

Heads of Terms for Debt Consolidation Partial Guarantee Fund

Introduction

This document sets out the draft Heads of Terms for the Debt Consolidation partial guarantee fund.

We expect to use these Heads of Terms to form a full contract for services for the guarantee. We are inviting lenders to comment on the specifics of these draft terms as set out here in the expression of interest form but we do not expect the core principles to change fundamentally, which are that the guarantee is partial and lenders take the first losses equivalent to their 'normal' lending and that a profit share arrangement applies.

We are also asking lenders to suggest in their expression of interest response what parameters they would propose for the guarantee on two areas as set out below –

- 1 The level of guarantee above your current default rate that seems fair and reasonable from your perspective, we are currently proposing a level of two and half times more
- 2 The profit share taper ratios that align to levels of achievement against this debt level within each lending wave

More details are provided in the technical guidance notes and [excel calculator](#).

SUBJECT TO CONTRACT

The following terms are indicative only and are not intended to be legally binding. They do not constitute or imply advice nor a commitment to provide funding/investment by Fair4All Finance Limited, nor a representation that such funding/investment will be made available. Any such commitment is subject to contract, and satisfactory due diligence and documentation. It is intended that the documents will contain provisions consistent with those described in this term sheet along with any such additional provisions as may be mutually agreed between the parties.

Guarantee

Basic Terms	
Guaranteed party (the "Lender")	[eg Credit Union]
Guarantor	Fair4All Finance Limited
Term	Guarantee will last for [36] months following the end of the final Wave the Lender receives.
Total Partial Bad Debt budget	[£] Total Partial Bad Debt budget is the maximum budget Fair4All Finance is making available to the Lender for this pilot in the form of guaranteed default losses where the utilisation of that budget will be managed as a phased allocation of 50% 30% and 20% between the Waves 1, 2 and 3 respectively and will not be exceeded. Within each wave Total Partial Bad Debt budget will be applied at 80% against Population A and 20% for population B
Wave 1 Minimum capital lent Amount	[£] This figure as a basis will be multiple of the proposed volume at an average principal value of £6,500 (as per the Call for Expressions of Interest document we expect this to be a minimum of 1,000 loans equivalent to £6.5m lent)
Wave 1 Maximum Guaranteed Amount	[£] as the amount of default losses which are guaranteed on the minimum volume (as per the Technical Note we anticipate this being 50% of the Total Partial Bad Debt budget)
Anticipated Wave 2 Minimum capital lent Amount	[£]

Anticipated Wave 2 Maximum Guaranteed Amount	[£] please note the availability and quantum of later Waves is not certain and will be set by reference to meeting various performance indicators and in the context of the remainder of the Total Partial Bad Debt budget available
Anticipated Wave 3 Minimum capital lent Amount	[£]
Anticipated Wave 3 Maximum Guaranteed Amount	[£] please note the availability and quantum of later Waves is not certain and will be set by reference to meeting various performance indicators and in the context of the remainder of the Total Partial Bad Debt budget available
Wave 1 Claim Period	[] From lending start date to 42 months after final loan is issued in Wave 1
Wave 2 Claim Period	[] From lending start date Wave 2 to 42 months after final loan is issued in Wave 2
Wave 3 Claim Period	[] From lending start date Wave 3 to 42 months after final loan is issued in Wave 3
Eligible Debt Consolidation Loan	<ul style="list-style-type: none"> • Use of funds - to refinance existing debts of Population A and Population B borrowers • Loan disbursed to re-financed creditors not the borrower (where this is not practically possible for the consolidation lender in the first three months of the pilot, for the consolidation lender to put in place appropriate support to the borrower to enable them to make such payments themselves, including monitoring open banking for evidence of payments being made, follow up prompts including calls and texts etc where a heightened risk management approach will apply to their underwriting where such payments on behalf of lenders cannot be made initially) • Interest rate -the debts being consolidated must be demonstrably higher in average APR terms than the credit union APR offered on the consolidation loan which will be subject to monitoring to ensure that the lending is targeting people for whom it can be most impactful • Total amounts consolidated under the loan, excluding any additional new lending principal amount, must be less than the total amounts (including any break fees) the borrower would have owed under the

