Credit Report

The information contained in this credit report has been provided by the applicant, who has read this report and declared it complete, accurate and correct. Sourced Capital has used reasonable care to ensure the information provided is authentic and that it has been replicated clearly and accurately in this credit report. Sourced Capital has assessed the loan against its published risk appetite and credit acceptance criteria, but it has not audited the information and, consequently, provides no warranty, recommendation or advice in relation to this loan application.

Investors should always seek their own advice before investing and are reminded that their capital is at risk, with P2P investors not benefitting from FSCS protection.

Project Overview

The borrower on this project requests funding to assist with the cost of purchasing and refurbishing the residential dwelling known as Smithy House, Croft Cottages, Pontsticill, Merthyr Tydfil. The initial drawdown (£125,000) against the proposed Sourced Capital loan will be used to support the purchase, at which point full title to the property will be held by the borrowing company.

Having established clean title and obtained good loan security, the remaining loan funds (£29,000) will be made available to complete a full refurbishment and modernisation programme of works on the 3-bed residential property.

The subject property is being acquired with the advantage of a full refurbishment programme of works already partially undertaken. The residential dwelling is currently presented with the upgraded/replacement electrics, plumbing and plastering already complete. Additionally, the main section of the house benefits from a new roof. The borrower will complete the renovation programme before selling the property on the open market, with sales proceeds used to fully repay the Sourced Capital loan.

Loan Details

RELION INVESTMENTS LTD Smithy House, Croft Cottages, Pontsticill, Merthyr Tydfil			
Total P2P Loan	£154,000	Day 1 Draw	£125,000
Gross Development Value (GDV)	£230,000	Day 1 Value	£130,000
Loan to GDV (LTGDV)	66.9%	Day 1 Loan to Value (LTV)	96%
Term	12 Months	Build Period	3 Months

Security

Type	Detail	Valuation	Prior charge
1st Legal Charge	Smithy House, Croft Cottages, Pontsticill, Merthyr Tydfil	£230,000 (GDV)	N/A
1st -Ranking Debenture	RELION INVESTMENTS LTD	No Value Attached	N/A
Personal Guarantee	£154,000 from Craig Darlison	No Value Attached	N/A

Risk Rating, Fees and Charges

Interest		Fees	
Borrower Rate	12%	Borrower Arrangement Fee	2%
Margin	0% - 2%	Payable to broker	0%
Target Rate to Investor *	10%-12% (*dependent upon investment amount – see later comments under “Proposal”)	Exit Fee	3%
Interest Payments	All interest paid upon repayment		
Capital Payments	Lump sum repayment		

Risk	
All new loans are subject to analysis by Sourced Capital using a credit risk model. The derived loan categorisation is determined by assessment of different characteristics of the loan. These relate predominantly to the borrower’s experience and credit standing, the nature and quality of the project to be funded, the robustness of the exit strategy and the level of loan security. The risk categorisation is intended only to provide a means of comparison between different loans based upon constant data inputs. The loan categorisation does not and is not intended to provide any assurances as to which loans may or may not experience repayment issues.	
Risk Category (lower/medium/higher)	Medium

Project Details

Proposal

- This Credit Report relates to the borrowers’ loan proposal to raise a total amount of £154,000.
- In conjunction with funds being introduced by the borrower, the loan proceeds will initially be used to purchase a 3-bedroom, detached house known as Smithy House, Croft Cottages, Pontsticill, Merthyr Tydfil.
- Thereafter, with full title held by the borrower, the remaining loan funds (£29,000) will be used to complete the, already commenced, full refurbishment and modernisation programme of works to the property.
- The target property is being acquired with the advantage of the vendors having already successfully undertaken a significant amount of renovation/refurbishment work to the building.
- The subject dwelling has been fully stripped back and is presented with a full rewire, upgraded plumbing and re-plastering already complete. The property also benefits from a new roof installed to the main section of the house and some replacement uPVC double glazed windows
- The borrower will complete the renovation by finalising the required works, installing a replacement kitchen and bathroom, in addition to new flooring and decoration throughout.

