THE INVESTOR'S GUIDE TO DEBT CROWDFUNDING

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What is crowdfunding?

> Crowdfunding is the new black.
>
> \- Rowena Wiseman

As the name suggests, crowdfunding is a way of financing businesses or projects via a “crowd” of backers. As opposed to traditional methods of raising money, the funds raised via crowdfunding typically come from a large number of people contributing small amounts, as opposed to a few investors putting in large amounts.

While the industry has grown significantly in recent times it is not a new concept. As far back as 1606 the Dutch East India Company used the power of the crowd in order to fund the lucrative venture of conducting trade between Europe and Asia. In the 1880s hundreds of small donations from everyday Americans helped to pay for the plinth upon which the Statue of Liberty stands. And in 1997, just before the industry really started to take off, rock band Marillion famously raised $60,000 via its own fan base to fund a US tour.

But driven by a lack of finance for small enterprises, caused by the 2007/09 financial crisis, along with significant advancements in the growth of the internet, the crowdfunding industry has boomed in the past few years. According to figures from Massolution’s 2015CF Crowdfunding Industry Report, the total value of global crowdfunding was up by 167% to $16.2 billion in 2014 with the company forecasting a doubling in value in 2015 to $34.4 billion.

The crowdfunding industry can be divided into two parts:

Rewards/charity based

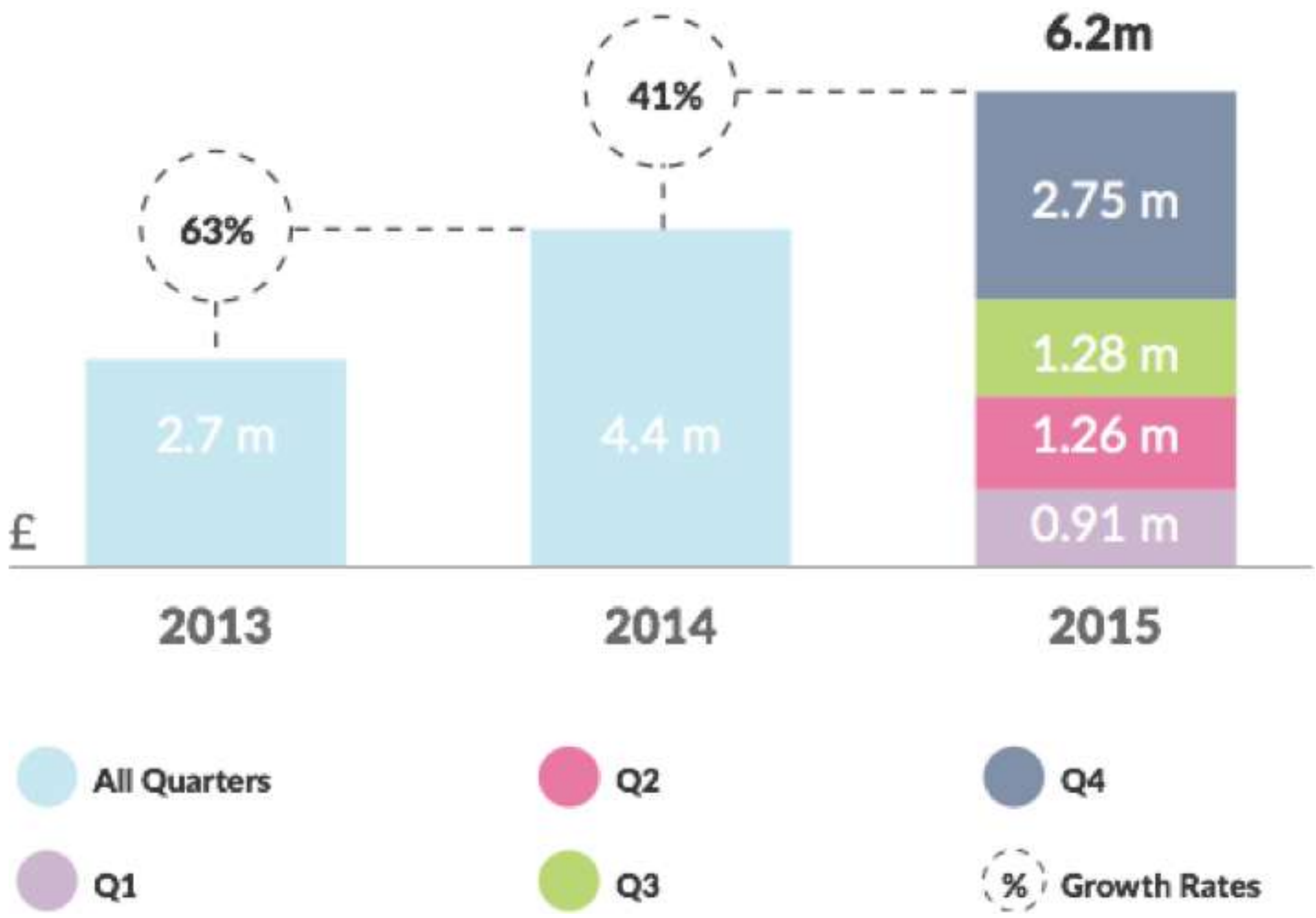
Here the investor does not expect a financial return but instead makes a donation and may receive some sort of reward or gift. An example would be a musician seeking funds to record an album, with backers receiving a free copy of the recording, concert tickets or a credit in the sleeve notes. Then again the donation could be entirely philanthropic. This is by far the largest part of the crowdfunding industry, with market leaders Kickstarter and Indiegogo being purely reward and donation based platforms.

