CROWDPROPERTY
WIND DOWN PLAN

2020

Contents

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1. Wind down plan - Introduction

The purpose of this Wind Down plan is to set out the key information required for the continued operation of the platform in the case of wind down. The wind down will require continued operation of the core business and some monitoring of project progress and information so that loans can be repaid in an orderly fashion.

CrowdProperty has a formal agreement in place with Smith & Williamson (S&W), our accountants who are a top ten UK firm to provider a back up provider solution, see appendix 5. As our accountants, they know the business well. They have a strong insolvency and recoveries practice and work with other P2P lenders so have the experience and expertise required. During Wind Down reconciliation of Client and Current account will continue regularly as normal.

As part of our Wind down planning, we have fully modelled all cash flows (including S&W fees) and all procedures, including all system access rights and requirements have been thoroughly documented in the scenarios in alignment with S&W who believe the cashflows will provide ample cover for wind down period of our loanbook.

In the unlikely event that CrowdProperty goes into administration, S&W would be instructed to initiate and complete clearly articulated wind down procedures. It is typical practice that a subset of the existing staff base, under S&W's supervision, oversight and governance, would carry out wind-down functions across the property, technology, regulatory and administration teams, ensuring both operational knowledge and technical property expertise is retained through the wind down period. Professional fees would be charged on a time and materials basis and S&W has been confirmed that the way our platform takes partial remuneration at the end of the loan term provides ample cashflow cover for an orderly and professional wind down with ample resourcing and oversight.

CrowdProperty takes no principal risk in the loan assets. All principal and interest risk is held by the Lenders. Cashflow is generated both at the start and the end of the loans.

The average length of loan is 15 months enabling the company to manage a wind down scenario in an orderly fashion. The maximum loan length is 24 months, this represents a reasonable estimate for the longest time period a wind down would take.

A severe economic crisis is a potential reason to wind down operations within a P2P Lender. Within our resilience testing we modelled scenarios on the most severe historical economic downturns, 2007/08 and 1989/90. Our resilience testing shows that during any reasonable economic crisis our loan book should not experience any risk to lenders capital or interest until at least 10 months post end date of loans. Within a period of economic crisis our team would be in weekly contact with borrowers in order to establish the status of loans and their ability to payback. An economic crisis could result in our winding down of the origination of new loans temporarily in order to focus resources on maintaining the current loan book rather than adding more loans into the loan book.

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2. Wind down plan – Decision to Wind down

Before any decision to wind down is made, other possible solutions should be considered, this may include but is not limited to a potential sale of the business, additional investment and insolvent scenarios.

To make an informed decision on whether to implement the Wind Down Plan – certain Management Information thresholds must be triggered. Examples of the triggers are:

- significant drop to zero in origination over a month
- The value and volume of home sales in the UK are also used as a marker for the health of the origination of new business
- The time taken to raise increasing to above 72 hours for a typical size project (c.£450,000)
- Reduction in ISA deposits and new AutoInvest Funds from retail investors to Zero for a sustained period of time

These triggers are assessed by the CEO, Property Director and the Board as appropriate at least once a month and any changes between board meetings are flagged in weekly progress meetings by managers of the relevant departments. All employees are made aware of the possible triggers into a wind down scenario and are encouraged to flag early any potential triggers.

External factors that would result in an unavoidable wind down would include:

- A significant change in the legislative process that renders the operation of a P2P platform of the scale of CrowdProperty unviable.
- As legislative changes have a lead time and are monitored by CrowdProperty, time would be allowed for the preparation of the wind down activities.

Platform Insolvency would also be a realistic scenario forcing unavoidable wind down. Platform revenue is taken at the start and end of each loan. As there is generally a 1-6 month lead time in the acquisition of new loans it would become clear very soon if the availability of new loans to acquire was reducing. As the availability of loans are generally correlated to the health of the UK housing market, tracking of new loan availability is relatively straightforward. This origination is reported on at the monthly board meeting, however as CrowdProperty has a disintermediated approach to origination so that if origination were to reduce significantly the reporting is very direct.

CrowdProperty may voluntarily wind down operations, in this case adequate monetary provision would be in place to complete the existing loan paybacks as per CAS 7.0 requirements.

FCA Contact details: firm.queries@fca.org.uk

As per FCA regulation, we hold required funds on our balance sheet to run the business during a wind down of the maximum possible period, i.e. 24 months (our longest loan length). These are sufficient to cover the full costs of continuing to administer the loans including all critical third party and platform operating costs, sufficient resourcing and any necessary legal costs. Additionally, borrower fees are collected both at the start and the end of loans so cash flow will continue to be collected to additionally support the winding down of the loan book in the unlikely event of a platform wind down. As our infrastructure is cloud based, transfer of ownership is straightforward to any appointed receiver.

