



LENDER AND ISA GUIDE

FOLK 2 FOLK
The Local Lending Movement

Great investments.

Brilliant feeling.

Huge impact.

As well as earning a great interest rate, your FOLK2FOLK investment will be doing great things.

Why invest with FOLK2FOLK?

- Earn up to 9% p.a.* with interest paid monthly
- All loans secured against UK property
- Tax efficient investments possible with our Innovative Finance ISA (IFISA)
- Help local businesses, on a national scale
- We match-make you to a loan that suits your preferences[†]
- There are no fees to enter into a FOLK2FOLK loan[‡]

This information is intended to help you decide whether a FOLK2FOLK loan is right for you as an investment. We're unable to give advice and if this is something you require you should contact your financial/tax advisor.

Join The Movement

Our mission is to help build and sustain socially and financially successful local and rural communities across the UK; something we believe is essential to Britain's future success.

By investing £20,000 or more through FOLK2FOLK, you'll provide local, rural and entrepreneurial businesses with the funding they need to grow, develop and diversify.

But it doesn't stop there. By lending through us your investment has even greater significance. You become part of our Local Lending Movement: helping to create and secure local jobs and to bolster local supply chains. This drives local economies and increases demand for better communication and connectivity; helping local bus routes, schools and services retain their relevance. So as well as a great rate, you get a brilliant feeling and make a huge impact.

Who will you be lending to?

You can choose to support local, rural and entrepreneurial businesses right on your doorstep[†] or further afield. From farmers and food producers to property renovators and developers, owners of country hotels, manufacturing businesses, yoga studios and cafes. They all require access to finance to start, grow or diversify; buy an asset or boost working capital; your funds will enable them to seize opportunities with confidence!

All business Borrowers must:

- Have land or property, other than their home, against which to secure the loan (we lend up to a maximum of 60% of the market value of the security)
- Be based in the UK (excluding Isle of Man and Channel Isles)
- Pass our credit and reputational checks
- Be over 18

How are Borrowers assessed?

We are very particular about our Borrowers and take an holistic view of the person and their business. We're choosy but fair and turn down Borrowers who don't meet our criteria. It's important, however, that you do your own due diligence and don't rely solely on FOLK2FOLK's case review when deciding to invest into a loan on our platform.

* Interest rate is dependent upon availability of loans.

† We always try to match Lenders' preference, but suitable and available opportunities are not always guaranteed in which case we'll also offer you loan investments outside your preferences.

‡ No fees apply to enter into a FOLK2FOLK loan however fees apply if you wish to exit your investment early, see page 6 and 7.

Your capital is at risk. Peer to Peer lending is not covered by the Financial Services Compensation Scheme (FSCS).



INVESTMENT OPTIONS

Support local creditworthy businesses while earning up to 9% p.a.* interest paid monthly with a FOLK2FOLK Peer to Peer loan investment

Meeting your preferences

We'll always do our best to match your preferences with lending opportunities. As a FOLK2FOLK Lender you can choose:

- **Location:** You can choose to lend to businesses that are on your doorstep or further afield.
- **Sector:** You can specify particular sectors you want to support or avoid.
- **How long you prefer to lend for:** Our loans have a minimum term of 6 months up to a maximum of 5 years.
- **Interest rate:** You can choose to earn an interest rate of 4.5% p.a. up to 9% p.a.*

It's important to note however; that a loan which ticks all your preferences may not arise and the more specific your preferences, the longer it may take for the perfect lending opportunity to become available. As a result, when we don't have loans that meet your specific preferences, we'll contact you with all available loan opportunities so you can make a decision based on what's available.

FOLK2FOLK loan investments at a glance

We offer interest rates up to 9% p.a.* and a maximum Loan To Value (LTV) of up to 60% of the market value of the security. Choose the level you feel comfortable with.

Minimum amount	£20,000
Interest Rate	Up to 9% p.a.*
LTV% (market value)	Up to 60%
Investment Term	<ul style="list-style-type: none">• 6 months minimum• Terms range between 6 months and 5 years†
Exiting your investment	<ul style="list-style-type: none">• When the Borrower chooses to repay their loan.• Or you may offer your loan for sale via FOLK2FOLK's secondary market 'MarketPlace'. Fees apply (see page 7).

* Interest rate is dependent upon availability of appropriate loans.

† The Borrower may exit before the term end date. Please refer to the details of your loan investment for the interest in lieu receivable if the Borrower exits early.

