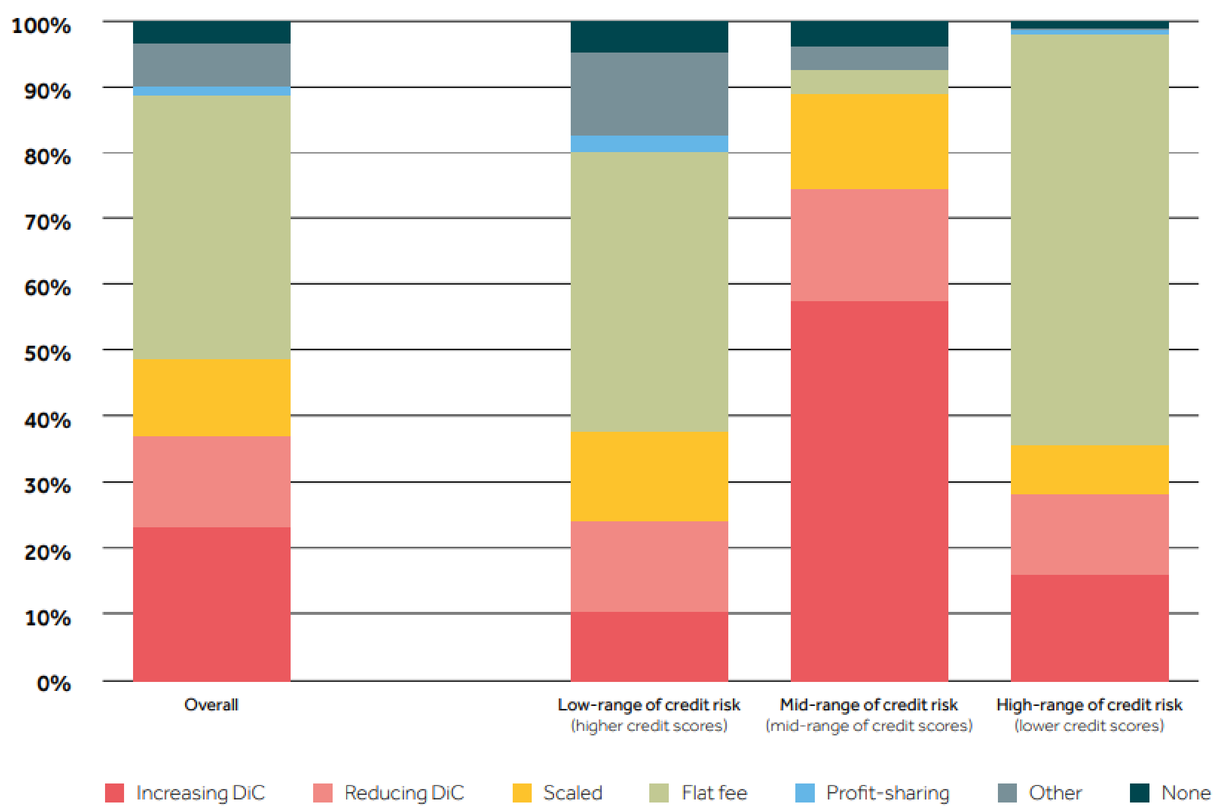
The only way to understand which lender operated which commission structure – will only become apparent once responses have been received to complaints and the lender discloses both the commission structure and amount. The Financial Ombudsman Service made it clear in July 2023 that it expected lenders to provide this information in its complaint response - https://www.financial-ombudsman.org.uk/data-insight/blogs/dealing-complaints-car-finance-commission

The only data in relation to commission structures comes from the FCA's report of March 2019 - https://www.fca.org.uk/publication/multi-firm-reviews/our-work-on-motor-finance-final-findings.pdf

The FCA conducted an analysis of contracts between some of the largest lenders (accounting for around 45% of the motor finance market) and their top dealers, covering the period 2013 to 2016. They found that Increasing DiC and Reducing DiC commission arrangements can provide strong incentives for brokers to arrange finance at higher interest rates. This is because the amount of commission increases with the interest rate that the consumer is charged. In these cases, the broker has discretion to set the interest rate payable by the customer, within parameters set by the lender. Other commission structures provide a weaker link to the interest rate or none at all.

In the final phase of their work (since March 2018), the FCA collected data from lenders to assess whether commission arrangements have led to higher finance costs for customers. This involved a sample of around 1,000 motor finance agreements from 20 lenders representing about 60% of the market. These covered January 2017 to July 2018 and represented a range of customers with different credit risk profiles. The sample covered a range of brokers, including franchised dealers, independent dealers and online brokers. 48% of the sample had some sort of DiC commission structure.