Investment based

This involves equity or loan issues where the investor has the potential to earn a return on their money in the future. In the UK investment based crowdfunding platforms are regulated by the Financial Conduct Authority (FCA).

What is debt crowdfunding?

While the crowdfunding industry is probably better known for its equity products, there is a rapidly growing and attractive sub-sector developing for debt based crowdfunded securities. According to innovation charity Nesta a total of £6.2 million was raised via debt based securities in 2015. This was up by 47.6% on the previous year, as investors became increasingly attracted to their benefits.



Debt-based Securities Market Volume by Year and by Quarter (2013 to 2015)

Source: Nesta – The 2015 UK Alternative Finance Industry Report

How crowdfunded debt securities work

Crowdfunded debt securities are funded in the same way as other crowdfunding products - a large number of investors come together via a crowdfunding platform and collectively raise the money for companies (as opposed to individuals) looking for loans. They are similar to products offered by the larger peer-to-peer (P2P) based business lending market but are instead run by crowdfunding platforms.

The loans are issued for a fixed period of time and also carry a fixed rate of interest which is paid by the borrower to the lenders at set intervals. Crowdfunding platforms which offer debt-based securities are required to be regulated by the Financial Conduct Authority (FCA) and to carry out strict due diligence procedures on their offerings to ensure investors are protected.

Important loan terms

PRINCIPAL

The amount of money being borrowed/lent.

INTEREST

The amount of money paid by the borrower to lenders for the privilege of borrowing money, expressed as a percentage of the principal. Interest is usually paid at a set interval, typically monthly, quarterly, semi-annually or annually.

MATURITY

The length of time that the loan agreement is in force.

SECURITY

Where the borrower provides an asset, such as property, machinery or expected future cash flows, as collateral for the loan. This decreases risk for lenders as the asset can be seized in case of a default on the loan.

There are typically two types of debt crowdfunded securities

1. BULLET LOANS

Where interest is paid during the duration of the loan but the principal amount is repaid at maturity.

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2. CAPITAL REPAYMENT LOANS

Where both interest and a portion of the principal are paid back by the borrower to lenders at set, regular intervals.

