

# FundingSecure Limited ('the Company')

Jonathan Avery-Gee, Edward Avery-Gee and Daniel Richardson ('the Administrators') of CG & Co ('CG') were appointed Administrators of the Company on 23 October 2019.

We have prepared this document of Frequently Asked Questions ("FAQs") to help all investors and creditors to understand what is happening in relation to the formal insolvency procedure affecting the Company.

## FAQs as at: Date 14 November 2019

Contents:-

1. Summary of the Insolvency Procedure affecting the Company
2. Contact Information

These FAQs have been updated to respond to email questions raised by individual creditors and investors. Please note that we are not in a position to respond individually to each enquiry made at this stage but have collated the issues raised and responded by updating the FAQs as below. We will continue to monitor the dedicated email and update the FAQs for the benefit of creditors and investors as matters progress.

Please note that the information contained in this document is of a general nature and is prepared for the benefit of investors, creditors and borrowers of the Company and does not constitute any form of legal, accountancy or taxation advice on the part of CG or any other party. If you are concerned about your individual circumstances and the impact of the insolvency of the Company on your personal position, you should take appropriate professional advice accordingly.

## SECTION 1 – INSOLVENCY AND THE COMPANY

The Company was placed into administration on 23 October 2019 by a resolution of the board of directors of the Company. As a result of the administration no legal proceedings may be commenced or continued with against the Company without the consent of the Administrators or leave of the Court. The Company is now protected from any third party actions by virtue of a statutory moratorium.

The business and affairs of the Company are now controlled by the Administrators who act as agents of the Company and act without personal liability.

Please note that this FAQ document has been prepared at the time of our appointment. As events and information develops we will update it.

References to 'we' refer to the Administrators.

### 1. What is Administration?

When a company is experiencing financial difficulties, it can be placed into administration. An administration is an insolvency process and under insolvency law, the affairs, business and property of a company in administration (such as the Company) are managed by the Administrators. The Administrators have to be independent of the Company. The Administrators act as agents of the Company without any personal liability.

The Administrators of the Company are at an early stage of their work, but obviously a key part of their role is to safeguard the loans made through the Company as the Security and Trust Deed Trustee to the various borrowers.

### 2. Who are the Administrators/CG & Co?

Jonathan Avery-Gee, Edward Avery-Gee and Daniel Richardson ("the Administrators") of CG & Co, were appointed by the Court following a resolution passed by the directors of the Company.

Whilst the director of the Company made the application for the appointment of Administrators, the FCA was consulted and consented to the appointment of the named Administrators.

The Administrators are qualified insolvency practitioners, regulated by The Institute of Chartered Accountants in England & Wales or the Insolvency Practitioners Association. The Administrators act independently of the Company and the directors for the benefit of all investors, creditors and stakeholders. Their primary concern and mandate is to ensure that they maximise the return to investors and creditors. In the particular case of the Company we are also mindful that it is in the best interest of all stakeholders to maximise the return to investors on loans facilitated by the Company.

CG have previously been appointed on a number of regulated matters (including acting as Special Administrators appointed by the FCA) and are highly experienced in dealing with the recovery of secured assets under short term funding arrangements. Accordingly, CG are well placed to facilitate an orderly wind-down of the loan book of the Company.

We were consulted by the directors of the Company on 8 October 2019. We were formally engaged on 15 October 2019. Prior to and apart from these contacts with the Company and the directors, neither CG nor any of its staff or partners have been instructed by the Company or directors on any other matters. We are entirely independent of the Company and the directors.

### 3. What was the business?

FSL is a peer to peer lending platform which creates high yield loans between investors and third party borrowers secured on UK properties and other miscellaneous high value assets and chattels including jewellery, motor cars and boats. The Company facilitated substantial loans from retail investors to third party borrowers and the loan book currently stands at £80M approximately. The accumulated loan book represents approximately 486 investor loans from circa 3,500 investors.

### 4. Why has the Company entered into administration?

The directors of the Company passed a resolution to appoint the Administrators (subject to the approval of the FCA) because the Company had become insolvent and the Notice of Appointment of the Administrators was filed in court on 23 October 2019 following the approval from the FCA.

The Company's difficulties have been documented online and investors are aware that certain loans have not performed in line with expectations in addition to the issues caused by the fraud related litigation in which the Company has become embroiled. In addition, the business has not been able to demonstrate to the FCA that it can continue to meet the "Threshold Conditions" necessary to continue conducting regulated activities.