Chart 1: Share of lending by risk segment and commission model



Claim Values

For DiC cases there have been a number of FOS Adjudicator decisions. Their stance is that clients were unfairly charged a higher APR than was otherwise available. As a result, they have paid more in interest and charges than they would have done had they been made aware of the commission structure used and had the APR for their agreements been set at the lowest rate.

Lenders are being told to pay the difference between the amount the clients paid each month and the amount they would have paid had the APR been set at the minimum APR rate together with interest on each overpayment calculated at the rate of 8% simple from the date of each overpayment to the date of settlement.

The FCA Report states that across the firms in their analysis (around 60% of the market) - it is estimated that commission models which allow broker discretion over the interest rate could be costing customers £300m more annually when compared against a baseline of Flat Fee models. The FCA also estimates that on a typical motor finance agreement of £10,000, higher broker commission under the Reducing DiC model can result in the customer paying around **£1,100 more in interest charges over the four-year term of the agreement.** There would also be 8% compensatory interest to be added.

The FCA also identified that broker earnings varied significantly across the commission models, particularly for Increasing DicC, Reducing DiC and Scaled models. For example, the difference between the average and highest commission was around £2,000 for the DiC and Scaled models.

As mentioned above, the FOS made two determinations regarding DCA claims on 11 January 2024 and found in favour of the claimants. The FOS found that the broker (the car dealer) acted contrary to guidance at CONC 4.5.2G and that the customer was not treated fairly in accordance with the FCA's Principles for Business (Principle 6). It also stated that a court was likely to find that the arrangement was unfair to the consumer under s140A of the Consumer Credit Act 1974. The first case was against Black Horse (part of Lloyds Banking Group). The FOS ordered that the lender should pay the claimant the difference between the contracted rate of interest of 5.5% and the lowest flat rate permitted of 2.49%. In addition, interest was to accrue on the overpayments at a simple rate of 8% per annum from when a payment was made until when the contract ended. This gives us a hint as to how compensation is likely to be calculated for DCAs going forward.

As mentioned above, on the same day that the FOS published these decisions, the FCA published a Policy Statement relating the car finance industry. For DCA cases only, it announced that there would be a pause on the requirement for lenders to provide a final response to a complaint within 8 weeks. The pause would end on 25 September 2024 but that will give lenders until 30 October 2024 to provide a final response (a further 8 weeks from the end of the pause). The pause would give the FCA time to decide how redress for DCA claims should be handled. In addition, the FCA announced that the time limit for consumers to refer DCA complaints to the FOS would be extended from 6 to 15 months. The pause has now been extended to May 2025.

The FCA stated that during the pause period, it would consider the appropriate approach for redress for claimants who had not been treated fairly. This might involve leaving the approach as it now was (try to settle with the lender and go to the FOS if they are being difficult) or the FCA may set up a new redress scheme using its powers under s404 of the Financial Services and Markets Act 2000. In the Policy Statement, the FCA said:

We are urgently carrying out diagnostic work to assess whether the historical use of 'discretionary commission arrangements' (DCAs) between lenders and credit brokers means a significant number of individuals could be due redress (compensation) from motor finance firms because they paid too much for their car loan.

The Policy Statement goes on to say:

We want to ensure that consumers who have been harmed by motor finance arrangements with DCAs are provided with appropriate redress from firms in an orderly, consistent and efficient manner and in a way that protects and enhances market integrity.

The FCA also commented:

On average, between 2007 and 2020, approximately three quarters of all agreements had a DCA of some description.

It should be noted that the FCA banned DCAs in January 2021. The fact that it did so suggests that it regarded them as causing harm to consumers. The FOS's recent determinations also suggest that this was the case and we understand that there a number of other cases which are currently under consideration at the FOS and that further determinations will be published over the coming months upholding the earlier decisions.

Subsequently, the FCA has published 'Information for firms on motor finance complaints', It stated the following with regard to the pause period:

The Financial Ombudsman will continue to investigate and determine complaints that have bene correctly referred to it based on what it considers to be fair and reasonable in all the circumstances of the complaint. If you receive a request form the Financial Ombudsman, you should cooperate with it in the usual way, as required by DISP. If you receive a final decision from the Financial Ombudsman that's accepted by the consumer, we expect you to pay any award by the date given in the decision.