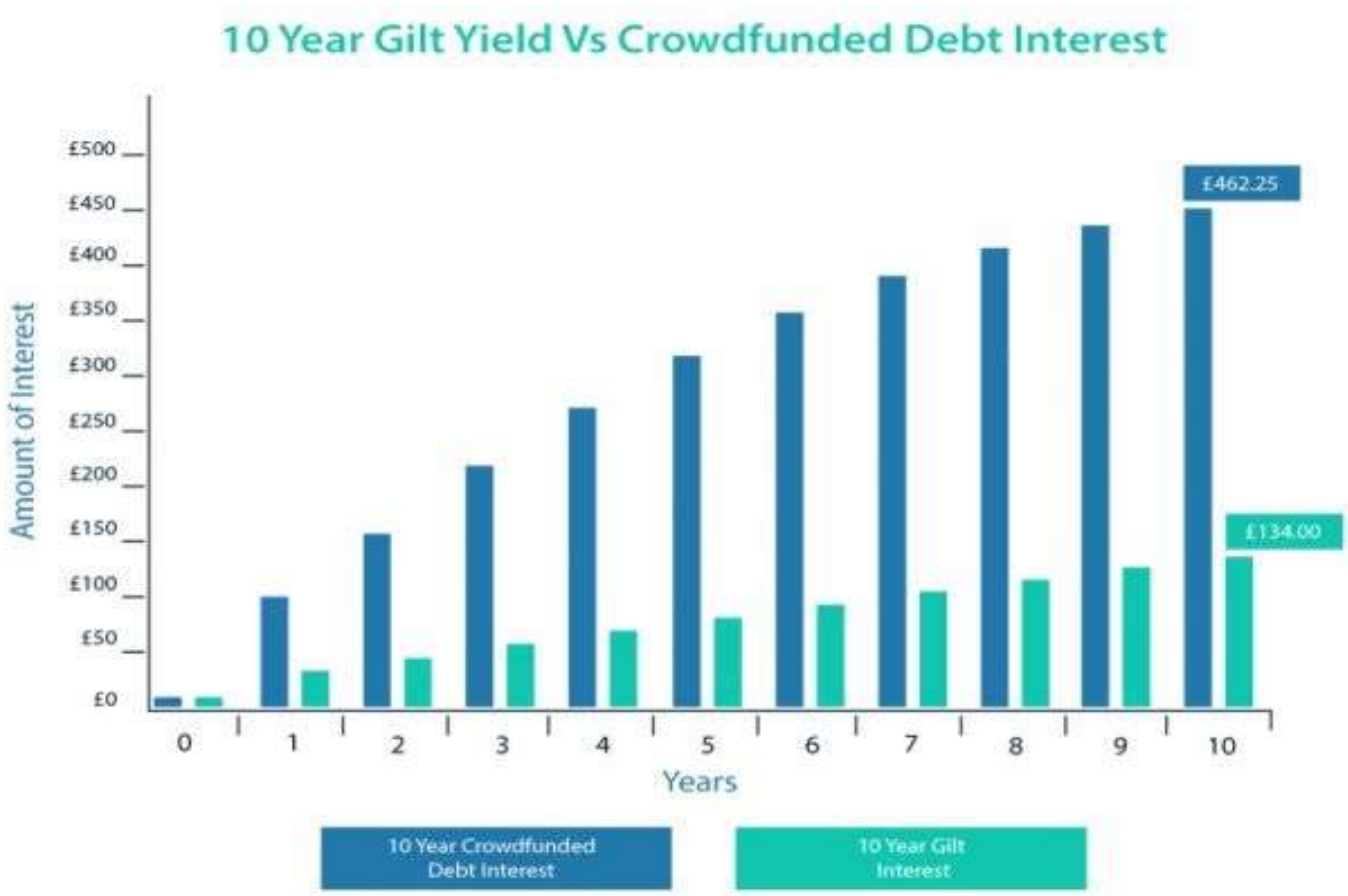
These basic loan types may also offer other attached benefits. Warrants for example are a financial instrument offered with loans which provide the opportunity to buy shares in a company, usually at a preferential rate. Convertible loans offer investors the opportunity to convert the money they put into a loan, along with accrued interest, into shares in the company, again usually on preferential terms.

Loan example

Renewable energy business ECH Property Solutions is currently looking for debt finance on the Crowd for Angels platform in order to buy a portfolio of income generating solar power consumer credit agreements.

The company is looking for up to £205,000 in investment via a 10 year (3,600 days) capital repayment loan at an interest rate of 8%, with repayments being made every 90 days. The loan is also secured by a fixed charge on the underlying credit agreements. These are expected to provide a consistent stream of cashflow over a 20 year period and be more than sufficient to cover the loan repayments.

To illustrate the income on offer, a £10,000 investment in the loan will deliver payments of £365.56 every 90 days for 10 years. Contrast this to a 10 year government bond, which currently yields only 1.34% and pays the principal back at maturity.