Your capital is at risk. Peer to Peer lending is not covered by the Financial Services Compensation Scheme (FSCS).



ACCESSING YOUR MONEY

Your capital investment will be returned to you once the loan reaches full term or when the Borrower chooses to redeem their loan.

However, if you wish to exit the loan prior to this, you can offer all or part of it for sale to other FOLK2FOLK Lenders via our secondary market 'MarketPlace'.

Selling your loan investments via MarketPlace

- You may offer your investments for sale in blocks of £20,000 or your full investment amount, but you can't leave less than FOLK2FOLK's minimum investment amount (currently £20,000).
- Successful disposal is dependent upon demand. It may be that none or only some of your loan is sold if there are limited or no buyers available.
- You will be unable to sell the loan if the loan is impaired or in default (and for a period of 3 months after default).
- FOLK2FOLK loans are illiquid assets which means you cannot assume you can exit them quickly.

There are costs associated with selling your loan

Listing Fee	A non-refundable fee for listing the loan for sale.	£250
Success Fee	Once the transaction is complete a Success Fee of 0.5% of the value of the loan being sold is payable.	0.5% (less the Listing Fee)

An illustration of these fees when selling different loan amounts

Loan Size	MarketPlace Fees illustrated									
	£20,000	£30,000	£40,000	£50,000	£60,000	£70,000	£80,000	£90,000	£100,000	£200,000
Listing Fee: £250	£250	£250	£250	£250	£250	£250	£250	£250	£250	£250
Success Fee: 0.5% of the loan value minus the Listing Fee	£0			£50	£100	£150	£200	£250	£250	£750

The minimum you pay is the Listing Fee of £250 payable even if the loan doesn't sell.

Important: There is no guarantee there will be a buyer for your loan. In this instance, you'll need to remain invested for the term of the loan or until the Borrower chooses to repay. Your capital is at risk. Peer to Peer lending is not covered by the Financial Services Compensation Scheme (FSCS).



INNOVATIVE FINANCE ISA

Earn tax-free interest while giving British businesses a boost.

The Innovative Finance ISA (IFISA) enables you to use your annual Individual Savings Account (ISA) allowance to earn tax-free interest from Peer to Peer lending.

What is an Innovative Finance ISA (IFISA)?

An ISA acts as a 'wrapper' around your investment so that the interest arising is tax-free. The IFISA was introduced in 2016 and is a form of ISA that can hold Peer to Peer loans, enabling lenders to receive the interest tax-free.

Please read all the Lender information in this Guide, not just the IFISA information.

Why invest in the FOLK2FOLK IFISA

- Receive tax-free interest of up to 9% p.a.*
- Earn tax-free monthly income.
- Invest your full 2019/20 ISA allowance of £20,000
- Secured against UK property
- Support local businesses, nationally
- Online Lender Portal

IFISA overview

Our IFISA is an income generating ISA. You can earn tax-free monthly income without reducing your capital.

You can choose whether to lend with or without the FOLK2FOLK IFISA tax wrapper (or both) but there is an HMRC limit to how much new ISA money you can lend within the IFISA each year.

Investment amount	Your full annual ISA allowance for 2019/20 which is £20,000 or transfer existing ISA funds. FOLK2FOLK's minimum investment amount is £20,000.
Interest rate	Up to 9% p.a.* paid monthly tax-free. The interest rate will not change for the duration of your loan investment. Interest earned on the IFISA is paid to your specified bank account monthly. This means interest cannot be accrued inside the IFISA so the investment amount at the end of the term will remain at the amount subscribed.
IFISA term	From 1 to 5 years. Dependent upon the term of the loan you invest into.
Transferring funds from other ISAs	Yes. Existing ISA money that is transferred across to your FOLK2FOLK IFISA will need to be a minimum £20,000 (FOLK2FOLK's minimum investment amount) and in multiples of £5,000. Fees apply.

* Interest rate is dependent upon availability of appropriate loans.

Your capital is at risk. Peer to Peer lending is not covered by the Financial Services Compensation Scheme (FSCS).

Eligibility

To qualify for our IFISA you must:

- Be registered as a FOLK2FOLK Lender
- Live in the UK and be a UK resident for tax purposes
- Not have funded an ISA of any type elsewhere in the current tax year (only applicable for new subscriptions)
- Be 18 years old or over

What can be invested in the IFISA

New annual subscriptions (new ISA money)

You can use your current tax year's allowance by electronically transferring your money to FOLK2FOLK.