As per good business practice, all decisions that are made as part of Wind Down should be made at the board level and minuted appropriately.

Wind Down Internal Process:

Board Meeting Review takes the decision to wind down the company with explanation and reasons not to use Living Will Process or a Sale or Merger of the company

FD review, agreed by the Board, that the company has the resources to meet all financial obligations and can wind down via a voluntary liquidation

HR review wih all employees agreeing final employment dates and redundancy packages

Wind Down External Process:

Communication to the Regulator (FCA) stating the decision to wind down and disclosing the timetable; financial solvency and stakeholder planning

Communication to Borrowers and Lenders ;

(i) Pipeline whose Projects are not being continued

(ii) Existing Project Borrowers with explanation of communication processess

(iii) Existing Lenders to be informed of process and further communication

Communication to Service Providers ; Bank; Legal;Money Transfer ; AML

Communication to all stakeholders (Registered Lenders and Borrowers)

3. Wind down plan - Communication

As soon as wind down is identified as a possibility, the FCA must be engaged to advise on any current regulatory requirements and to assist in the wind down process. This consultation will continue through to the decision to wind down and the eventual appointment of receivers.

As soon as wind down is identified as likely, the borrowers and lenders for live loans must be informed of the possibility of Wind Down. This will provide clarity on the current situation and any further steps required by any borrower or lender. The loans would continue under receivers for the duration of the loans so Lenders would expect to be paid and not be impacted due to platform wind down.

The usual method for communicating with the lenders for a loan is to use the built in platform messaging capability – failing this we have an third party Customer Relationship Management (CRM) solution (Infusionsoft by Keap) which allows bulk messages to be sent. Access to this is controlled to the Operations and Marketing department, messages can be sent via email, text (sms) message to any group of lenders as appropriate.

As soon as wind down is decided, appointment of an insolvency expert would be considered as part of the appointment of receivers.

Key Third Parties would be informed. For the critical systems, a continuation or novation of the contracts would be required for the appointed receiver.

Dependent on the level of external interest in a wind down, some budget and resource will be utilised to manage public relations in respect of a wind down.

4. Wind Down Plan - Critical Staff and Roles

Once the wind down decision is made and no new loans are being issued, some department will be made redundant over an appropriate timescale, determined by the Board and any receiver.:

- Borrower Team will reduce to only the Property Director
- Technical Team will reduce to only the Lead Developer on a part time basis
- Marketing Team will be entirely phased out
- Commercial and Finance will be phased out as appropriate
- Lender Team will be phased out as appropriate
- HR will be reduced to People Director on a part time basis

The Property Director leads the management of any loans to completion. In the event of wind down the Property Director would continue to manage any existing loans and communicate with borrowers and lenders to inform of impeding payback of capital and interest as appropriate.

The Lead Developer will continue to run and administer the platform which is central to the payback process. The platform holds all information pertaining to the allocation of lender pledges in specific projects, contact details and communication history is all held within the platform.

In the event of either individual not being available in the event of wind down all passwords on the platform and for third parties can be reset remotely given access to the relevant email account and business information. Email access is administered by 3 members of the team.

In the case of wind down the Lead Developer (or other appointed member of the technical team) would organise admin access for the IT Systems to any appointed Receiver as appropriate to ensure no single points of access or failure. All IT systems are cloud based and therefore are straightforward to transfer ownership of to any receiver or Living Will Provider.

5. Wind Down Plan - Records

All records for active loans are held on the platform in the relevant project repository. This includes transaction histories, details of specific pledges for lenders for the appropriate project.

All project records are held in the admin area of the platform.
https://www.crowdproperty.com/admin

6. Wind Down Plan - Bank Accounts

Funds are ring fenced into separate accounts. Fees are collected both at the start and the end of the loan so cash flow will continue to be collected to service the winding down of the loan book in the event of wind down.

Modulr Wallets for specific projects are held within Modulr. See Section 5 of Business Continuity Plan.

Access for the business accounts is held by the CrowdProperty Financial Controller and the CEO, this detail and access would be transferred to an appointed receiver as appropriate.

Access for the Modulr wallets are controlled via Modulr admin access, in the case of wind down the Lead Developer (or appointed member of the development team) would organise access to these wallet for the Receivers.

Throughout all steps of the wind down, reconciliation of the current and client accounts will take place – this is a BAU activity, however this has been highlighted due to the additional risk profile during a wind down situation.

7. Wind Down Plan - Legal Documentation

All of our legal documents and T&Cs were collated and written by David Blair and Osborne Clark who are leading legal advisors for the P2P sector. Loan documentation for active loans is held on the platform in the relevant repository. Example loan documents have been included here.

PDF
OC Loan Facility Agreement - (non-d

PDF
OC Legal Charge June 2018.pdf