*1.34% UK 10-Year Bond Yield as of June 3, 2016- http://uk.investing.com/rates-bonds/uk-10-year-bond-yield-historical-data compared with 8% Crowd for Angels' Debt pitch- https://crowdforangels.com/company/plc/SES-GD-Ltd-1020

*£1000 invested, 90 day payment on a 8% p.a. 10-Year loan vs Annual payment on a 1.34% Simple Interest p.a. UK 10-Year bond

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For more information on the ECH Property Solutions loan pitch

[CLICK HERE →]

Why get involved?

ATTRACTIVE RETURNS

The rates of interest offered on crowdfunded debt securities typically range **from 6% to 12%**, dependent on the risk associated with the business. These provide the opportunity to make a higher return compared to deposit accounts and longer-term bonds currently offered by high street banks. Of course, as with any investment, the returns are higher due to the risks being higher – see below for more details.

STEADY STREAMS OF INCOME

Crowdfunded debt securities are designed to pay either interest or both interest and capital back to investors at regular intervals, thus providing a consistent flow of earnings.

UPCOMING TAX ADVANTAGES

The recently launched Innovative Finance ISA (or IF-ISA) enables investors to put certain "alternative" investments worth up to £15,240 within a tax free wrapper. While debt securities are not yet eligible for the IF-ISA, they are expected to be by Autumn this year.

Be aware that tax rules can change, are subject to individual circumstances and that you should obtain independent tax advice if you are unsure about your tax treatment.

INVEST SMALL AMOUNTS

You can invest as little as £25 into crowdfunded debt securities, making them accessible to all types of investor.

DIVERSIFICATION

Given their risk profile, crowdfunded debt securities can be considered to be a separate asset class, helping investors to spread their investments and diversify their portfolios.

Risks

Of course, like all investments, debt securities involve a number of risks. Notably:

-Investing in early stage businesses runs the risk of losing some of or all of your invested capital if the company defaults on the loan. You should only invest money you can afford to lose.

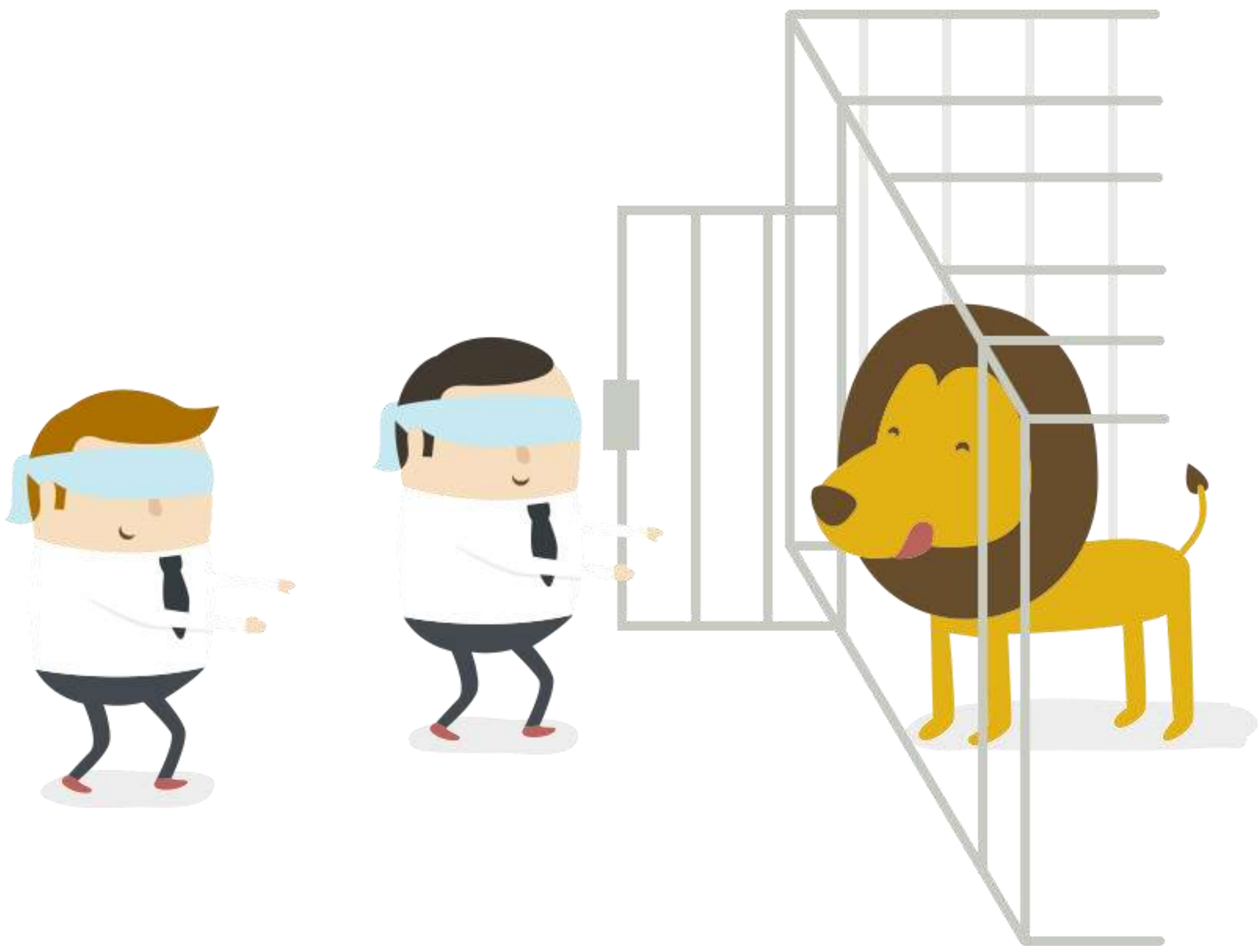
-Risks are higher if you lend to only one business so investing in crowdfunded debt securities should only be done as part of a diversified portfolio.