With regard to complaints about a car finance agreement that was not a DCA, the FCA said:

If a complaint is about a regulated credit agreement for motor finance but a broker wasn't acting under a DCA, then it won't fall within the pause introduced on 11 January 2024. The usual DISP rules will apply to these complaints.

It is estimated that 25% of PCP claims do not include DCAs.

The Claims Settlement Process

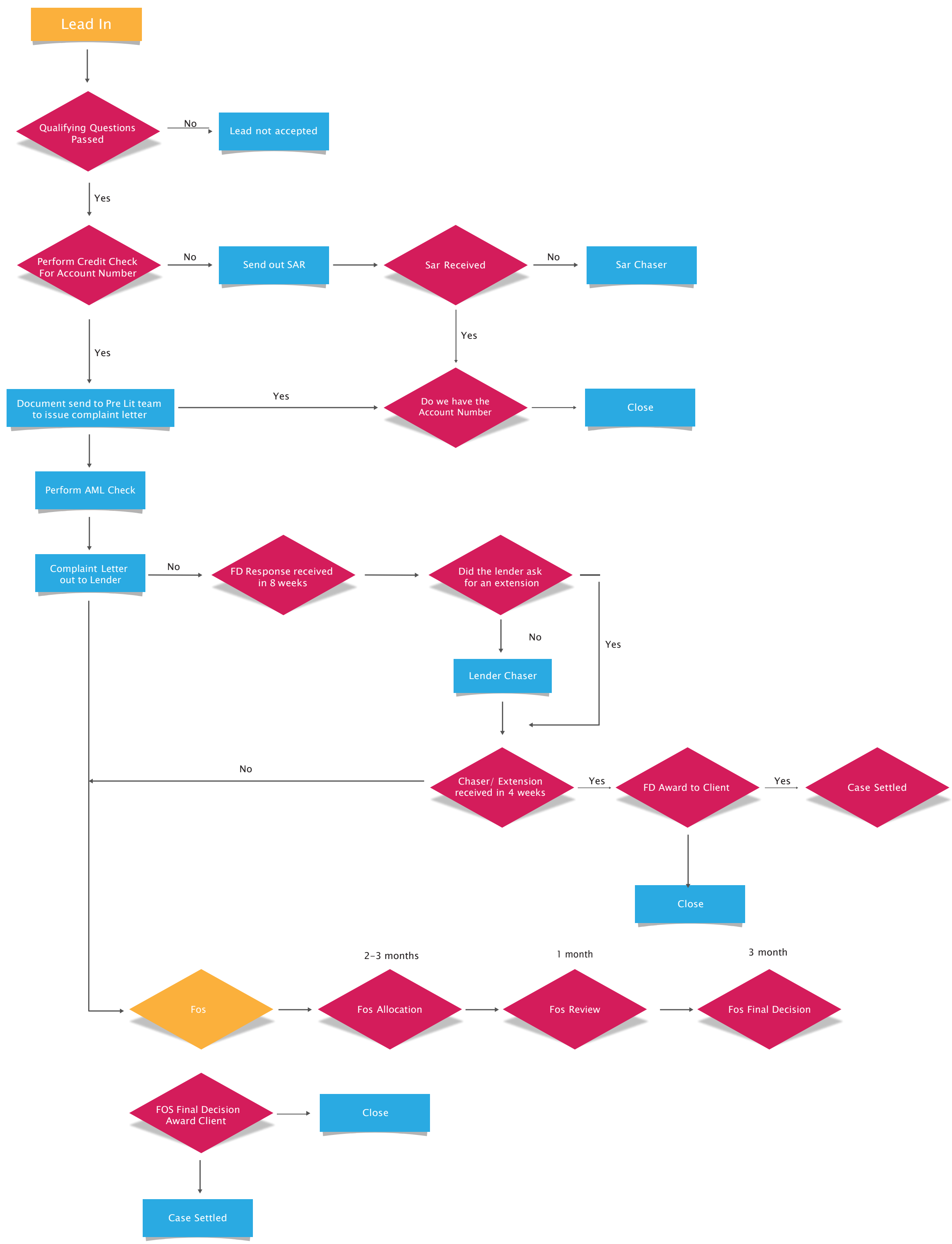
David Ishag's company is assigning 1,000 PCP claims to the SPV and these will be used as security for the Money&Co. loan. The claims have largely been processed and are awaiting the end of the FCA pause. The SPV will enter into a servicing agreement with David's company and it will finish the process of settling the claims once the FCA pause has ceased. The FCA has hinted that it is likely to introduce a redress scheme and has said that it will make a further announcement in May.

