

Guide to the FOLK2FOLK Appropriateness Test

Before you can invest through FOLK2FOLK, you'll need to complete an Appropriateness Test. This is a requirement set by the Financial Conduct Authority (FCA) to ensure that investors understand the nature and risks of the type of investments we offer.

The test is not designed to trip you up. It's simply a way to check that investing in fixed-rate, property-backed loans is appropriate for you and that you have the necessary knowledge to proceed.

This guide outlines the key points to help you understand what the test covers and how to prepare.

What the test includes

The test consists of multiple-choice questions and typically takes just a few minutes to complete. You must answer all questions correctly to pass. You can take the test again if you do not pass on your first attempt. If you do not pass the test in the first two attempts, you will have to wait for 24 hours to pass before you can try again.

Key things to know before taking the test

Risks and facts you'll need to understand:

1. Your Capital Is at Risk

- FOLK2FOLK is not a savings account. It's an investment in loans to UK businesses, backed by property.
- There is no guarantee you will get your money back.
- If a borrower does not repay, you may lose all or part of your investment.
- FOLK2FOLK secures loans against UK land or property, but this does not guarantee you will get any or all of your money back.
- FOLK2FOLK sometimes takes additional security such as personal guarantees, but this does not increase the likelihood of you getting your money back.

2. No Financial Services Compensation Scheme (FSCS) Protection

- Your investment is not covered by the FSCS.

3. Your Returns May Vary

- While FOLK2FOLK loans have fixed interest rates, the actual returns you receive can change if a borrower pays late or defaults.
- Investing in a P2P loan is not the same as putting money in a savings account.

4. Investments are illiquid

- FOLK2FOLK is not a bank, you cannot access your money immediately.
- It is expected that your capital investment remains in the loan until it reaches full term or when the borrower chooses to redeem their loan. If you wish to access your funds sooner, you may list it for sale via our secondary market, but there is no guarantee another investor will buy it.

5. Spreading risk is important

- Spreading your money across different investments helps reduce risk.
- A FOLK2FOLK loan investment is a useful element of a diversified investment portfolio. However, the FCA suggests you should not invest more than 10% of your net assets in higher-risk investments like P2P lending.

6. Your Relationship with Borrowers and FOLK2FOLK

- You choose which loans to invest in; FOLK2FOLK does not select for you.
- You are lending directly to the borrower, not to FOLK2FOLK.
- FOLK2FOLK acts as an intermediary to facilitate loans and manage repayments.

7. Recovery may take time

- If a borrower defaults, recovery action may be needed, which can take time and may not always result in full repayment.

3. Loans are secured against property

- Every loan is backed by UK land or property and assessed for suitability by our team. However, property values can fluctuate, and there's no certainty the property can be sold quickly or for the expected value.

8. Risks of FOLK2FOLK Going Out of Business

- If FOLK2FOLK goes out of business, we would aim to wind-down our business in a controlled and organised way. In line with our regulatory requirements, we have appointed a Standby Servicer to work with us on the wind-down process. They would continue to administer existing loans and collect borrower repayments until the earlier of loan maturity or repayment.
- Your investment will still be at risk, and there is no guarantee of full repayment.

9. IFISA Investments Carry the Same Risk

- Investing via an Innovative Finance ISA (IFISA) carries the same risk as standard investing via FOLK2FOLK.
- IFISAs are not covered by the FSCS.

What Happens If You Fail the Appropriateness Test?

- ✓ **Read this guide carefully** and ensure you understand all risks.
- ✓ **Talk to us and ask any questions** before deciding to invest.
- ✓ **Retake the test** if you now feel confident you understand the risks.