	<p>previous and now refinanced debt</p> <ul style="list-style-type: none"> • Loan principal (including fees owed) must on average (median) be equal to or less than £6,500 and have a maximum loan term of 36 months • Lender may not make multiple consolidation loans to a borrower • Lender must check consolidation loan applications against the duplicate prevention system maintained by Fair4All Finance before loan approval and before disbursement to ensure borrowers only receive one consolidation loan backed by the Guarantee across the Lenders' own operation and other Lenders also delivering against this Guarantee appointed by Fair4All Finance • Borrower must be from Population A or Population B and that these loans are tagged as such in the Lender's platform where borrower data that aligns them to Populations A or Population B is recorded from data submitted by the borrower in their application or via the CRA file. • The loan cannot be applied to refinance debt where the majority of it was already held with the Lender and where the consolidation lender is owed sums by the borrower the portion of the total consolidation loan that the borrower is issued which represents the debt originally owed to the consolidation lender must not exceed 20% or £1,000 of the total consolidation loan principal whichever is the lower • Any existing debt held by the Lender included in the consolidation loan cannot already be in arrears or where there are other signs of borrower disengagement or distress including but not limited to the cessation of borrower deposits into their savings account(s), requests for payment holidays, or other support sought from the CU regarding any existing debt
Guarantee Applicability	<p>The Lender may claim under the Guarantee during the applicable Wave Claim Period for losses incurred in its loan book of Eligible Debt Consolidation Loans (written and drawn within a Wave Availability Period), provided that such losses are above its "Total Baseline Book Average Default Rate", where the "A/B Default Rate" is up to a maximum of 2.5 times the Total Baseline Book Average Default Rate. Interim payments will be made at specific review dates against the wave where cumulative calls on the available bad debt budget for the wave will be monitored.</p>

	The final Guarantee payment will be capped at the level of the remaining bad debt budget available for the wave. Any bad debt above the limit of the agreed budget for the wave will be borne by the lender and these will be for the Lender's account and the Guarantor shall have no liability for such losses. At its sole discretion the Guarantor may absorb these losses with a commensurate reduction in the available bad debt budget for the subsequent waves.
Profit share	
Servicing Costs	The costs incurred by the Lender in lending, servicing, administering, and/or enforcing the Eligible Debt Consolidation Loans where such servicing costs are capable of being validated through Open Book Accounting
Cost of Capital	Costs incurred by the Lender on borrowing any capital advanced under the Eligible Debt Consolidation Loans which may include the dividend offered on CU member savings which are then on-lent or the funds secured through deferred shares, grant or other mechanisms where such costs of capital are capable of being validated through Open Book Accounting
Gross profit	The total returns received by the Lender from borrowers of Eligible Debt Consolidation Loans less any Cost of Capital less the principal amount of all Eligible Debt Consolidation Loans made by the Lender
Net profit	Gross Profit less Servicing Costs and other qualifying expenses
Profit share	At end of the Wave and when all loans have been either repaid or written off, in arrears, the Lender shall pay a fee to the Guarantor which is a percentage of the Net Profit and which is subject to the Profit share taper ratios published
Profit share taper	The percent of the profit share will be set by reference to the A/B Default Rate. The higher the default rate the higher the percentage of the profit share. Profit share peaks at [50%] on an A/B Default Rate that is two and a half times [] above the Lender's Total Book Average Default Rate and falls to 2.5% where the A/B Default Rate is less than or equal to the Total Book Average Default Rate
Populations	

