Outcomes Statement

Year End December 2023

Lendwise

Introduction

In accordance with COBS 18.12.23 R, Lendwise publishes an outcomes statement in order to present actual and expected default rates by risk category to help consumers monitor the performance of our loan book in relation to defaults. This document also provides a summary of the assumptions used in determining expected future defaults rates.

Reporting Year: 2023*	
Expected default rate	**Actual Default rate**
5.0%	1.87%

As at 31 December 2023	
Aggregate balance in default	£890,905
Aggregate recoveries	£224,441

**: Amounts and calculations relate to the aggregate loan book balances and defaults as at 31 December 2023*.

Impact of adverse economic conditions on borrowers

Throughout 2023, a number of borrowers felt the strain of adverse economic conditions in the country, including post-COVID employment stagnation, rising interest rates, and a cost-of-living crisis, which impaired their ability to stay current with loan repayments, leading them to request forbearance from us. These challenging economic factors highlighted a period of significant financial vulnerability, where the combination of employment difficulties, increased borrowing costs, and the escalating cost of living imposed a complex burden on individuals. This situation compromised their capacity to fulfil their financial obligations and prompted a surge in forbearance applications as borrowers looked for temporary relief amid escalating financial hardships.

Our policy is to exercise every effort to critically examine all requests for forbearance from borrowers considering the consequences caused by economic, health and any other serious conditions. When considering such requests, we take due regard to the duty of care owed to the lenders of these loans as well. Our overarching principle is to achieve the fairest possible outcome for both borrowers and lenders with all aspects of FCA guidance in consideration.

In 2023, 36 borrowers with a total value of loans of £1,157,374 were offered forbearance due to various difficult situations, including financial difficulties and health-related issues. By December 31, 2023, 6 of these borrowers were still under forbearance, with their outstanding loans totalling £200,180. Among these, 1 borrower continues to be on a forbearance plan for a loan of £14,150 as of April 2024.

Default rates

The default amounts shown in the table above represent the loans that have been categorised as defaults due to surpassing 90 days in arrears (as per our internal policy on default classification). They also include those loans that have been internally classified as defaulted for reasons other than meeting the above delinquency criterion (reasons that constitute a breach of contract). A significant number of the loans in default are repaying and we envisage a material recovery in amounts albeit over a longer than normally expected time horizon. Recoveries from defaulted loans in 2023 amounted to £224,441. This is in comparison to the 2022 total for recoveries from defaulted loans, which was £119,122. The recovered amount represents 25.19% of the overall defaulted loan amounts.

There are also certain borrowers who have missed one or more payments without previously notifying us of payment difficulties or establishing contact to request forbearance or responding to our attempts to engage with them. Whilst our credit collection team is constantly working on trying to communicate with them and work out a mutually beneficial solution, we also have to anticipate that a certain number of them will eventually default on their loans.

Methodology, assumption and caveats

The aftereffects of the pandemic, coupled with the impact of rising interest rates and inflation create a negative economic sentiment which has an impact on the level of defaults experienced. This is embedded in our model of calculating expected defaults. The model is constantly updated and enhanced as more data becomes available. Furthermore, the analysis of results from past experience is used to enhance our loan application underwriting towards improving the quality of loans originated and reduce default rates accordingly.

We are now in the seventh year of our operation with almost 75% of our loans now in repayment. As we continue to grow, more loans start reaching the repayment phase enlarging the size of the available data we have for analysis. Loans for the first four years of operations are now fully in repayment. Default recoveries are factored in the calculation of the actual default rate and in expected default rates, as a result.

The expected annual default rate is reviewed on a quarterly basis to reflect the most recent performance of the portfolio as well as the macroeconomic conditions in the economy.

Below we provide an explanation of how we calculate actual and expected default rates:

Term	Definition	Explanation
Actual Default Rate	The proportion of loans which were late for more than 90 days or where there was a breach of contract at the date of reporting	We calculate actual rate on a running basis. We take the total value of all loans in default at the end of the period, and we divide it by the total value of all outstanding loans (irrespective of their status)
Expected Default Rate	The proportion of loans that are expected to be in default (in accordance with our definition of defaults) at the end of the period	The sum of all loans expected to be in default at the end of the period divided by the total expected value of all outstanding loans for the same period (irrespective of their status)

The next outcomes statement in relation to 2024 will be published no later than 30 April 2025.