

Owners 'will be treated fairly' after sale of loans

James Hurley Enterprise Editor

Funding Circle has promised that business owners will not be mistreated amid fresh concerns over the sale of almost 1,900 personal guarantees to a firm owned by one of the world's largest hedge funds.

The listed online lender sold the defaulted loans and associated personal guarantees — a business owner's personal promise to repay outstanding company debt — to Azzurro Associates, a debt buyer ultimately owned by Elliott Management, a New York investment fund, on June 1.

The deal comes after Funding Circle's sale of 300 personal guarantees to Azzurro last year, which prompted calls for a review by the Financial Conduct Authority over concerns that the new owner of the debt may employ more stringent collection tactics.

At the time, Funding Circle indicated that it did not have plans to sell more personal guarantees, but this week it told 85,000 retail investors affected about the fresh deal, which enables returns on defaulted loans of about 30p in the pound. The transaction represents close to 2 per cent of Funding Circle's loans under management.

Funding Circle connects investors with small business borrowers. Since it was launched a decade ago, £11.5 billion has been lent to about 100,000 companies. Founded in 1977, Elliott is one of the world's oldest hedge funds, managing about \$40 billion of assets.

Funding Circle said that it had worked carefully on due diligence before the sale, including consulting with the all-party parliamentary group on fair business banking, which sought assurances over the fair treatment of borrowers and an agreement that business assets would be pursued before personal ones.

Kevin Hollinrake, the Conservative MP who is co-chairman of the parliamentary group, said: "Many borrowers are unaware that there is no requirement to realise business assets first and we have often seen recovery immediately focus on personal assets. We were pleased to receive written assurance from Funding Circle and Azzurro that they would take a business assets first approach."

However, he added: "We do have wider concerns about the sale of loan books, particularly to organisations that are not consumer-facing as they do not have the same reputational risk concerns relating to their collection practices."

After the last financial crisis, British banks sold billions of pounds of bad business and property loans to overseas funds such as Cerberus Capital Management. Some of the funds have been accused of ruthless collection tactics.

Azzurro was contractually obliged to provide the "equivalent level of care" as Funding Circle in its collection tactics, the online lender noted.

Andrew Birkwood, chief executive and founder of Azzurro Associates, said that the business "upholds the highest standards when interacting with its customers in order to reach affordable solutions with them" and that it was "striving to set the benchmark" in its industry for fair treatment.

Lisa Jacobs, Funding Circle's European managing director, said: "This transaction brings forward recoveries for ... over 90 per cent of [retail] customers that have lent through the platform."

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