- When fully refurbished, the borrower will market the property for sale on the open market, with the sale proceeds used to repay the Sourced Capital loan.
- A loan term of 12-months is proposed, allowing a prudent contingency to the scheduled build period, followed by the remainder of the loan term to market and complete the sale. An independent professional valuation (discussed in further detail later on in this report) fully supports this proposed loan structure.
- This Credit Report includes a full financial appraisal in a later section. For ease of reference, however, and to assist readers of this report gain an early understanding of the proposal, a brief summary is also provided here:
    - The Day 1 release of £125,000 will be used with the cash introduced by the key principal (£5,000 + deal costs) to purchase the property.
    - The remaining loan proceeds of £29,000 will be used to finance the required refurbishment. This amount fully accommodates the proposed build costs, together with a cost contingency included for prudence and good order.
- Whilst the loan amount is £154,000, only £125,000 will be released on Day 1. The remainder of loan proceeds will be withheld by Sourced Capital and released in tranches to the borrower as the scheme progresses - and only against sight and satisfaction with evidence of the completed refurbishment work.
- The loan terms are summarised below:

Loan amount	£154,000
Forecasted GDV	£230,000
Loan interest rate for lenders*	10% per annum
Bonus interest paid to lenders	2% per annum on investments over £20,000
Borrower Interest Rate	12% per annum
Loan term	12 months
Repayment of interest	End of the term / upon repayment of the loan
Loan security	First Legal Charge over the land and property built thereon. Other security to include a PG, debenture.
Loan exit	Repayment from sales proceeds
Planning status	N/A
RICS independent valuation completed	Yes – see comments later in this report

Borrower

Borrower	RELION INVESTMENTS LTD (RIL)
Company Number	13531110

- RELION INVESTMENTS LTD (RIL) was first incorporated 26th of July 2021, but has never traded and has been inactive since incorporation. RIL should, therefore, be considered as a new Special Purpose Vehicle (SPV) Company, being used specifically for the delivery of this venture.
- Prior to the deal progressing to completion, Sourced Capital's legal due diligence process will ensure that there is no security registered by RIL in favour of any other lenders and also that no other borrowing liabilities are outstanding. The borrower will be confirmed as a clean SPV.
- The SIC Code registered at Companies House is 68100, which records the official nature of business for this company as "buying and selling of own real estate". This is considered fully appropriate and acceptable for the intended trading activity and proposed repayment strategies.
- The borrowing company (RIL) is 100% owned by Craig Darlison (CD), who is the sole director and the key principle in relation to operational activity. CD started working within the property sector c.20 years ago.
- CD is a time-served plumber and gas engineer, having direct knowledge and experience of working on various new build developments.
- Following c.10 years of working as an employee, CD started his own company - CD Home Improvements. Over the last decade CD has used this business to successfully establish a proven reputation, having successfully delivered a number of different projects including refurbishments, extensions and conversions.
- All of the above-mentioned knowledge, proven capability and experience will clearly be directly relevant and beneficial regarding this proposal.
- As with all loans currently offered by Sourced Capital, the borrower's key principle is a franchisee within the Sourced Franchise Network. It is known, therefore, that the borrower is a property professional and undertakes ongoing training to keep abreast of all key issues impacting the property sector.
- RIL (as the borrower) and CD (as the beneficial owner) have produced a clean credit reference search and have fully satisfied the regulatory requirements of Know Your Client (KYC) and Anti Money Laundering (AML).

Site Details and Property Details

- The target property is a 3-bedroom, detached, residential dwelling known as Smithy House, Croft Cottages, Pontsticill, Merthyr Tydfil.
- The property is a former blacksmith's forge, which has been converted into a detached house. The main building is of traditional solid stone construction, rendered, under a slate pitched roof. There is a single storey side section of traditional solid stone construction, rendered, under a tiled pitched roof.
- The property sits within a plot of approximately 130 sq.m (1399 sq.ft.) and affords an internal floor area of 72 sq.m. (775 sq.ft.) over two floors.
- The internal accommodation comprises an open plan Kitchen/reception and separate reception at ground floor, with 3 bedrooms and bathroom on the first floor

- Currently, the property is part way through a complete refurbishment and modernisation programme. The vendors have fully stripped back the property and are selling the dwelling presented with the electrical rewire, plumbing upgrades and the plastering works completed. The property also benefits from a new roof to the main section of the property and some replacement uPVC double glazed windows.
- The borrower will complete the refurbishment, at which point the property will be presented to market for sale. The internal configuration will be unchanged, but all internal accommodation will be fully renovated. This will include a new kitchen, new bathroom, new pressurised cylinder for the water, required replacement windows, new flooring throughout, all interior carpentry and painting throughout.
- Externally, the dwelling affords parking and garden space to the side. The refurbishment budgets and schedules include the provision of new aggregate coverings to the driveway and courtyard, fencing to the courtyard and a new patio door entrance to the house from the courtyard.
- The property has provision of mains services for electricity, water and sewerage/drainage. The heating system is electric.
- The property currently shows as having an EPC Rating of G. This would not be acceptable to Sourced Capital, as such a low rating would impact saleability. The EPC Register does, however, show that the property has scope to be rated as C when property improvements are completed. There is no concern that the property will not have an EPC Rating of at least E following the renovations.
- The property is situated in a semi-rural village known as Pontsticill, a village closely associated with the Brecon Mountain Railway - a tourist railway which runs along the former Brecon and Merthyr Railway line. Pontsticill is within the county borough of Merthyr Tydfil in South Wales.
- The subject property lies just three miles north of Merthyr Tydfil, the main town in the county borough, providing a wide arrange of amenities including shops, schools and wide-reaching transport links.
- From a connectivity perspective, the property is just a short drive away from the A470 road which connects to the M4 motorway to the South, providing access to the wider national motorway network. By rail, the nearby Merthyr Tydfil train station provides access to the nation's rail networks.

