

Fears as US giant snaps up Funding Circle debts

Small business owners' personal guarantees sold

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The City regulator is coming under pressure to review a sale by Funding Circle of hundreds of small business owners' personal guarantees to a firm owned by one of the world's largest hedge funds.

Funding Circle, the listed online lender, sold 300 personal guarantees — a business owner's personal promise to repay outstanding company debt — to Azzurro Associates, a debt buyer which is ultimately owned by Elliott Management, a New York investment fund.

Kevin Hollinrake, co-chairman of the all-party parliamentary group on fair business banking, described the disposal as "very worrying". He said borrowers would probably be surprised at the deal and concerned that the new owner of their debt may employ more stringent collection tactics.

"You can imagine the concern of someone who has provided a personal guarantee to Funding Circle on the basis that they trade on their 'good guys' reputation only to see their obligation sold off to a huge US hedge fund," Mr Hollinrake said.

After the last financial crisis, British banks sold billions of pounds of non-performing business and property loans to overseas funds such as Cerberus Capital Management. The deals proved highly contentious, with some of the funds accused of ruthless collection tactics. Mr Hollinrake said his group's "experience of US funds ... has been little short of appalling".

Funding Circle connects investors with small business borrowers. Since it launched a decade ago, £10 billion has been lent via the platform to about 90,000 companies. It has cast itself as the champion of entrepreneurs, offering a better service to small businesses than the high street banks.

Founded in 1977, Elliott is one of the world's oldest hedge funds and manages about \$40 billion of assets. It has gained a formidable reputation for corporate activism and is best known for its

15-year battle with the Argentine government over its 2001 debt default, which resulted in a \$2 billion payout for Elliott.

Mr Hollinrake, a Conservative MP, said his group would be writing to Funding Circle and the Financial Conduct Authority to outline its concerns and call for a review of the sale.

The sale completed in October and relates to loans from the SME Credit Realisation Fund, a Funding Circle vehicle that is being wound down, that defaulted before the pandemic.

Funding Circle described Azzurro as "specialists at working with borrowers that have fallen into difficulty repaying loans" who "will be taking over recovery activities" on the loans. It said careful due diligence had been carried out to ensure that "Azzurro's code of conduct is in line with ours".

Funding Circle declined to rule out selling off more personal guarantees, although it is understood that it does not have any immediate plans to do so.

Mel Loades, a consultant who works with business owners and directors seeking to negotiate personal guarantee issues, said that while the sale of small business debt by lenders was not uncommon, "the sale of personal guarantee debt is very rare, particularly among mainstream lenders".

Mr Loades said such transactions could raise concerns and anxiety for guarantors over collection tactics.

Andrew Birkwood, chief executive of Azzurro Associates, said the firm was "authorised and regulated by the FCA and upholds the highest standards when interacting with its customers in order to reach affordable solutions with them".

It is understood the Azzurro collection process has been held up in certain cases by discrepancies in borrowers' outstanding balances that are being worked through with Funding Circle.

Lisa Jacobs, UK managing director of Funding Circle, said the deal represented only about "0.07 per cent of loans under management at Funding Circle".