Transfer of existing ISA money

If you'd like to move your existing ISA money to a FOLK2FOLK IFISA, we can accept a minimum amount of £20,000 and then in multiples of £5,000. Simply complete our Transfer Authority Form once you've set up a FOLK2FOLK IFISA – and we'll do the rest. We'll contact your existing ISA Manager to arrange the transfer of your money to ensure it retains tax-free status; if you transfer the funds yourself you'll lose this.

Existing FOLK2FOLK clients cannot transfer an existing FOLK2FOLK loan investment to our IFISA, nor can an existing FOLK2FOLK loan investment be withdrawn early to pay in to our IFISA. However, when a loan redeems proceeds can be used to fund an IFISA.

Accessing your money

Upon maturity (or early repayment) of the loan, your IFISA funds will be returned to the FOLK2FOLK IFISA client money account,

where they will retain their ISA tax-free status, and you will be contacted to establish what you wish to do with your funds. You may want us to return them to you or retain them for reinvestment into another FOLK2FOLK loan.

If you wish to exit the loan earlier than the end date, you can offer all or part of it for sale to other FOLK2FOLK Lenders via our secondary MarketPlace. Fees apply (see page 7 for MarketPlace fees).

IFISA fees

There are no fees to open a FOLK2FOLK IFISA and no ongoing management fees (from 6th April 2019). Fees do apply for withdrawal and transfer; see below.

	Whilst the money is not invested in a loan	Whilst the money is invested in a loan
Withdrawal from the ISA	£50	£50 plus MarketPlace sale fees (See page 7)
Transfer to another ISA provider	£50	£50 plus MarketPlace sale fees (See page 7)

Further fees apply. For an overview of costs please refer to our General Terms & Conditions at www.folk2folk.com Alternatively, you can call us on 0333 455 1902 (calls charged at standard national rate) to request a hard copy via the post.

Withdrawals and transfers out

If your funds are not in a loan: If your funds are held in the client money account and not invested in a loan, withdrawals and transfers out to another ISA provider are permitted. Fees apply, see page 10.

If your funds are in a loan: If your funds are invested in a loan and you wish to withdraw or transfer to another ISA provider before the end date of the loan, you may offer it for sale to other FOLK2FOLK Lenders via our secondary market. (Fees apply, see page 7 and page 10).

Retaining tax-free status

If you request to withdraw your IFISA funds and have them returned to you, they will lose their tax-free status from the date of closure/ withdrawal. To ensure your IFISA retains its tax-free status when transferring to another ISA provider you must ensure you use the transfer form they supply.

INVESTING IN THE IFISA

How to apply



Apply to be a FOLK2FOLK IFISA Lender

- Apply as a FOLK2FOLK Lender (see page 18).
- Email IFISA@folk2folk.com to register your interest in an IFISA and receive an application form.
- Apply and be approved as an IFISA Lender.



