

## StepLadder - Member Disclosure Statement, 27 March 2020

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### **General Information: The role of StepLadder**

StepLadder's role is to facilitate loans between individuals where those Members become both 'Lenders'/Investors' and 'Borrowers' under those agreements, those agreements are known as Article 36H Agreements or Peer to Peer Agreements. It does this by creating 'Circles' that match together a certain, predetermined number of Members, who can each afford to contribute the same amount to the Circle each month. Each Member contributes the fixed amount each month for the term of the Circle. After a preliminary Reserve Period, each month one Member of the Circle is credited that month's Draw Total by StepLadder's random allocation algorithm. This repeats until each eligible Member has been allocated funds. Thus, each Member is both Investor/Lender and Borrower for some duration of their Circle term.

Once each Member of the Circle has been allocated their funds via the Draw, they become a Borrower. Thereafter, the Drawn Member ceases to be a Lender/Investor for the remainder of the Circle term, as their on-going monthly contributions repay the Draw Sum borrowed from other Circle Members. At the time of the Draw, each non-drawn Member of the Circle will become Lenders/Investors to the Drawn Member in the amount of one month's contribution only.

Prior to an individual being accepted as a Member of a Circle, StepLadder undertakes due diligence on them, this includes affordability, credit and verification.

(i) **Affordability** at StepLadder is based on disposable funds available from income after income tax, housing and cost of living expenses. These expense figures are cross-checked against ONS<sup>1</sup> predictions, and the more conservative figures taken. A further margin of safety is applied in setting the upper limit a Member would be allowed to commit monthly to their Circle.

(ii) **Credit** at StepLadder is based on Equifax credit quotes. Based on each applicant's credit score and history, StepLadder categorises applicants, which may affect the Circles they are invited to join or on what more limited terms, such as Credit Builder status.

(iii) **Verification** at StepLadder is based on proof of identity and address verification documents (e.g. passport or driving licence, and recent utility bill) which are typically provided at onboarding and must be provided before funds are released from the Members account.

The monthly Draw offers the opportunity for StepLadder to re-assess the risk of each Member prior to considering them eligible for a P2P Agreement (the Draw). To be Draw eligible, a Member must (i) be current with payments, (ii) have a topped-up Reserve Balance in their e-wallet, and (iii) have provided no indication of withdrawing from their StepLadder membership. As an additional risk control, release of the Draw Total from a Member's e-wallet to their non-platform account is further restricted, while the Member is a Borrower, based on satisfying the originally stated purpose of the Circle, for example purchasing a home.

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<sup>1</sup> Office for National Statistics

Member Master Agreements determine contractual terms with other Circle Members, not direct interaction or negotiation. Members of StepLadder's Circles will have no discretion on which P2P Agreements they enter into by normal operation of their Circle. Membership in a particular Circle has been decided directly between each Member and StepLadder, on the basis of the criteria above and the term of the Circle.

StepLadder does not offer a P2P Portfolio<sup>2</sup> to Circle members. While Circle members will 'Lend' through a collection of P2P Agreements, these are not set up to achieve any targeted investment return.

For typical P2P agreements, Investors/Lenders may have a tax liability. In the case of StepLadder's Circles there will be no Member tax liability that will arise, as no financial return from interest will be made on money contributed to Circles.

### ***Drop Out or Default***

#### **Drop Out:**

(i) Upcoming payments: You are free to Drop Out without penalty at any time. When you indicate your intention to Drop Out of your Circle, or your Reserve balance is zero, StepLadder will suspend your future unpaid contributions, upcoming fees and eligibility for the Draw. As a Drop Out, you have not yet Drawn and are only a Lender up to this point of Drop Out

(ii) Funds already contributed up to the point of Drop Out: At the end of the Circle's fixed term, all of the payments you have made are due to be returned to you in full (less the administration fees). You will not have access to those funds before this time.

Similarly, if your Draw Total has already been credited to your e-wallet but has NOT been released yet for the stated purpose, you may also Drop Out at your choosing. Then, at the end of the Circle's term, your total monthly contributions are due to be returned to you in full without any additional fees.