The rationale for the appointment of the Administrators is that there is a real risk that liquidation would fundamentally damage the value of the Company's assets (by adversely impacting on the recoverability of the Company's loan book) and undermine the potential return to investors and creditors. Management believe that liquidation would lead to the cessation of key operational IT systems (essential to the operation of the online account system for client funds operated by the Company) and the loss of key staff which would may be detrimental to the asset realisation process and increase the costs of recovery activity.

In light of these issues the director decided to place the Company into administration and the FCA provided their consent to our appointment as Administrators.



## **5. When will I get something back, and how much will it be?**

It is too early for the Administrators to say how much money they will be able to return to the creditors and to the investors, and when any payments will be made to them.

The Administrators are now evaluating the Company's current financial position and working to maximise recoveries either in the short or longer term. The Administrators will continue to update the creditors and investors with the progress that they are making with their investigations.

## **6. Will I have access to my online account?**

In the short term (and pending further investigations) the online account system will be suspended whilst the Administrators undertake a review of the Company's liabilities and assets. The system will be maintained but "frozen" as at the 22 October 2019 and no deposits or withdrawals will be possible. Investors can be assured that this facility will be maintained as a means of returning funds to them once the investigations have been carried out to establish ownership of and entitlement to the assets of the Company.

We will inform Investors of the reinstatement of the operation of the online account system as soon as possible.

## **7. I have read some of the press articles about the Company. What are you doing about the issues raised?**

As Administrators, we are obliged by law to undertake various investigations. We are aware of the issues raised but are not in a position to comment at this stage.

We will update Investors and creditors as appropriate, including by way of updates to this FAQ document, and in the forthcoming Administrators' proposals document.

However, if you have any specific matters or concerns you wish to raise about the conduct or operation of the Company, please write to us setting out your information.

## **8. Are you in contact with the FCA?**

Yes, we are in regular contact with the FCA.

## **9. Are you in contact with the Company's management?**

We are now responsible for the management of the Company and are working with the Company's staff who are continuing to assist us.

The management are also providing information and assistance to the administrators.

## **10. Where can I get further information from?**

### **For Creditors:**

The Administrators will be writing to all creditors of the Company as soon as practicable in accordance with the Insolvency Act and Rules.

Within 8 weeks of appointment, the Administrators will be contacting creditors with details of the Administrators' Proposals. This document will set out the Administrators' plans for managing the Administration. Creditors will receive a letter with access to a website portal from where they will be able to download the Administrators' Proposals. The Administrators' Proposals will contain essential updates for the creditors.

### **For Investors:**

The Administrators will provide updates directly to investors via the email addresses provided to the Company in accordance with the terms and conditions of the Lending Platform. This will include information on individual loans as appropriate.

### **For All Stakeholders:**

Please also note that the Administrators' plan to issue updates to all concerned parties on a continuous basis by updates on the Company's website. As it is only the start of the Administration, our answers are likely to be necessarily brief on certain details although these answers will develop as regards further detail over the coming weeks.

## **11. What has happened to the Company's staff?**

Some of the Company's staff will continue to be employed by the Company and are under the control of and assisting the Administrators.

## **12. What will happen to my loan?**

The Administrators will be contacting all borrowers directly and are assessing their ability to repay, at the appropriate maturity dates, or earlier, the loans facilitated by the Company.

The Administrators continue to work with all relevant parties to determine the most appropriate strategy to enable investors to receive as much back as possible from the loans they are a party to as soon as possible. The Administrators also have to have regard to the terms on which the loans have been made to the borrowers.

## Updates as at 24 October

### 13. Are investors also creditors of the Company?

The terms and conditions of the lending platform operated by the Company specify that loans are made by investors directly to borrowers in respect of the property and assets secured by the Company.

Therefore investors should not be categorised as creditors of the Company.

The Administrators are currently reviewing this position and taking appropriate legal advice to establish whether investors are actually creditors of the Company or should (in any event) be treated as such and we will update all stakeholders in due course.

### 14. Can I withdraw my money now?

At the present time all withdrawals from the "e-wallet" accounting system are suspended pending review of the legal structures operated by the Company by the Administrators. No withdrawals are currently permitted and we cannot enter into direct correspondence with investors on specific account related enquiries at this stage. We will update investors as soon as we can.

### 15. Why did the Company continue to accept deposits via the "e-wallet" system when the directors knew about the administration?

The investor portal system was open as normal until close of business on 15 October 2019 at which time no further deposits were possible. It was on this date that the directors resolved to place the Company into administration subject to the approval of the FCA. The investor portal remained open for withdrawals until close of business on the 22 October 2019 and the Company was placed into administration on the 23 October 2019. The "e-wallet" system is frozen as referred to at 14 above.

