Draft for discussion

**Fair4All Finance – debt consolidation lending project (the "Project")**

**Principles for capital funding in connection with the Project**

This document sets out the current key commercial terms on which F4A anticipates providing capital to run the Project. These principles are not exhaustive and are not intended to be legally binding and are subject to the parties entering into fuller form documentation. As the Project is a pilot scheme which is being iterated internally, these principles are subject to change and may not reflect the final terms on which Fair4All Finance is prepared to provide capital.

The interest rate applicable to the capital provided will be determined through the competitive process that will be run as part of the Subsidy Scheme that is being launched by Fair4All Finance. Lending capital will be available where it unlocks incremental lending. The rate that applies depends on the corporate structure and business case including lender commitments and leverage to justify subsidised rates.

Fair4All Finance may also insist that lending capital for debt consolidation pilot testing is ring fenced through a separate entity or special purpose vehicle.

- Loan disbursed in tranches to meet lending volume anticipated in following [quarter/half year/year]. Availability period to run for [x] months and term of loan to be [48] months following end of availability period.

- Interest accrues daily and is repayable quarterly

- No-commitment fee for capital due/commitment fee payable. (We may choose to vary this term subject to negotiations )

- Principal repayment – throughout the term upon repayment of underlying debt consolidation loans with bullet at end of term of any outstanding principal. The specific arrangements will depend on the business case and the structuring arrangements, including SPVs where appropriate.

- Principal balance 'reduced' by non-performance of underlying debt consolidation loans in excess of current default rates. Principal will not be written off at the time of the 'reduction' but a portion will become non-interest bearing.

- Principal 'reduction' calculated on default rate of portfolio of underlying assets. If later interest periods show portfolio has performed better than forecast during earlier interest periods a corresponding portion of the non-interest bearing principal will become interest bearing to reflect the lower default rate of the portfolio.

- At the end of the term, the final non-interest bearing amount of the loan is written off.

- The non-interest bearing portion of the loan is subject to a cap. If losses on the portfolio exceed this the applicant will need to repay Fair4All Finance using general funds.

- Subject to the agreement of the bad debt guarantee mechanism, documented separately, margin may also be variable depending on default rate. A higher default rate will raise margin and a vice versa.

- Loan will have full suite of usual representations and warranties.
- Loan will include typical events of default.
- Quarterly financial reporting on the underlying assets will be provided to calculate the default rate of the portfolio. Detailed reporting on consumers and defaults rates of individual loans required to ascertain trends in population default rates.
- Reporting on loan book of other debt consolidation loans not funded by Fair4All Finance required.
- Loan will be secured on the underlying assets. In an enforcement scenario Fair4All Finance to have the ability to transfer the underlying assets to a special servicer.
- Applicant to hold full FCA permissions and to be lender of record for underlying assets.
- Further waves of lending to be managed by entering into additional loan agreements.
- Compliance with subsidy scheme obligations with equivalent clauses to those set out in the bad debt guarantee will apply