Build Appraisal

- The borrower will be undertaking the work using the Key Principal's main trading business – CD Home Improvements (CDHI) – as the contractor. Given the intrinsic link between borrower and CDHI, this is effectively a self-procured conversion.
- The following link to CDHI's facebook page CD Home Improvements - Home | Facebook will provide readers with further details regarding the contractor, including examples of their previous works along with testimonials from previous clients.
- The contractors have produced a detailed quotation, outlining the individual costs for the different areas of the proposed works. The quotation provides a total amount of £26,600 for the complete refurbishment.
- The valuer has been provided with a copy of the build quote and have confirmed that the works detailed within the quote are sufficient to achieve the advised GDV.
- Readers of the valuation report may note that the valuer considers that the borrower's projected build costs are below the market levels generally expected for the level of proposed works. This can be easily explained by remembering the direct link between the borrower and

CDHI. By not taking a profit on the building work, this provides a further "quasi" contribution from the borrower.

- Notwithstanding their abilities and connection of CDHI to the borrower, a contingency has been incorporated into the loan facility for prudence and good practice, bringing the total allocated build costs to £29,000 as presented elsewhere in this report.
- As with all development projects funded by Sourced Capital, the loan proceeds relating to the refurbishment works will be retained by Sourced Capital at drawdown. The funds will only be released against evidence of successful progress, which will be monitored for adherence with budgeted costs and timelines, whilst also ensuring the build is of the required quality and in line with regulatory compliance.

Valuation

- An independent professional valuation was instructed by Sourced Capital, with the correctly addressed report produced by CKM Surveyors dated 02/08/2022 May 2022. A copy of the valuation report is available for viewing by lenders.
- That original valuation report advised security values that are notably higher than have been referenced by Sourced Capital throughout this Credit Report.
- The reason for the subsequent reduction in the advised amounts by the valuer is primarily because the borrower was able to negotiate a significantly reduced purchase price in the time period following production of the 02/08/2022 Valuation Report.
- Consequently, given the reduced price and the passage of time since their August report, CKM were requested to advice if the figures within their report could continue to be relied upon.
- As a result, CKM provided an addendum letter dated 20/10/2022, to be read in conjunction with the original valuation report. This addendum letter advised of revised valuation figures which can be relied upon, and it is these figures that are reflected within this Credit Report.
- A copy of the addendum letter will also be available for viewing by lenders.
- CKM provided their valuation for loan security purposes and advise that "*the property is considered to provide suitable security for an advance by the mortgage lender on typical market parameters for an asset of this type and age.*"
- Within the aforementioned report/addendum, the Day 1 Valuation is now advised as £130,000 (reduced from the previously advised figure of £160,000). This Day 1 security value now directly reflects the reduced purchase price negotiated by the borrower. The loan structure agreed with the borrower is for Sourced Capital to release £125,000 of the loan proceeds at this juncture.
- The professionally advised Gross Development Value (GDV) for this property after completion of the refurbishment is now £230,000 (reduced from £250,000). Using this latest, lower figure and the fully drawn loan amount of £154,000 (including all contingencies), the Loan to Gross Development Value (LTGDV) equates to 66.9%.
- All valuation figures provided by CKM have been prepared in accordance with normal practice and they have valued the property by way of the residual and comparable (market) methodology. Full details of the comparable properties assessed to help determine the GDV are detailed within the original valuation report.
- Having analysed the comparable sales, the valuer advises a market rate of £3,472psm which when applied to the gross internal area (GIA) of the subject property produced the proposed GDV of £250,000. As advised above, the valuer has since revised this GDV within their addendum letter to £230,000. This is primarily influenced by the reduced purchase price, but also impacted by the time that has passed since the original valuation and the economic uncertainties arising during the interim period.

