**Outcomes statement – June 2023**

Please note that past performance is not a reliable indicator of future performance

**Actual default rates compared to predicted default rates for each loan category:**



Please note that, typically, a large number of loans will go into default as defined by the Financial Conduct Authority. Although this means that borrowers are in arrears, this does not necessarily mean that lenders will not be repaid their capital in full or that interest will not be paid in full, as you can see from the loss rate statistics above. What it does mean is that lenders may experience delays with interest and / or capital payments. Please see more information on our 'Risks for Lenders' page.

**Risk categories**

Category A – No concerns regarding credit risk or the loss if a default were to occur as the LTV is likely to be sufficient to repay capital in full. In practice this means no CCJs, previous bankruptcies or credit events in the borrower’s history. In addition, the LTV will be below 60% for a first charge and below 50% for a second charge

Category B – Some concerns regarding credit risk but no concern of a loss if a default were to occur as the LTV is likely to be sufficient to repay capital in full. In practice this means there may be CCJs, previous bankruptcies or credit events in the borrower’s history. However, the LTV will be below 60% for a first charge and below 50% for a second charge and thus even if enforcement were to occur it is not expected that lenders would lose any capital.

Category C – No concerns regarding credit risk but if a default were to occur the LTV may not be sufficient to repay capital in full. In practice this means no CCJs, previous bankruptcies or credit events in the borrower’s history. However the LTV will be 60-70% for a first charge or 50-65% for a second charge

Category D – Concerns regarding credit risk and if a default were to occur the LTV may not be sufficient to repay capital in full. In practice this means there may be CCJs, previous bankruptcies or credit events in the borrower’s history. In addition, the LTV will be 60-70% for a first charge or 50-65% for a second charge

Category E – No concerns regarding credit risk but if a default were to occur the LTV may not be sufficient to repay capital in full. In practice this means no CCJs, previous bankruptcies or credit events in the borrower’s history. However the LTV will be equal to or above 70% for a first charge or equal to or above 65% for a second charge

Category F – Concerns regarding credit risk and if a default were to occur the LTV may not be sufficient to repay capital in full. In practice this means there may be CCJs, previous bankruptcies or credit events in the borrower’s history. In addition, the LTV will be equal to or above 70% for a first charge or equal to or above 65% for a second charge

**Default rates:**

As per the FCA’s definition of default, HNW classify a loan as in default under the following circumstances:
a) if it is more than 180 days in arrears of its current payment schedule. For most loans, this means the payment schedule as set out when the loan started. However if a loan extension or another new payment plan is agreed, then a default would be if the borrower is in arrears of more than 180 days with this new plan.
b) if it has not repaid within 180 days of its original repayment date (or loan extension repayment date if a loan extension has been agreed with the borrower) even if the interest is still being paid regularly.
c) where HNW believe repossession and sale of the asset will be required, even if the loan is not yet in arrears of 180 days or more.
In practice, however most loans would be classed as being in default before any of the above as HNW also class a loan as in default once legal enforcement action has commenced. In practical terms, this will be the earlier of date of the first court hearing or the date we agree a document which then needs to be filed at court to avoid court proceedings, such as a new payment plan under a Suspended Possession Order.

**Future Expected Default rates:**

In determining expected default rates, we take the performance of the portfolio of loans originated since HNW was authorised by the FCA (24 Jan 2017) until 31 March 2023. The expected default rate is the number of loans that have gone into default as at 31 March 2023 divided by the total number of loans HNW has originated since HNW was authorised by the FCA. This is calculated for each loan category and in total and then expressed as a percentage.

For actual default rates, we use the number of loans in default as at 31 March 2023 divided by the number of loans HNW has originated since HNW was authorised by the FCA.

**Actual loss rates:**

In determining actual loss rates, we have taken the performance of the portfolio of loans originated since HNW was authorised by the FCA. We incorporate both actual losses crystallised to date in both capital and interest. We then divide those losses by the product of money lent in that risk category and their expected loan durations.

In practical terms, the workings are as follows:

Let us assume we have a loss of £30,000 of capital and £70,000 of interest (ie. £100,000) in risk category A.

Let us also assume that there were £10m of loans in risk category A and the average length of those loans was 1 year. Therefore, the losses need to be spread over £10m x 1 year = £10,000,000

The expected default rate is therefore £100,000 / £10,000,000 = 1%

Therefore if we assume that the advertised return on a loan was 7% then the expected return would be 7%-1% = 6%

For the coming year, we have then rounded to the nearest 0.25%.

For category B, we have inserted 0.5% as it would be more prudent than to round to zero or 0.25%.

For categories E and F where we have rounded up to 0.75% in order to be prudent. These values will be shown from May 2023. They will be as follows:

|  |  |
| --- | --- |
| Risk | Loss |
| Category | rate |
| A | 0.50% |
| B | 0.50% |
| C | 0.50% |
| D | 0.50% |
| E | 0.75% |
| F | 0.75% |

**Auto\_invest performance**

HNW operates an Auto\_Invest feature which is a pooled product investing in a portfolio of loans and targeting a 6% annual return to investors with 1.5% paid out each quarter date (31 March, 30 June, 30 Sep and 31 Dec).

To date it has paid the full amount of interest out each quarter of 1.5% so that the target 6% return has been achieved in all quarters to date.