For each claimant, the SPV will hold a letter of consent signed by the claimant, a damages-based agreement entitling the SPV to 28% of the settlement proceeds, a letter signed by the claimant acknowledging that they could have pursued the claim themselves for free and a soft credit check confirming that there was a credit agreement for that vehicle in the name of the claimant and that it was a DCA.

In some cases, the soft credit check will not include the credit agreement, especially if it was an older agreement. In these cases, the file will include a DSAR and the credit agreement provided by the lender.

In terms of what will be needed in order to settle the claims, the team is waiting for the FCA's announcement in May. It expects that there will be a redress scheme.

The diagram below shows the settlement process under various scenarios.


Lead In
Qualifying Questions Passed
No
Lead not accepted
Yes
Perform Credit Check For Account Number
No
Send out SAR
Sar Received
No
Sar Chaser
Yes
Yes
Document send to Pre Lit team to issue complaint letter
Yes
Do we have the Account Number
Close
Perform AML Check
Complaint Letter out to Lender
No
FD Response received in 8 weeks
Did the lender ask for an extension
No
Yes
Lender Chaser
No
Chaser/ Extension received in 4 weeks
Yes
FD Award to Client
Yes
Case Settled
Close
2-3 months
1 month
3 month
Fos
Fos Allocation
Fos Review
Fos Final Decision
FOS Final Decision Award Client
Close
Case Settled

Security

The loan will be secured on the expected proceeds from the PCP claims. The first loan will be for £250,000 and we will have 1,000 claims as security. We have assumed an average settlement value of £1,750 against the FCA prediction of £2,000 and the company's own prediction of £2,400. We have used the lower value to be conservative. The SPV will be entitled to receive 28% of the settlement value of each claim, which should be £490 on average. This means that we will, in theory, have £490,000 of security for the loan of £250,000. However, we have then applied a discount of 30%, giving a security value of £343,000 and a loan to value of 73%. We normally lend on a loan to value of 80% and so we feel that we have negotiated a more favourable security position than usual.

Credit Committee Recommendation

The credit team believes that the SPV is an attractive lending proposition. The company has assumed that the FCA pause will come to an end on 4 December 2025 and that it will do three cycles of claims settlements. It is aiming for the first settlement cycle to end in April 2026, the second cycle in December 2026 and the third cylle to end in April 2027. The term of the loan will be 18 months and it is intended that the loan will be repaid at the end of the first settlement cycle. Our lenders will receive an interest rate of 8% per annum. The loan to value will be 73% and the security will be the settlement proceeds from the claims. On that basis, the credit team is recommending a credit rating of A+.

Risk Factors For Lenders

Lenders should carefully consider the following factors and the other information provided in this document before they decide to lend. The SPV has been established to fund PCP claims and there is a risk that lenders could lose part or all their money. All the information contained in this document should be considered in the light of the risk factors set out below. This list is not comprehensive but will provide prospective lenders and their advisers with the main risks involved in investing.

Risks relating to investing in a Special Purpose Vehicle (SPV)

Investing in a SPV is speculative and involves a high degree of risk and should only be made by investors who can afford to lose their entire investment. In addition, there is no guarantee of return on this investment. If there is a return, it is likely that this will vary in amount from time to time. The value of the SPV's business may go down as well as up. Any investment should be seen as a medium to long-term investment. The SPV currently has no trading history as it has been set up specifically to buy the PCP claims.

Risks relating to future performance

It is possible that claims take longer to settle, which will result in less profit than forecast for the SPV. Although we believe that it is unlikely, the FCA could extend the pause further.

Risks relating to regulation

Car finance companies operate under the oversight of the Financial Conduct Authority (FCA) in the UK. It is believed that the FCA will allow PCP claims to go to the Financial Ombudsman Service rather than to be litigated. If claims did move to the legal environment, this would involve a higher cost to settle and take longer, which would affect the profitability of the vehicle.

Other Risks
An investment made in the SPV based on the information contained in this document may not be suitable for all recipients and Investors are strongly advised to consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

Inflation and economic risk could affect the SPV's business.

Deflation could reduce the value of an investment in the SPV and any return that may be achieved.

AS STATED ABOVE, THIS IS NOT AN EXHAUSTIVE LIST OF RISKS ADHERENT IN MAKING AN INVESTMENT OF THIS TYPE AND POTENTIAL INVESTORS SHOULD SEEK ADVICE FROM AN INDIVIDUAL QUALIFIED TO GIVE SUCH ADVICE.

Money&Co.

15 October 2024