Population A	Applicants narrowly failing lending policy, but with similar characteristics to written loans. Note: the specifics of this term will be defined for each Lender based on their current credit risk profile.
Population B	Applicants materially failing lending policy, or failing on multiple criteria, but with significant hardship, vulnerability or acute domestic or financial difficulties
Population C	Applicants that are within the lending policy and would expect to receive the best lending rates available from the lender and are not covered by the guarantee
Payment Mechanics of Guarantee	
Current average rate of default across all other Lender's loans ("Total Baseline Book Average Default Rate")	The value of the amount written off and provisioned at 100% as a share of the total lending on all loans issued by the Lender in the same period which are not consolidation loans covered by the guarantee "baseline loans"
A/B Default Rate	The average rate of default of the entire portfolio of Eligible Debt Consolidation Loans
Calculation of A/B Default Rate	
Incremental losses from consolidation lending, in excess of baseline rate	The baseline default rate used will be taken using the lenders non guaranteed loan performance for the same wave beginning and end date. This baseline performance will be reviewed regularly in line with the lenders end of financial year(s) date(s) – known as the review date. This actual percentage will only be known at the first review date and in the first instance will be referenced as the Current average rate of default across the Lender's [consolidated debt/entire] loan book (the "Total Book Average Default Rate").
Reconciliation	In the event an amount has been claimed under the guarantee based on the basis of an A/B Default Rate which subsequently falls, any amounts overpaid shall be set off against any amounts which may be due under the guarantee or, if there are no future payments being made under the guarantee, repaid by the Lender to Fair4All.
Payment frequency	By wave, at end of each review period that will align with the lenders end of financial year reporting requirements, in arrears,

Waves	
Wave 1 Availability Period	<p>[] 2022 until []</p> <p>Fair4All may extend the Wave 1 Availability Period by providing written notice to the Lender</p>
Wave 1 Review Period	<p>The review period will start at the End of the Wave 1 Availability Period, the first review taking place before the beginning of the Wave 2 Availability Period. Further reviews will take place at regular intervals in line with the lenders end of financial year reporting dates and future availability periods and the final review will be 42 months after the final loan is issued in the final wave the lender participates in</p>
Wave 2 Availability Period	<p>[] until []</p> <p>Fair4All Finance may delay start of the Wave 2 Availability Period by providing written notice to the Lender</p> <p>Fair4All Finance may extend the Wave 2 Availability Period by providing written notice to the Lender</p>
Wave 2 Review Period	<p>End of Wave 2 Availability Period until beginning of Wave 3 Availability Period</p>
Wave 3 Availability Period	<p>[] until []</p> <p>Fair4All Finance may delay start of the Wave 3 Availability Period by providing written notice to the Lender</p> <p>Fair4All Finance may extend the Wave 3 Availability Period by providing written notice to the Lender</p>
Participating in Wave 2/3	<p>Before the beginning of the Wave 2/3 Availability Period the Lender may apply to participate in Wave 2/3 setting out information including, but not limited to, its:</p> <ul style="list-style-type: none"> • Expected number of Eligible Debt Consolidation Loans to be written • Expected A/B Default Rate for the Eligible Debt Consolidation Loans to be written during the Wave 2/3 Availability Period • Forecasts of Net Profit on the Eligible Debt Consolidation Loans to be written during the Wave 2/3 Availability Period

	Following receipt of the information above, Fair4All Finance shall inform the Lender whether Fair4All Finance will be make the guarantee available to the Lender during Wave 2/3.
Wave 2 Maximum Guaranteed Amount	The amount notified by Fair4All Finance to the Lender in writing no later than the end of the Wave 1 Review Period
Wave 3 Maximum Guaranteed Amount	The amount notified by Fair4All Finance to the Lender in writing no later than the end of the Wave 2 Review Period.
Additional Waves	In the event Fair4All Finance wishes to continue the pilot project beyond Wave 3 it may offer the Lender the opportunity to participate in additional Waves.
Transfer of guarantee to later Waves	<p>During a Wave Review Period, the Lender may elect to transfer a portion of the Maximum Guaranteed Amount for a particular Wave to a later Wave. If the Lender so elects, the earlier Wave 's Maximum Guaranteed Amount will be reduced accordingly and the later Wave 's Maximum Guaranteed Amount will be increased.</p> <p>Such election must occur prior to the beginning of the later Wave's Availability Period.</p>
Reporting Requirement	
Annual reporting	<p>Lender to provide audited accounts to the Guarantor on signing and within 180 days of financial year end.</p> <p>Provide the yearly business plan</p>
Borrower data capture	To aid the Fair4All Finance reporting and evaluation work on this fund the consolidation lender will include in the borrower customer journey a Fair4All Finance supplied Privacy Notice obtaining the appropriate consent for the capture and processing of borrower data and loan performance to enable an appropriate evaluation to be undertaken on an interim basis against each Wave and within 15 months of the conclusion of the final Wave covered by this Guarantee within this pilot. Noting that this information may be required for borrowers in receipt of a consolidation loan and for those declined for a consolidation loan but for whom an alternative product is offered subject to the evaluation requirements.
Monthly reporting	To provide monthly management accounts within 30 days of preparation

