

## Due diligence process for loans and borrowers

Before a loan is added to Octopus Choice it must undergo due diligence from Octopus Real Estate. This process will decide whether or not a loan will be funded and the interest rate that a borrower would be charged. Within this process there are three areas of focus:

### 1 The property

An independent valuation will be performed, factors considered will include the condition and location of the property, existing and/or potential rental income, strength of the tenant and term of the lease, market sentiment and performance of the sector.

### 2 The borrower

All borrowers undergo credit and affordability checks as well as anti-money laundering and know-your-customer checks to ensure legitimacy of the borrower and the purpose of the loan.

### 3 The exit

Octopus Real Estate will also review the borrower's proposal of how they will repay the loan when it is due to redeem.

## Key criteria for Octopus Choice loans:

Attributes	Buy-to-let	Bridge-to-let	Bridging	Commercial
Term	2 – 5 years fixed term (up to 25 years) <sup>1</sup>	2 – 3 years with option to exit in the first 7 months	Up to 18 months	2 – 5 years
Max loan to value (LTV %)	76%	70%	75%	65%
Min borrower rate (% per year)	4.99%	6.49%	7.20%	5.50%
Security	First legal charge <sup>2</sup>			
Property types	100% residential HMO Semi commercial Multi-unit blocks	100% residential HMO Semi commercial	100% residential HMO Semi commercial	Commercial investment properties located in mainland UK
Client type	Experienced landlords, Expatriates, UK limited companies, Offshore limited companies, First time landlords, Foreign nationals, Trusts, First time buyers			
Interest cover ratio (ICR) <sup>3</sup>	100%+ earnings shortfall Company: 110% Individual: 120% HMO: 130%	n/a	n/a	>100%

<sup>1</sup> Buy-to-let loans could be up to 25 years in duration where a borrower requests a longer term. They would shift to a much higher interest rate after the fixed term, which tends to lead to a refinance.

<sup>2</sup> First legal charge means the property can be sold by receivers on behalf of Octopus Real Estate if the borrower defaults.

<sup>3</sup> Interest cover ratio (ICR) is calculated by dividing the rental income from property by Interest owed. If a borrower was receiving £12,000 of rental income per month and paying £10,000 per month in loan interest, then his ICR would be 120% (12,000/10,000). Octopus Real Estate may consider cases that are outside the ICR range. These would be considered on a case-by-case basis and will impact the rate of interest charged to a borrower.

Octopus Choice has defined an internal Allocation Policy to govern which loans are eligible for investors. The policy restricts the funding of development loans or loans with a high borrower interest rate. The policy is reviewed on a regular basis.

# Octopus Choice

## Difference in lending and borrowing rates Fees

### For lenders (Octopus Choice investors)

In order for Octopus to make money on Choice we take the difference on the rate which Octopus Real Estate lend money to borrowers and the rate at which these loans are made available to Octopus Choice investors through the platform. These rates are available for our current loanbook on [octopuschoice.com](https://www.octopuschoice.com). We can also facilitate adviser charging for investors who choose to take advice on their Octopus Choice investment.

### To borrowers

There are fees payable by borrowers directly to Octopus for the origination and management of their loans. They are separate from the amount lent to each borrower. We summarise these fees in the tables below.

## Fees paid by borrowers

Fee	Buy-to-let	Bridge-to-let	Bridging	Commercial
Admin fee	Min £350			
Arrangement fee	Up to 2.5%	Up to 2%	Up to 2%	Up to 2%
Other fees	Solicitor fees, valuation fees etc.			
Early Repayment Charge (ERC)	3%	0% (first 12 months) then 1%	0%	3% (first 24 months) then 0%

## Reminder of the benefits and risks of Octopus Choice

### Benefits

- Octopus choice lets investors target a variable rate of around 4% per year (gross of tax).
- All loans are backed by property with a first legal charge – meaning the property can be sold if the borrower defaults.
- The first 5% of every Octopus Choice loan is covered by First Loss, which consists of Octopus and an institutional investor. You'll get your money back before First Loss and earn your interest first too.
- The team at Octopus Real Estate have an established track record in lending; over £4 billion since 2009.

### Risks

- The value of an investment in Octopus Choice and any income from it, can fall as well as rise. Investors may not get back the full amount they put in.
- Peer-to-peer investments are not protected by the Financial Services Compensation Scheme (FSCS).
- As money invested through Octopus Choice is concentrated in loans backed by property, it could be affected by market conditions.
- Instant access to invested capital cannot be guaranteed.

**octopus**investments

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**We do not offer investment or tax advice. We recommend investors seek professional advice before deciding to invest**

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