For the use of professional advisers only and not to be relied upon by retail clients.

Octopus Choice

Frequently Asked Questions

What is peer-to-peer lending?

Peer-to-peer is the practice by which an individual provides another individual or business with credit. This process is often intermediated by a peer-to-peer lending platform, which takes the role of connecting lenders to borrowers but does not in itself provide credit. The activity has been regulated by the Financial Conduct Authority (FCA) since April 2014.

The market is incredibly diverse, spanning both consumer lending (typically in the form of unsecured loans to individuals) and business lending (including secured and unsecured loans to businesses).

Different platforms specialise in different types of lending, catering to different investor risk profiles.

Who can invest with Octopus Choice?

We offer individual and joint accounts, and also cater for companies, charities and trusts, too.

What is the target interest rate of Octopus Choice and how is it calculated?

Octopus Choice currently targets a rate of around 4% a year. The target rate is simply the blended average interest rate of all loans that are currently open for investment.

An investor's personal rate is the average interest rate of all the loans in their portfolio, and so will depend on how much is invested and when.

Their rate will also change over time as loans come to the end of their term ('mature') and money gets reinvested into new loans with different interest rates.

Remember, investors' capital is at risk and their interest is not guaranteed: they may get back less than they put in.

How do investors earn interest?

When someone invests in Octopus Choice, their money is lent to carefully selected borrowers. In effect, they get to 'be the bank', lending money to those who need it, to target attractive rates of interest.

Investors' money is used to 'buy' parts of individual loans made to different borrowers.

Each 'loan part' will have its own set of terms (for example, length of loan and interest rate) which, when blended together, will provide the investor with an overall target rate that's personal to them.

How is interest paid?

Investors can choose to have any interest automatically re-invested each month (so they're looking to earn interest on their interest) or, if they'd rather have a supplementary income, to have it paid into their designated bank account.

Is there an income option

Yes, as above.

What are the risks associated with Octopus Choice?

As with any investment, Octopus Choice does have certain risks. The key ones include:

- Octopus Choice is not a cash savings account. The value of an investment and any income from it can fall or rise and investors might not get back the full amount that they invest.
- Peer-to-peer investments are not covered by the Financial Services Compensation Scheme (FSCS).
- Money invested through Octopus Choice is concentrated in property and could be affected by market conditions.
- We can't guarantee instant access to investors' funds.

It's important investors understand and are comfortable with all the risks before deciding to invest. For a full assessment, you should read our risk statement (**octopuschoice.com/risks**) – and the terms and conditions (**octopuschoice.com/terms**).

How does Octopus manage the risks?

We take risks seriously, and do everything we can to mitigate them:

1. We invest our own money in every loan, and would lose our money before any investors lose theirs.
2. We conduct thorough due diligence and only make a loan if we're confident we can get the money back.
3. Every loan we make is secured against a real asset. We assess the value of every property we lend against, and make sure its value is substantially higher than the value of the loan, ensuring we have a cushion in case the value of that property falls.
4. We pursue any missed payments or defaults on our clients' behalf: this includes repossessing a property, if necessary, to recover what's owed.

It's important that clients understand and are comfortable with the risks involved in Octopus Choice before choosing to invest. For more information on the risks, take a look at our risk statement (**octopuschoice.com/risks**).

How does Octopus make money if there's no up-front fee or annual management charge?

We make our money in two ways:

We source all of the loans ourselves. We charge borrowers – instead of investors – a monthly platform fee of up to 0.35%. We might also earn extra fees for arranging the loan, as well as early repayment or extension fees, or any other administrative fees.

But we'd only ever earn these fees once investors have been paid all of their interest. If a borrower were to stop paying interest, we'd use these fees to pay outstanding interest to investors.

We also earn interest on our own loan investments. Because we invest at higher risk than typical investors (remember, our money would be lost first, and we only earn interest once investors have earned all of theirs), the return that we receive is also higher: typically 10%, but occasionally up to 30%, depending on the nature of the loan.

Is Octopus Choice covered by the Financial Services Compensation Scheme (FSCS)?

No, it's important to know that this investment is not covered by the Financial Services Compensation Scheme (FSCS).

Who are the borrowers?

We lend money to carefully selected borrowers, who we can be confident will be able to repay, and whose assets we secure the loan against in the event that they can't. This currrently includes residential and commercial property.

Remember, investors' capital is at risk and their interest is not guaranteed: they may get back less than they put in.

What do the loans have in common?

We only make asset-backed loans. That is, loans that are 'secured' against a physical asset, owned by the borrower, which can be sold in the event that they fail to repay.

We only lend at conservative 'loan to value' (LTV) ratios. For residential property, the most we would lend at is 75% (or, if the borrower chooses to add arrangement fees to the loan itself, 76%). In other words, a £750,000 loan would have to be secured against a property worth £1 million – giving a substantial 25% cushion against any fall in the value of the property. For commercial property, the maximum LTV we would lend at is 65%.

Before making any loan, we conduct thorough due diligence on the underlying assets.

An independent valuer, who must be fully qualified and registered, visits every property before a loan is made. They then send us a formal valuation report, which we review as part of the assessment and approval process.

In addition, in most cases we will either visit a property ourselves after the valuer or instruct an asset manager to visit the property. This is a way for us to double check we're comfortable with the valuation and the integrity of the borrower.

We also conduct in-depth analysis of each borrower's financial position, assessing their credit history, undertaking comprehensive identity and fraud checks, and making sure we're confident in an 'exit' (i.e. that they'll be able to pay back the loan).

What happens when a borrower fails to repay?

We have a clear process for dealing with missed payments. First, we notify the borrower and their solicitor of our intention to instruct lawyers. Our experience shows that most non-performing loans are resolved with the threat of legal action, without having to escalate the situation further.

However, if the borrower continues to delay repayment, we'll begin legal proceedings and, if necessary, will repossess the property to recover what's owed to investors. However, this could take a considerable amount of time.

Remember, in the case of residential property, we never lend more than 76% of the value of the property – giving a substantial cushion against any fall in the value of the property. For commercial property, we never lend more than 65% of the value of the property.

We also invest alongside investors in every loan, and are the first to lose money if anything goes wrong. Remember, investors' capital is at risk and their interest is not guaranteed: they may get back less than they put in.

When a borrower is late on their repayments, investors in that loan won't be able to access the money that's invested in it. They will however, continue to accrue interest on it, although how much interest we can pay will depend on how much money we recover from the borrower if they can't catch up on their repayments. In addition, investors will still be able to withdraw money from other loans in their portfolio where borrowers are up-to-date with repayments.

How easy is it to make a withdrawal?

There is no minimum investment period, so investors can request a withdrawal at any time.

Withdrawing money from Octopus Choice means selling the 'loan parts' (the parts of individual loans that an investor's money is allocated to) to somebody else, or – in the worst-case scenario – waiting for them to mature.

Provided there are people to buy the loans, an investor should get their money in a matter of working days. If there aren't, and if we can, Octopus will buy the loan parts to speed up their withdrawal.

If an investor's loan stops performing as it should, we'll do our best to give back what's owed as soon as possible – although this may take some time.

Money invested in Octopus Choice is concentrated in loans backed by property and could be affected by market conditions, instant access to investors' capital cannot be guaranteed.

It's not uncommon for an investor to have around 5-10% of their money unavailable at any one time if some of the loans in their portfolio are non-performing (see '*What happens when a borrower fails to repay?*').

Does it cost to withdraw?

No.

Find out more

If you have any other questions please contact us on **0800 316 2067**.