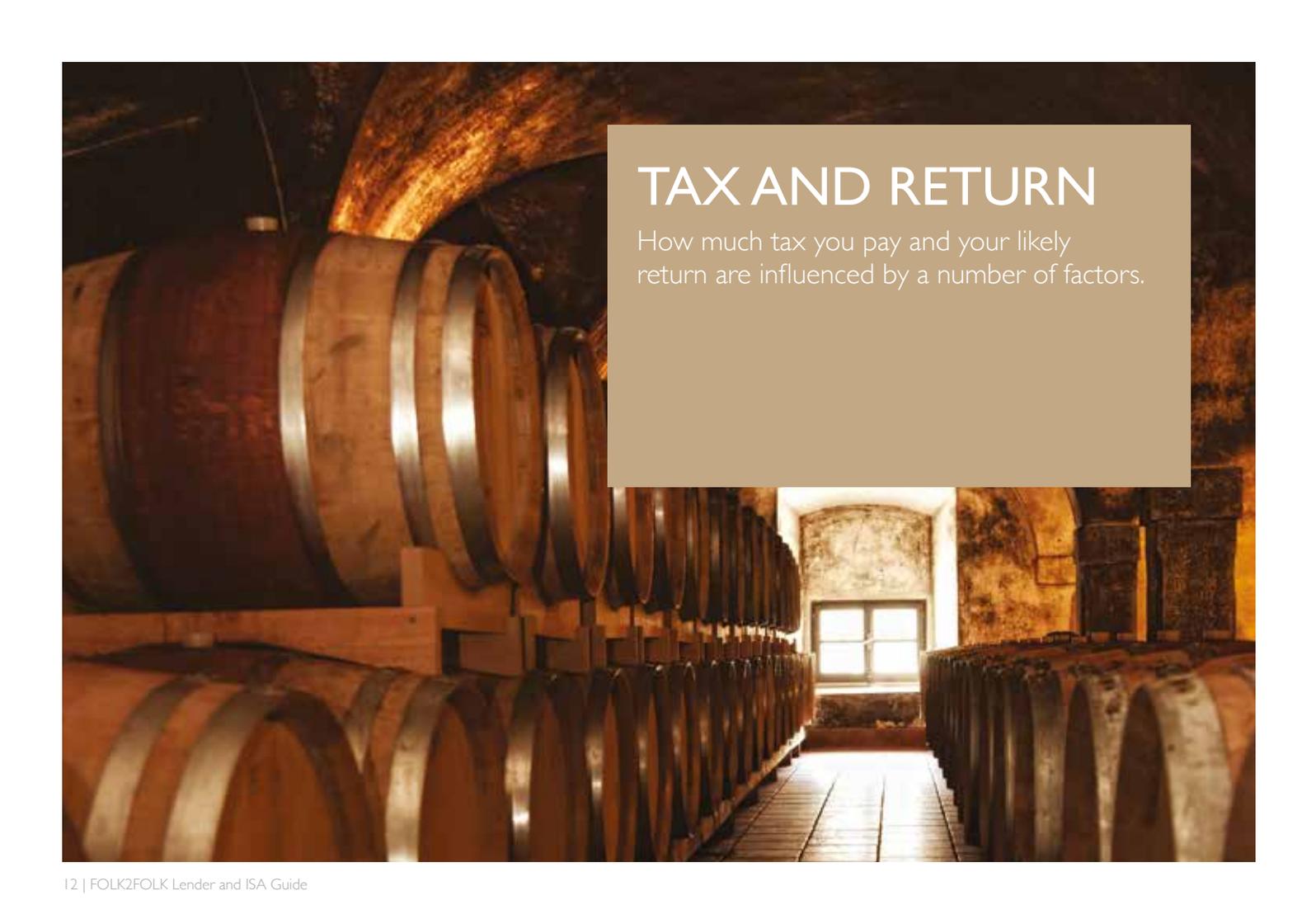
Account set up

- Your IFISA wrapper is created and ready to receive your funds.
- Once funds received, you'll be added to our waiting list. You have 14 days during which you have a right to cancel. You won't be matched to a loan investment until after this time.



Start earning tax-free!

- Once you reach the top of our waiting list we'll contact you with loan opportunities to start earning tax-free interest.



TAX AND RETURN

How much tax you pay and your likely return are influenced by a number of factors.

Tax

There are a number of factors which influence whether you will pay tax and if so, how much tax, on interest earned from Peer to Peer loans. These include:

- Your tax rate
- Your Personal Allowance
- Your Personal Savings Allowance (interest from peer to peer lending is eligible but limits apply. Interest earned within the IFISA wrapper does not count towards this allowance.)
- Whether you use the IFISA tax wrapper
- Whether there is any relevant bad debt and corresponding tax relief

Tax treatment depends upon your individual circumstances and may be subject to change in the future. Interest payments are paid to our Lenders on a gross basis and it is your responsibility to report and pay any tax due.

What are the tax consequences of a default?

In the event of a loan default and if the security property cannot be sold for a sufficient amount to cover costs, interest owed to you and your full investment amount, this could result in a loss for you. Tax relief for this type of loss is available. You would need to seek tax advice to clarify if, and how, you can obtain this tax relief.

The HMRC website provides guidance for individuals investing in peer to peer loans, reporting interest and claiming losses from loans that default.

Return

What is your likely actual return from investing in a FOLK2FOLK loan?

Your return is based on the interest rate of the loans in which you are invested but this may be reduced by the following factors:

- The impact of tax if applicable
- Delayed interest payments
- Defaults - if your Borrower cannot pay interest and/or repay capital (currently we don't calculate an expected default rate as we don't have enough default data)
- Time in between loan investments when you are not receiving interest
- Selling costs (see MarketPlace fees page 7)
- Other costs resulting from Lender changes (see General Terms & Conditions for fees)

If you invest into more than one loan, the interest rates may differ so your overall return will be a combination of interest rates and the above factors.