### 16. Will a Creditors Committee be formed?

This is currently under review and will be addressed in the Administrators' Proposal which will be sent to creditors as soon as possible in accordance with the Insolvency Act and Rules.

### 17. What impact does the administration have on the ongoing recovery litigation commenced by the Company?

The effect of the administration is that no litigation may be commenced or continued with against the Company without the consent of the Administrators or leave of the Court. Effectively, all pending litigation is frozen pending further application by either party. The Administrators are reviewing all the litigation affecting the Company and will pursue those actions which they are advised will enhance recoveries to the Company for the benefit of all stakeholders.

## Updates as at 14 November 2019

**(Please note that the following questions have been raised by the representatives of the "FundingSecure Action Group" and are included in the form in which they have been asked for the benefit of all Investors and Creditors).**

### 18. When will the lenders have access to their liquid client funds, and allowed to remove funds from the client account?

The timing of the distribution of the liquid funds currently held will depend upon the approval of the Proposals sent to creditors on Monday 11 November 2019 and via email to Investors on Tuesday 12 November 2019 ("the Proposals") and the contents of the Advice and/or the outcome Directions Application detailed therein. The Administrators are working to facilitate an early distribution of these funds but need to do so in a way which is not open to legal challenge subsequently. As detailed at paragraph 1.2 of the Proposals, in any Advice or Directions Application, the application of the relevant CASS rules under the appropriate FCA Handbook and Guidelines will be taken into account.

### 19. If the administrators' and legal firm's fees are being paid indirectly from proceeds and recoveries of the lenders' loans, are they both acting for the lenders' sole benefit? If acting for anyone else's benefit, please elaborate how they are receiving their fees from the third parties?

The Proposals set out in detail the Administrators proposals to deal with fees, costs and expenses at section 8. The Administrators are acting in the interests of all creditors and Investors and the Proposals set out the detail of how they propose to address the issues affecting the Company they have uncovered since their appointment on the 23 October 2019.

### 20. If there are breaches in FCA regs, the FCA should know about it. Have these matters been reported by the company under their self-reporting requirements?

The Administrators have updated the FCA on all their findings to date and continue to liaise on a regular basis.

### 21. Raj is in constant communication and attendance with the administrators' team, is this not a conflict of interest, considering he has supposedly many loans on the platform, yet "joe-bloggs" lenders, who have far more loans cumulatively lent than the Directors, are not represented? Is there not the chance that the Directors will push their own loan recoveries above those of the lenders?

No. Directors (and former Directors) have a statutory obligation to cooperate with the Administrators and it is in this context that the Administrators are engaging with all Directors and former Directors of the Company. All creditors and Investors will be treated fairly and transparently throughout this process and no Director or former Director (who is also an Investor) will be treated differently by the Administrators.

Updates as at 24 October

**22. What is happening with the case against Luxmore? - I'm presuming that the alleged misappropriation of funds is his reputed 200k company loan to his ex-wife.**

The litigation (and the benefit of the freezing orders obtained) has been secured by the Administrators pending the review of the litigation which is ongoing. It would be inappropriate for the Administrators to comment further at this stage in open forum.

**23. I understand that Luxmore's assets of ca. £1.5M have been frozen. Whilst trying to avoid a witchhunt, I have some concerns that Raj remains heavily involved and close to CG because he may want to maximise the creditor pot if he has a lot of claim on that.**

Please see the answers above regarding the involvement of Directors and former Directors. The position of the Investors and creditors claims and potential claims is to be addressed as set out in the Proposals.

**24. Are the administrators going to close all overdue loans as soon as possible? If not, what metrics will they utilise to decide which loans to close and which to allow to continue?**

The Administrators are continuing to review the loans on an individual basis and will take the appropriate steps in each case to maximise the returns for Investors and/or creditors as set out in the Proposals.

**25 The "art loans" are a concern to many investors, not only the HNW. Can you please provide an initial update on your planned way forward?**

This is under review. It would be inappropriate for the Administrators to comment further at this stage in open forum

**26. What will happen to those loans where FS did not register a charge on the underlying property (e.g. 1079396222), and subsequently promised to fully reimburse investors?**

The Administrators are not in a position to comment on individual loans in open forum at this stage. All appropriate steps are being taken to secure and realise assets for the benefit of Investors and/or creditors of the Company.

**27. Some borrowers have made some payment towards the interest on their loans, but these payments haven't yet been processed into lender accounts. (MM has been supplied examples as sent in from lenders). When will these amounts be released to the lenders?**

This will be addressed as detailed in the Proposals.