Please communicate your intention to Drop Out to StepLadder [membership@step-ladder-solutions.com](mailto:membership@step-ladder-solutions.com). No further action is required until the end of your Circle term, at which point StepLadder will reconfirm your bank details for transfer of your e-wallet balance back to you.

**Default:** This exclusively applies to Drawn members of your Circle - who thus become Borrowers from the other Circle Members. StepLadder has a procedure for dealing with a Member within your Circle that is in arrears or in Default. Arrears are defined as a missed scheduled payment at the time of the monthly Draw. Default is deemed to have occurred once the Member has exhausted their Reserve balance.

**Arrears handling:** A missed payment will be offset by a deduction from that Member's Reserve balance. The StepLadder Membership team will engage the Member using contact details provided at on-boarding, including email, phone and post. A minimum of 6 attempts over 30 days are attempted by the StepLadder Membership team. Arrangements can be made directly with the Membership team for same day BACS payment. If a Member is in arrears, the Drawn sum balance in their e-wallet will NOT be released.

**Default handling:** Once the Reserve balance has been depleted, and an arrears status exceeds 60 days, the Member will be advised of Default by the same email, phone, and post channels as used to reestablish payment. Notification of default on the total balance outstanding will be made to Equifax in the next monthly Insight report. In the case of a Default for a Member who has purchased their property, notification of default and balance outstanding may also be sent to their mortgage lender, if known.

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<sup>2</sup> P2P Portfolio is a collection of P2P Agreements that a Lender Invests in with the aim of achieving a targeted return.

StepLadder welcomes Members in arrears or default to be in contact directly and we will work with you to organise a repayment plan. Please contact [membership@step-ladder-solutions.com](mailto:membership@step-ladder-solutions.com)

## ***The Key Risks of StepLadder, the Circles and the Platform***

Below are the key risks associated with StepLadder's products:

1. Capital is at risk and there is no recourse to the Financial Services Compensation Scheme. This means that any losses incurred by the failure of the loans would not be protected by the FSCS. If StepLadder ceases to exist or goes into liquidation you would not be able to put in a complaint through the FSCS. This is consistent with all peer-to-peer platforms.
2. Past performance – Any On-going Disclosures and Outcomes reported only contains information that is reflective of the actual payments received by Members under P2P Agreements at a particular, stated point in time.
3. Liquidity Risk - A peer to peer loan made through our platform is illiquid – you are unable to transfer this to a third party without StepLadder's facilitation. There is no guarantee this is available upon request.
4. Borrowing Risk - You should consider if you will be able to continue to meet payments under this agreement for the duration. Once you are Drawn, you continue to have on-going monthly contribution obligations as a Borrower. If you are drawn early and obtain a mortgage you may be in a situation where you are both repaying your mortgage and paying into the Circle on a monthly basis. You must determine if – in the event you are drawn early – you would be able to meet both payments.
5. Impact of fees - Full details of the fees payable are set out in our terms and conditions, while these fees are minimal and only for the administration of the Circle, consumers should consider how these charges will affect their final deposit amount.
6. Platform/Wind down Risk - If StepLadder ceases to exist or goes into liquidation you may experience delays in receiving your money or you may not receive this back at all. There are Wind Down provisions in place as explained below but this does NOT guarantee you would receive your capital back.
7. No Guarantee of Mortgage - While the purpose of StepLadder's business model is to assist consumers to obtain a deposit for a property sooner than they would have, there is no guarantee that the individual will be offered a mortgage. If you are drawn early in the Circle you will be borrowing most of your deposit and some lenders do not allow a deposit to be borrowed. You should consider this before participating in a Circle.
8. No Interest or Returns - If you choose to use the services of StepLadder you will not be earning any interest or returns on the capital you lend. While you may receive your deposit funds more quickly than you would have otherwise you will miss out on any return that you may have been able to achieve using a savings or another investment product.
9. Regulatory Risk - Peer-to-peer lending is a relatively new industry and the regulation of the industry could change, this may have an adverse impact on the costs and risk of your investment or result in you incurring financial loss.