	<p>Provide information on incurred and forecast losses in loan book of Eligible Debt Consolidation Loans.</p> <p>Provide information on incurred and forecast losses in loan book of all other debt consolidation loans</p> <p>Reporting will include, but is not limited to, the following across the Lender’s entire portfolio of debt consolidation loans:</p> <p>Loan Applications</p> <ul style="list-style-type: none"> • Approved • Declined • Declined and referred to debt advice • Withdrawn • Loan volumes /values that create the baseline <p>Loan Status</p> <ul style="list-style-type: none"> • Live • Fully repaid • In arrears • In default <p>Loan Values</p> <ul style="list-style-type: none"> • Total value of loans approved • Average value of loans • Loan CRA ratings <p>Range of Loan Terms (including payment frequency)</p> <p>Consolidation data</p> <ul style="list-style-type: none"> • Number of loans consolidated • Value of monthly customer saving • Saving over loan term • APR per loan consolidated
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	<p>Loan payment</p> <ul style="list-style-type: none"> • Paid cash member • Lender pays creditor • Lender pays creditors and closes facility • Mixed payment <p>Customer Demographics applied/approved including</p> <ul style="list-style-type: none"> • Gender • Age range • Ethnicity • Marital status • Caring responsibilities • Disabled • Housing tenure • Employment status • Monthly personal income • In receipt of benefits <p>Customer outcome data - for one year following the repayment/write off of an Eligible Debt Consolidation Loan, the Lender shall supply Fair4All Finance with information on any debt products advanced to that borrower.</p> <p>The Lender will also collaborate with Fair4All Finance to fulfil the evaluation requirements Fair4All Finance sets out from time to time, including but not limited to supply data and participating in surveys (of borrowers and lenders) to complete process, social and economic impact evaluations. The evaluation requirements may necessitate tracking borrowers who are declined for a consolidation loan but offered an alternative product or other similar counterfactual constructs.</p> <p>Requisite data for Fair4All Finance to complete full Expected Credit Loss (ECL) reporting. This will include undiscounted principal obligation; remaining term; discount rate; discounted principal and interest; probability of default; loss given default. Also, a credit risk assessment.</p> <p>Anticipated profit share reporting on the profit share element.</p>
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<p>Representations and warranties</p>	<p>To include, but not limited to:</p> <ul style="list-style-type: none"> • Status (due incorporation) • Ownership of assets • Binding obligations • Non-conflict with other obligations • Power and authority • Validity and admissibility in evidence • Insolvency • Material adverse change • No misleading information • Financial statements • No breach of laws • No default • No proceedings pending or threatened
<p>Termination</p>	<p>Parties may terminate at any point for material breach of the agreement</p> <p>Lender may terminate provisions relating to the Guarantee at any point provided that it repays all amounts claimed under the Guarantee less any amounts paid under the Profit share. Reporting Obligations are not terminatable on demand.</p>

Contract for Services

Marketing support	<p>To be determined</p> <p>Term of contract: []</p> <p>Description of in-kind support: []</p> <p>Value of in-kind support: []</p>
Data rights	<p>Terms to be included to allow the Lender to provide data to the Guarantor and the Guarantor be permitted to use that data in analysing the pilot programme.</p>
Population C	<p>Applicants that are within the lending policy and would expect to receive the best lending rates available from the lender</p> <p>Note: the specifics of this term will be defined for each Lender based on their current credit risk profile.</p>