**28. What is CG&co intended course of action with regard to recovery of outstanding loans? Did FS make arrangements for a "backup provider", as FCA rules seem to require? Will FS staff be kept on (guided by administrators) or will this be carried out by the administrators, if so, how will they be paid? Is Raj continuing to be paid whilst he assists the administrators? Have any funds been set aside for this purpose?**

Please see the Proposals. Staff (which are retained for the purpose of the Administration) are being paid by the Administrators. The Director at the date of the Administration (Nigel Hackett) has been retained by the Administrators to work full time for a limited period and will be remunerated at the rate agreed with the Administrators. No former Directors are working full time or receiving any payment by the Administrators and they are cooperating with the Administrators in accordance with their statutory obligations.

**29. Do the administrators intend to use independent receivers for each individual loan or keep it "in house", if so, will they be sticking to the 5% of recovered funds rule for charges that I heard existed?**

The Administrators will not be taking any appointments as Receivers appointed by the Company. This would be a breach of the Administrators ethical guidelines. They will continue to use independent Receivers appropriate to each case to maximise the recoveries made.

**30. One generic question is confirmation that all litigations under way or required will be continued /launched or accelerated under administration. Whitehaven comes to mind!**

This is confirmed. All appropriate litigation will be issued, managed and/or pursued if it is the best interests of the Investors and/or creditors of the Company.

**31. Have the administrators a strategy or process to close loans that are near completion so that funds don't "evaporate/disappear"? Will these be distributed in full as soon as possible, or will monies be retained to cover cost/expenses of other loans and loan parts that I do not hold?**

The Administrators will take all necessary steps to enhance the recoveries for Investors and/or creditors and will apply the realisations as set out in the Proposals (subject to their approval) as quickly as possible.

**32. Will the IFISA status remain unchanged during administration and as such, when the payments system is up and running again, will investors be able to transfer their IFISA to another provider (i.e. with the cash in the account)?**

Subject to the appropriate regulatory advice and based on the approval of the Proposals, the Administrators intend to facilitate this approach as soon as possible.

**33. If CG sell a security property in a loan to the borrower or refinance a loan for the borrower, and there remains a debt (either capital or interest or both), can we be assured that CG, acting in the interests of creditors and lenders, will not carry out the sale/refinance on a "full and final settlement" basis and will as such leave the door open to investors to pursue the borrower for the outstanding debt after the administrators have done their work?**

All steps taken in realising assets will be in the best interests of Investors and/or creditors

**34. On the FS platform, a number of loans have been marked up as "recovered". However, that is not strictly true as FS class a loan as recovered if the "capital" has been recovered. Therefore, some of these loans still have interest outstanding. I have raised this with FS some time ago but nothing seems to have changed. Will CG be investigating these loans and pursuing the borrowers and valuers for the outstanding debt?**

Yes. This is currently being reviewed and we will update Investors and/or creditors on individual loans affected as soon as possible.

**35. FS have closed some loans with losses, claiming no further recovery is possible. Will CG be checking that there are no possible further recovery options available on these closed loans?**

Yes. This is currently being reviewed and we will update Investors and/or creditors on individual loans affected as soon as possible.

**36. What should Investors do to participate at the forthcoming Creditor's Meeting on 28 November?**

Investors are requested to:-

- a. Complete the appropriate forms indicating the total value of their investment in the Company (as at the date they complete the forms);
- b. Indicate on the Voting Resolution Form whether they wish to approve the Proposals or otherwise;
- c. State whether they intend to attend the meeting or complete the Proxy Form appointing the Chairman or a named third party to vote as the Investor instructs (or at their discretion); and
- d. Please return these forms to CG&Co as soon as possible by email ([info@cg-recovery.com](mailto:info@cg-recovery.com)) or via post to Stephanie Adams, CG&Co, Greg's Building, 1 Booth Street, Manchester M2 4DU

#### **GDPR Fair Processing Notice**

As part of our role as Administrators, we may need to access and use data relating to individuals. In doing so, we must abide by data protection requirements.

To the extent that you hold any personal data on the Company's data subjects provided to you by the Company or obtained otherwise, you must process such data in accordance with data protection legislation. Please contact us if you believe this applies.

## **SECTION 2 – CONTACT INFORMATION**

#### **Email us:**

If you wish to contact us, please email us at: [fundingsecure@cg-recovery.com](mailto:fundingsecure@cg-recovery.com)

#### **Website:**

The following website will be updated (including with this FAQ document):

**[cg-recovery.com/fundingsecure](http://cg-recovery.com/fundingsecure)**

The FCA will also be updating their website with information.