This Risk Statement can regularly be found on our website here <https://joinstepladder.com/Risk/>. **If you decide that the Circle exposes you to a greater level of risk than you understood or were prepared to accept please contact us directly to determine your options at [membership@step-ladder-solutions.com](mailto:membership@step-ladder-solutions.com).**

## **StepLadder P2P Agreements are Classed as Financial Investments**

**'Pricing' of P2P Agreements between Members.** StepLadder sets the Price<sup>3</sup>, i.e. interest rate, for all P2P Agreements facilitated through its Circles. The interest rate between Members for all Circles is ZERO. Therefore, while there is ZERO interest on Micro Loans between Borrower and Investor/Lender Members, StepLadder will be setting the Price of all loans by way of setting the terms of the Circle. In exchange for Members lending to each other at ZERO for the complete Circle term, they are entitled to once Borrow the full Draw Total, also at ZERO interest.

As your contributions, which become loans to other Circle Members, are defined by the FCA as investments, we must again make clear *your capital is at risk*. This is the case for all regulated investment categories.

## **Circle Information: Details on the types of Loans (Circles) StepLadder facilitates:**

The following framework generally profiles the loans that StepLadder facilitates between Borrower and Investor/Lender Members:

- (1) The interest rate payable by Borrowers or to Lenders under any StepLadder P2P Agreement will be ZERO;
- (2) the minimum maturity date of any P2P Agreement that may be facilitated will be 1 month
- (3) the maximum maturity date of any P2P Agreement that may be facilitated will be 18 months
- (4) there will be no return on top of capital contributions for Circle Members
- (5) all Circle Members will be charged an administration fee which will be £2 - £30 each month, as per the terms of their Member Master Agreements and stated on their platform dashboard.
- (6) current risk categories StepLadder offers, within the same Circle whose membership is determined by Affordability analysis, are limited to normal Member or Credit Builder Member. Credit Builder members agree to only be drawn from the second half of the Circle term, with the objective of establishing credit history with StepLadder and decreasing net exposure of the Circle Members to the Credit Builder.

**Ongoing disclosures.** Specifics for your Circle will vary and are available in your Master Member Agreement (P2P Agreement) and updated on your platform dashboard.

1. The Price of P2P Agreements – this will always be an interest rate of ZERO;
2. The outstanding payments in respect of your Circle;
3. Circle Ending Date - when the P2P Agreement is due to mature;
4. Any fees to be paid to StepLadder during the operation of your Circle
5. As there is ZERO interest on your contributions, your financial return will be either your Draw Total less fees paid to StepLadder or, for Drop Outs, total contributions less fees paid to StepLadder
6. Details of the credit risk assessment and credit-worthiness assessment carried out on Circle members.
7. Loans StepLadder facilitates between Borrower and Investor/Lender Members are unsecured.
8. The risk categorisation of your membership between StepLadder's two member categories: normal or Credit Builder
9. Whether a Borrower Member of your Circle (i) has Defaulted, (ii) the Default remains unresolved before the end of the Circle term, (iii) what maximum loss given Default can be expected by the Investor/Lender Member, and (iv) what steps toward resolution of the default are being taken by StepLadder

Should you wish to access this information please use the following link - <https://joinstepladder.co.uk/login>

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<sup>3</sup> A firm is treated as having determined the price of a P2P agreement in cases other than where the lender and the borrower have entered into a genuine negotiation to determine the price of that P2P agreement.

**Outcomes statement – Below is our most recent outcome statement which provides detail on the loans facilitated through the platform over the last year**

- (1) Expected default rate of all P2P agreements StepLadder has facilitated: 5%
- (2) The actual default rate of all P2P agreements StepLadder has facilitated: 0%
- (3) The assumptions used in determining future default rates:
  - a. UK Primary residential arrears rates: 2018 - 1.2%; 2009 - 3.0%. 5% = >4x average & 1.7x stress period arrears.
  - b. UK Primary residential repossession rates: 2018 - 0.3%; 1991 - 0.8%. 5% = 16x average & >6x stress period defaults

However, StepLadder has ensured that the contribution amount for each Circle is reflective of the risk profile of the loans that would be made within it. It has done this by structuring its circles so that, although Members are taking on risk with their contributions and receiving no return on their investment, they are entitled to Borrow the full Draw Total, also at ZERO% interest.