- The Day 1 Valuation advised by the valuer is calculated by using the projected GDV and then calculating what would be deemed the remaining value after allowing for all potential costs of the refurbishment – including the expected developer's profit. This is the industry-wide accepted approach known as the residual value methodology.

- As is typical with all Sourced Capital's new loans, in addition to the Open Market Value (OMV), the valuer was also requested to advise valuation figures adjusted to reflect the special assumption of a restricted marketing period of 180 days. This is requested to reflect a distressed sale scenario and to help assess the risk of loss in default.
- In this instance, the valuer has advised that there would be no adjustment needed to either the £130,000 Day 1 Value or £230,000 GDV if a restricted marketing period of 180 days was evident.
- Lenders can, therefore, take comfort in the knowledge that the independent professional valuer is of the opinion that the maximum marketing period needed to achieve the stated values for Day 1 and GDV is just 6 months.
- Not only does this demonstrably evidence the robust nature of the loan security, but it also underpins the loan structure proposed regarding the timelines to achieve a sale.
- The valuer has estimated rental income to be £12,000 per annum, presenting a yield of 5.2%, and further comments that "*The demand for a property of this type in this locality is good*". Whilst the borrower's clear intention is to sell the property and repay the loan, this rental income provides the potential for an alternative exit strategy via refinance – should that ever be necessary.
- There are no reported issues with regards to flood risks or other environmental issues impacting the site. A full review of these issues will form part of the legal due diligence process and specific searches and surveys will need to be provided as a condition of sanction.
- The only areas raised by the valuer for legal investigation (s.17 of their report) relate to confirming appropriate planning and access rights. These areas are part and parcel of the standard instructions when Sourced Capital instruct independent solicitors to act for us on a transaction.
- Notwithstanding the above, it has been formalised as a condition of sanction that these points are satisfied prior to drawdown and the valuer will be provided with a copy of the Report on Title to ensure their complete satisfaction.
- The valuer's comments regarding market demand, the anticipated timelines for the sale of the property, together with the Day 1 values and projected GDVs all provide comfort to lenders and fully support the proposed loan structure.

Financial Appraisal

- A summary of the key financial metrics is provided in the table below:

	Financial Summary		
Purchase Price	£130,000 + Acquisition Costs		
Day 1 Market Value	£130,000		
Borrower Cash Contribution	£5,000 + Acquisition Costs		
Loan for Purchase	£125,000		
Loan for Development Works (Including Lease Extension)	£29,000		
Total Facility	£154,000		
Finance costs (Full interest and all fees)	£26,180		
Cost of Works (Includes contingency)	£29,000		
Acquisition Costs (Paid by borrower)	£9,372		
Total Project Costs	£185,180 (+ Acquisition Costs)		
Estimated Developer Profit	£44,820 (- Acquisition Costs)		
Forecasted Profit / GDV	19.49% (pre acquisition costs) 15.41% (post acquisition costs)	10% GDV Drop	20% GDV Drop
Forecasted GDV †	£230,000	£207,000	£184,000
LTGDV	66.96%	74.39%	83.69%
† The Gross Development Value (GDV) is based on the independent professional valuation.			

- The advised LTGDV of 66.96% is calculated assuming all of the loan balance has been fully drawn. This includes full use of the contingency which has been included within the loan for prudence and good order.
- The full loan amount of £154,000 will be released in separate tranches by Sourced Capital.
- The first amount of £125,000 will be released to support the purchase of the property. These funds will only be released by the solicitors acting for Sourced Capital when all legal due diligence has been satisfied and all conditions precedent confirmed as met. At this point, the borrower will have full ownership of the property and the 1st legal charge loan security will be confirmed as being correctly in place.
- The remaining £29,000 will only be released to support ongoing refurbishment costs being incurred by the borrower. These funds will be issued to the borrower via separate tranches, released upon sight and satisfaction of evidenced acceptable site progress.
- This proposed loan structure enables Sourced Capital to closely monitor the ongoing works and update lenders with regards to ongoing progress. At the point of any tranche drawdown, the lenders will be advised of the works undertaken to clarify, at that stage, if the finished scheme is due to be successfully delivered as expected within the agreed loan structure.

- Given the strong security position and the deal dynamics, lenders can see from the above table that the LTGDV stays below 75%, even allowing for a 10% reduction in the professionally advised GDV.
- For further comfort, should the GDV reduce in value by as much as 20% from the point of loan drawdown, there is still ample security cover, with the LTGDV being 83.69% when using these distressed assumptions.