-On capital repayment loans the interest rate stated represents the gross return earned if you immediately re-invest all repayments (interest and principal) received over the course of a year at the same level of interest. Therefore, these loans run the risk that you will not be able to reinvest your income at the same interest rate.

-There is not currently a liquid secondary market for the sale of crowdfunded debt securities. As you will not be able to access all of your capital during the duration of the loan it should` be considered as a long-term investment.

- Any losses from crowdfunded debt securities are not covered by the Financial Services Compensation Scheme.

Given the high risks involved investors need to understand that they should research investment pitches and be happy with the level of risk to which they are being exposed to.



Introducing Crowd For Angels

Launched in July 2014, Crowd for Angels is a crowdfunding platform for both equity and debt funding and is authorised and regulated by the Financial Conduct Authority (FCA). We offer investors the opportunity to fund companies through all stages of their life cycle, from seed, development and pre-IPO, through to listing on a stock exchange. We cater for both private and public companies.

- You can invest in a pitch from as little as £25.
- There are no on-going or one-off fees for investors.
- Receive up to 50% tax relief* with SEIS (Seed Enterprise Investment Scheme) – find out more here
- Follow the progress of the companies you invest in and help them grow.

Whether you are looking to invest in equity or debt, you can do BOTH with Crowd for Angels.

To see our current range of pitches:

