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## Ask about default policy

MAY

5

2021

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NARINDER KHATTOARE |

*Platforms should be able to provide investors with a satisfactory default policy, as Kuflink's chief executive Narinder Khattoare explains...*

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One of the issues that many peer-to-peer lenders don't really like to discuss is what actions they will take if a borrower defaults on a loan. The Financial Conduct Authority's (FCA's) definition of a default loan is as follows: "A loan is in default when the borrower is past the contractual payment due date by more than 180 days (approximately six calendar months)."

However, letting a loan reach that position is detrimental for the lender and particularly for the people who have invested in the loans. Some of the failures among now defunct P2P platforms happened because they took little or no action ahead of declaring a default. Inevitably, investors lost money. It is imperative to act swiftly in these scenarios in order to recover the money lent with minimal default and receiver fees and potential auction fees which eat into the equity of the loan. In some cases, it can wipe out everything.

We allow a 30-day window on any loan that has not paid on the maturity date and is in danger of going into default. If the client does not pay towards the debt due or refinances the debt, we place that loan into recovery, so we can get our investor monies back as quickly as possible. In an ideal world, we would want to be out within three months, but that is not always the case as borrowers will look to delay matters by seeking a refinance (in some cases too late) or finding a family member or friend to bail them out. In some cases, it is too late and borrowers can tend to blame us, the lender. In our case, we are in touch with borrowers 60 days, 30 days and in the days before the loan is due to be repaid, so they have ample time to take action. Therefore, it is surprising that many brokers who acted on the borrower's behalf when the loan was originated cannot refinance out the debt from a short-term lender like us in plenty of time.

It is vital for a lender to determine what the route out of a loan is when it falls due. It is our responsibility as a lender to manage money from investors actively from start to finish. Yes, some loans go bad and that is inevitable, but if the lenders like us have strong processes, underwriting and collecting capabilities then we can usually nip potential problems in the bud by taking action

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at the first hint of trouble. This means there is space for those lenders in this market, but too many came in offering bigger rates of return but with flawed processes, and inexperienced individuals making key decisions which gave them and the industry a bad name. I have been saying this for years, but as the industry matures, lenders with poor processes will vanish due to their inadequate systems and lack of experience when underwriting and processing deals.

My advice for any would-be investor is to ask questions of the platform you are thinking of supporting. How do they handle defaults? If they can't explain their procedures to your satisfaction, take your money elsewhere.

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