None of the information provided by FOLK2FOLK is tax advice and you should seek advice from a tax advisor if required.



RISKS AND THINGS YOU SHOULD KNOW

We'd like to draw your attention to things you should know including risk and how we manage it. If there's anything you don't understand, please contact us.

General

Your capital is at risk.

As with many investments your capital is at risk when lending into a Peer to Peer loan.

Peer to Peer lending is not covered by the Financial Services Compensation Scheme (FSCS). What do we mean when by this?

This means compensation is not available from the FSCS if a Peer to Peer lending platform cannot meet its liabilities in respect of its products. Nor do Lenders have recourse to the FSCS for the failure of Borrowers to meet loan interest payments or loan capital repayment.

A FOLK2FOLK Peer to Peer loan is a useful element of a diversified investment portfolio. Our current minimum loan investment is £20,000. You should not consider a FOLK2FOLK Peer to Peer loan if it would result in 'putting all your eggs in one basket'.

Risk of failure of FOLK2FOLK

We're authorised and regulated by the Financial Conduct Authority (FCA) which requires us to maintain a certain level of regulatory capital. This means there should always be sufficient capital for an orderly wind-down of the company.

If FOLK2FOLK Limited were to stop operating, although there'd be no new loans, the existing loans would be passed to a standby servicing company that would ensure the continuation of administration of existing loans until maturity or until Borrowers repaid.

Interest rate

Our loan interest rates are fixed and set out in the loan documentation applicable to your loan. This means that the interest rate you receive won't increase or decrease if market interest rates change.

Under normal circumstances, your loan investment will provide you with the interest rate in your loan contract paid monthly in equal instalments.

Defaults

If your Borrower defaults and there is an extreme downturn in the property market, there's a risk of delay in selling the property, against which the loan is secured, to repay your loan. Therefore this investment may not be suitable if you rely upon prompt repayment. The outstanding amount will be deferred until the loan status has been repaired or (if required) enforcement action concluded with the security being sold.

In the event of a forced property sale there's a risk that the sale of the security property may not release sufficient funds to repay all the costs of enforcement, outstanding interest and capital sum. The risk of this is reflected by the interest rate.

FOLK2FOLK has had very few defaults since we started in 2013 and none of our Lenders have lost any money to date – however past performance is not a reliable indicator of future results. You can read about how we handled a default and more detail on our default record on our website at www.folk2folk.com

Interest rate, risk and default

With our secured lending, it is important to consider two aspects of default risk:

- The chance of the borrower not paying interest or capital. We consider this risk to be fairly similar across our interest rates.
- If the borrower defaults and the security property has to be sold to repay Lenders, the chance that the proceeds won't cover costs and repay Lenders in full. This risk is higher for our higher interest rates. So, there's a higher chance that you won't get all of your money back because the safety buffer is smaller.

Before investing in a FOLK2FOLK loan it's important to familiarise yourself with our General Terms & Conditions.



In short, the lower interest rate because of lower Loan To Value (LTV) carries a larger safety buffer. Higher interest rate because of higher LTV carries a smaller safety buffer:

Timings of payments

If your Borrower is unable to meet monthly payments temporarily you will not receive your interest payments until they start paying again, therefore this investment may not be suitable if you rely upon the income or rely upon it being paid promptly. The missed interest payments will still be due to you and will rise to a higher interest rate (see General Terms & Conditions) but they will be delayed.

Timings

There are no guarantees as to how long it will take to be matched to a loan. It depends upon supply and demand.

Once in a loan, your Borrower may repay the loan earlier than the anticipated end date. If this happens you can choose to go back on the Lender waiting list.

Accessing your Money

FOLK2FOLK loans are illiquid assets which means you cannot assume you can exit them quickly. You should be prepared to hold your loan investment until maturity. As a Lender you have the right to offer your loans for sale via our secondary market, MarketPlace, but there's no guarantee anyone will buy it. Fees apply. See page 7.

If your loan were to fall into arrears or default you can't offer your loan for sale on MarketPlace and you'd need to wait for the loan situation to be repaired or the defaulted loan recovered.

There is no right to cancel your investment in a loan since it is an agreement secured on land.