CLICK HERE

RISK WARNING

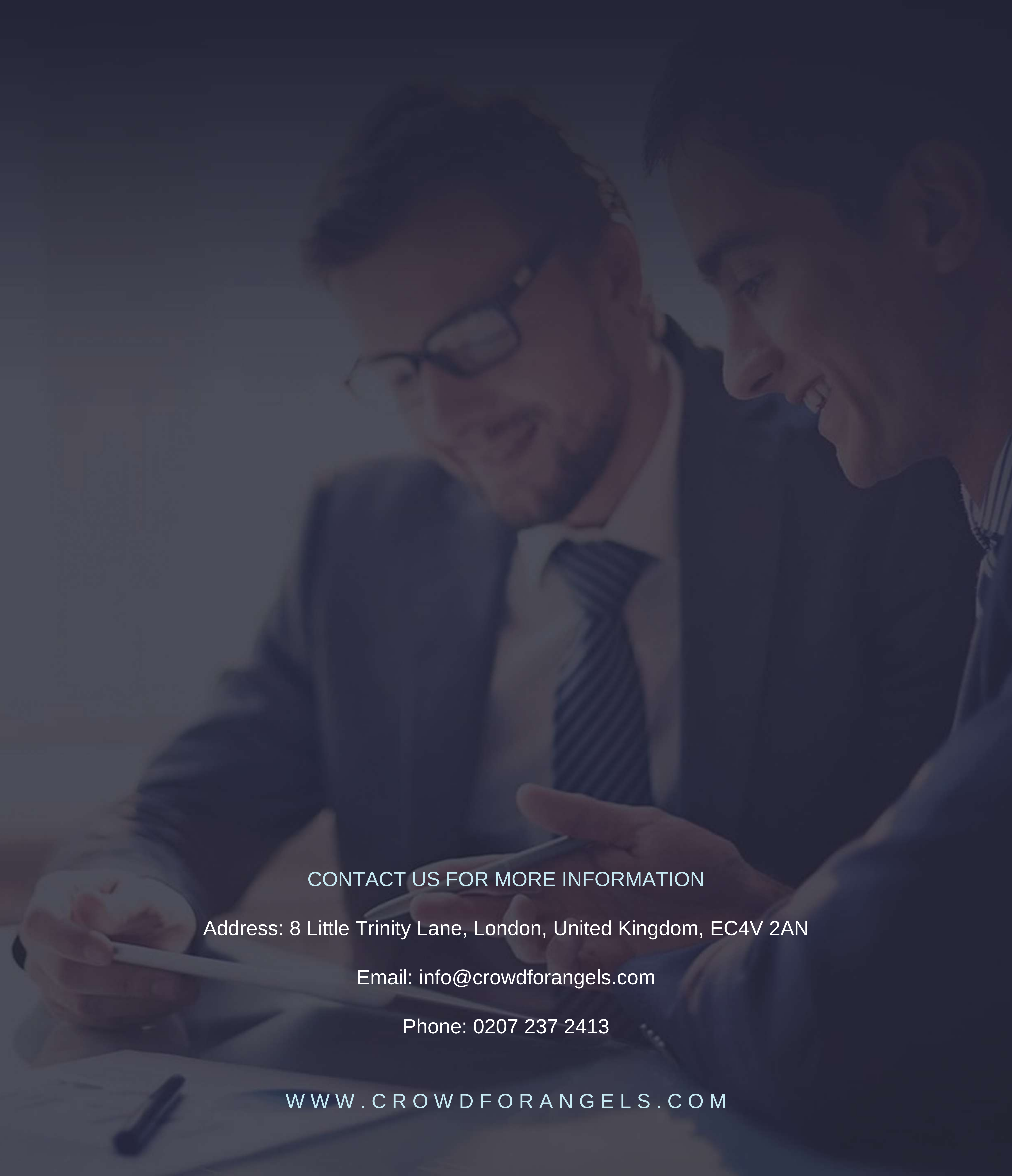
Investing in small public listed or private companies involves risks, including illiquidity, lack of dividends, loss of investment and dilution, and it should be done only as part of a diversified portfolio. Investing in debt pitches through Crowd for Angels (UK) Limited involves lending to companies and therefore your capital is at risk and interest payments are not guaranteed if the borrower defaults. Crowd for Angels is targeted exclusively at investors who are sufficiently sophisticated to understand these risks and make their own Investment Decisions. You will only be able to invest via Crowd for Angels once you are authorised. Please click here to read the full Risk Warning.

This guide has been approved as a Financial Promotion by Crowd for Angels (UK) Limited (Company number: 03064807) , which is authorised and regulated by the Financial Conduct Authority (Reference number: 176508). Investments can only be made on the basis of information provided in the Pitches by the Investee Companies concerned. Crowd for Angels takes no responsibility for this Information or for any recommendations or opinions made by the Investee Companies.

Pitches may contain forward looking statements and financial forecasts or projections. Forecasts are not a reliable indicator of future performance. Crowd For Angels makes no judgement or opinion of the likelihood of targets being achieved. Crowd For Angels (UK) Limited is not covered by the Financial Services Compensation Scheme (FSCS).

The availability of any tax relief, including EIS and SEIS, depends on the individual circumstances of each investor and of the company concerned, and may be subject to change in the future. If you are in any doubt about the availability of any tax reliefs, or the tax treatment of your investment, you should obtain independent tax advice before proceeding with your investment.

CROWD FOR ANGELS



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