***What if Something Happens to StepLadder***

We have made specific arrangements to ensure that P2P Agreements between our Members and our Circles have a reasonable likelihood of being able to continue to be managed and administered in accordance with the contract terms should StepLadder cease to operate. The arrangements in place have not been designed to prefer any particular Members or class of Members, for whom StepLadder administers Circles.

The administration fees and ring fenced capital reserves in respect of P2P Agreements facilitated by StepLadder are sufficient to cover the costs of managing and administering those agreements during a winding down process, provided each Circle Member continues to pay. In addition (and should one or more Circle Members cease to pay their administration fee or go into default) StepLadder holds Member balances such that unwinding Circles can be implemented by an administrator.

When designing its Wind Down arrangements, StepLadder has taken into account the general law to ensure that the insolvency of the firm does not prejudice the operation of arrangements that the firm has put in place. StepLadder has considered in particular:

- (1) whether any terms included in relevant contracts as part of its arrangements are enforceable. StepLadder considers that all relevant terms are enforceable
- (2) the extent to which other practical obstacles could foreseeably prevent the implementation of the arrangements or frustrate the required outcome, StepLadder currently considers that it has sufficient financial resources to fund the implementation of the Wind Down arrangements.
- (3) whether the arrangements make adequate provision for any activities that are ancillary to the management and administration of P2P agreements upon which the required outcome is, or could be, dependent. StepLadder considers that the administration fees charged are sufficient to cover ancillary services to the management and administration of P2P agreements.

Arrangements made under the Wind Down of StepLadder if it ceases to operate the platform, involve a third party taking over the management and administration of the Circles and P2P Agreements.

- (1) The third party is More Lending Solutions Limited ('MLS'), our Principal.
- (2) Currently prior to funds being returned/lent to Circle members they are held in a client account by Mangopay. Instructions in respect of the payments into and out of that client account are currently made by StepLadder. In the event of a solvent wind down by StepLadder they would continue to make instructions in this way under MLS supervision. In the case of an insolvent wind down or where StepLadder could no longer operate as an AR, MLS will take over the instructions in respect of payments to Mangopay.
- (3) More Lending Solutions Limited is Authorised and regulated by the Financial Conduct Authority (FRN:702503).

As detailed in the earlier risk section, in the event of StepLadder's failure, there is the possibility that P2P Agreements may cease to be managed and administered before they mature and that the majority of balances due to Circle Members are those due from other Circle Members -- rather than from StepLadder itself. Circle Members are not entitled to any other Members' client money.

StepLadder will notify the FCA in writing if it is contemplating ceasing to manage and administer P2P Agreements facilitated by it, implementing its Wind Down arrangements or implementing any other arrangements that have a similar purpose. *This is NOT contemplated at this time.*

StepLadder has produced and will keep up to date a P2P resolution manual which contains information about the firm that, in the event of its insolvency, would assist in resolving the firm's business of management and administration of P2P agreements that it has facilitated. This manual includes the following information:

- (1) how StepLadder conducts the business of management and administration of P2P agreements that it has facilitated, what the day-to-day operation of StepLadder entails and what resources would be needed to continue that business if it ceased to carry it on, including a specification of:
  - (a) critical staff and their respective roles;
  - (b) critical premises;
  - (c) StepLadder's IT systems, including details of data storage and data recovery arrangements;
  - (d) StepLadder's record-keeping systems, including how records are organised;
  - (e) all relevant bank accounts and payment facilities;
  - (f) all relevant persons outside of the firm, and their respective roles, including any outsourced service providers;
  - (g) all relevant legal documentation, including Member, service and supplier contracts;
  - (h) the firm's group, using a structure chart showing:
    - i. the legal entities in the group;
    - ii. the ownership structure of those entities; and
    - iii. the jurisdiction of those entities.
- (2) the steps that would need to be implemented under StepLadder's Wind Down arrangements in order for P2P agreements facilitated by the firm to continue to be managed and administered
- (3) any terms in contracts that may need to be relied on to ensure P2P agreements facilitated by StepLadder will continue to be managed and administered under those arrangements; and
- (4) how the firm's systems can produce the detail as per the Ongoing disclosures (detailed below) for each P2P agreement facilitated by it.

This P2P resolution manual is immediately available to an administrator, its Principal receiver, trustee, liquidator or analogous officer appointed in respect of it or any material part of its property and the FCA, on request.