Further advances or second charges

We may arrange further advances or second charges on the property against which your loan is secured but for our Commercial Loans and our Development & Construction Loans the total Loan To Value (LTV) ratio is capped at the maximum limit set out in your Loan contract. Please note that for our Commercial Loans and our Development & Construction Loans we will not contact existing Lenders regarding this additional lending as the maximum LTV remains unchanged. If you are not comfortable with this feature then our Commercial Loans and our Development & Construction Loans may not be right for you.

Spreading your risk

If you have sufficient funds, you can diversify your risk exposure by spreading your money over a number of loans, rather than concentrating them in one. Currently, the minimum amount that can be invested into a single loan is £20,000 but we review this from time to time.

We don't give advice

It's your responsibility to assess whether lending via FOLK2FOLK is suitable for you, with particular regard to your risk appetite and your personal financial circumstances. We're not advising you on the appropriateness or suitability of any loan and we'd recommend you take advice from an independent financial advisor if you're in any doubt as to whether investing via a Peer to Peer loan is suitable for you.

IFISA

General

- You can invest your annual ISA allowance of £20,000 in tax year 2019/20.
- The date we receive your funds is the date on which your ISA subscription starts.
- Once a new tax year starts you will have a new allowance to invest, which you can invest with FOLK2FOLK if you wish.
- IFISAs are not the same as cash ISAs. The risk of investing through a Peer to Peer platform is higher and there's no guarantee that your capital or interest will be repaid.
- Before investing in a FOLK2FOLK loan it's important to familiarise yourself with our General Terms & Conditions and the full contents of this Lender and ISA Guide. If there's anything you don't understand, please contact us.

Interest

IFISA Interest is paid out tax-free to clients monthly to their specified bank account. Interest earned on the IFISA can't be accrued inside the IFISA so if £20,000 is invested, the investment amount at the end of the term will remain at £20,000.

Neither loan interest nor bank interest are payable in the following situations:

- Funds in the client money account, waiting for cancellation rights to expire, or waiting to be matched to a loan.
- A Borrower repays a loan early, IFISA funds will be transferred back in to the FOLK2FOLK client money account and await matching to another loan (if this is what client requests).
- A loan matures, IFISA funds will be transferred back in to the client money account and await matching to another loan (if this is what client requests).

IFISA Timings

Timing to start earning tax-free interest is dependent upon eligible loans being available and there are no guarantees as to how long it will take to be matched to a loan. There's a possibility funds won't be matched in that tax year. Your funds will still retain their tax-free status within an ISA wrapper but no interest will have been earned. See page 16 for general information regarding timing of FOLK2FOLK lending opportunities.

You have the right to cancel your IFISA wrapper within 14 calendar days of FOLK2FOLK receiving your funds. If you cancel within this time your funds will be returned to you and it will not count towards your tax-free allowance for the year.

How we measure property value

In March 2019, we started listing Market Values instead of Forced Sale Values for new loans.

We use the ratio of the loan size against the property's Market Value to calculate the Loan To Value (LTV).

How we manage risk

Secured loans: All loans are secured against UK based land or property. We do not offer unsecured lending which is more risky than secured lending.

Maximum LTV: We only lend up to a set of maximums of the Market Value of the security.

Professional Indemnity Insurance: We carry Professional Indemnity Insurance. As part of our processes, we take advice from external solicitors and valuers to assess the proposed security property, and we check that these external professionals also have Professional Indemnity Insurance.

We're choosy but fair about Borrowers: We take an holistic view of Borrowers, businesses and the security property and turn down those that don't meet our criteria.

Ready to become a Lender?

Now you've read the guide, if you're ready to become a Lender you can sign up now. But if you still have some questions, talk to us on: 0330 053 5532

How to apply



Apply to be a Lender

- Create an online account at www.folk2folk.com
- Call 0333 455 1902
- Drop into a Branch. A list can be found at www.folk2folk.com



Lender approval

- Identification and Anti-Money Laundering checks.
- Ensure you read our General Terms & Conditions and the loan product information, ask questions if you don't understand.
- You will be added to the Lender waiting list.



Start earning

- Review loan opportunities that are offered to you and make your own risk assessment.
- Accept loan opportunities and start receiving your monthly interest!

#JoinTheMovement

FOLK 2 FOLK

The Local Lending Movement

If you have any questions, please get in touch:



0333 455 1902

Calls charged at standard national rate. Available between Mon-Fri, 9am-5pm (excluding Bank Holidays)



enquiries@folk2folk.com



www.folk2folk.com



Drop into a regional office
(for a list of locations go to www.folk2folk.com)

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