Exit

- The primary strategy for repayment of the loan is for the borrower to sell the completed asset via the open market and use the sales proceeds to fully repay the Sourced Capital loan.
- The independent valuation instructed by Sourced Capital was obtained to determine the projected security values and is fully supportive of the proposed loan structure.
- In addition to the headline GDV, the independent valuation advised that even with a restricted marketing period of 180 days, the completed property would still be expected to sell for the advised GDV of £230,000. Consequently, even in a distressed sale position, the independent professional valuations indicate that investor capital should not be at risk.
- The level of security cover provided by the LTGDV provides comfort for lenders. The price realised by the borrower at sale would need to be more than £76,000 (33.04%) below the GDV advised by the lowest professional valuations (provided specifically for loan security purposes) before any lender capital is at risk of loss.
- An alternative exit route would be for the borrowers to refinance the completed property and use the proceeds to fully repay the Sourced Capital loan balance.
- The valuer advises an estimated market rent (MR) of £1,000 per calendar month (£12,000 per annum), presenting a yield of 5.2%. This provides scope for the property to be refinanced and interest serviced from rental income.
- The loan structure provides sufficient time for the borrower to deliver against either of the exit strategies mentioned above.

Security

- The primary loan security is the unfettered first Legal Charge over the land and property known as Smithy House, Croft Cottages, Pontsticill, Merthyr Tydfil.
- All the figures detailed in this Credit Report are based upon the opinion provided by an independent valuer and a copy of the full valuation report (and subsequent addendum) are available for viewing by lenders.
- Against the advised Day 1 valuation of £130,000, the Loan to Value (LTV) is 96% with the initial tranche of £125,000 drawn. Whilst a high LTV on Day 1, this is primarily mitigated by the knowledge that the borrower will immediately commence the refurbishment programme after purchase. Further mitigation is in place as a result of the key principal being the same across both the borrower and contractor - and that CD has given a full personal guarantee . There is little scope for doubt that he is fully committed to the scheme.
- Further mitigation is available from the very short timeline required and the relative simplicity of the works to be completed to deliver the GDV.
- The full loan of £154,000 against the advised GDV of £230,000 represents a LTGDV of just 66.9%.
- Full details of the property have been provided earlier in this credit report.

- As mentioned above, a personal guarantee of £154,000 will be provided by the key principal (CD). For absolute clarity, there is no allocation of any value to the personal guarantee within the LTV calculations. This PG is being taken to formally connect the principal to the loan, demonstrate his belief and commitment to the scheme proposed and apply his long-term attachment to any liability.
- CD has provided details of his personal assets/liabilities. For confidentiality purposes, however, these will not be published on the platform as there is no reliance upon the PG when assessing the LTV.
- A 1st-ranking debenture will be held in relation to the borrower. Similar to the PG, no security value whatsoever has been allocated to the debenture when calculating the LTVs.

Conditions and Covenants

Conditions Precedent

- Satisfactory Report on Title or appropriate title indemnity insurance.
- All upfront costs to be injected into the deal by the borrower at the outset to assist with the purchase price.
- Sourced Capital is to be advised once the property has been listed for sale by a suitable marketing agent.
- Satisfaction that Energy Performance Certificates are/will be in place and are/will be compliant with requirements – currently rating level "E" or better.
- Representative of Sourced Capital to visit the Properties or arrange a virtual visit as appropriate.
- All professional reports are to be addressed to Jark Security Trustee Limited (as Security Trustee).
- Satisfactory completion of all loan and security documentation.
- Confirmation from our solicitor that the points raised in the valuation report are satisfied.
- Adequate insurance cover with Jark Security Trustee Limited named as First Loss Payee.
- The proposed contractor to be acceptable to Sourced Capital.

Conditions Subsequent

- Drawdowns not more than monthly against sight and satisfaction of progress.
- Representative of Sourced Capital to be able to visit the Property or arrange a virtual visit as appropriate.

Covenants

- Max 70% loan to GDV.
- We do not fund VAT so the Borrower will need to cover VAT costs.
- The Borrower should ensure that sufficient working capital is available to meet the build costs between the stage drawdowns.

Risk Appraisal

Security Risk – As with all property security, there is a risk that fluctuating valuations may result in the security cover not being adequate to cover the loan balance, should there ever be a need to rely on the security in case of default. In this instance, with the loan to values stated, there is significant scope for any reductions in security value before the loan amount ever becomes exposed. An independent valuation has been instructed by Sourced Capital to assess the security cover and independent solicitors will be utilised to undertake the required work for Sourced Capital to perfect the loan security. The valuer's positive comments relating to saleability of this property have been detailed earlier in this report providing comfort and mitigation relating to this potential risk.

Development Risk – Any property where there are significant works being undertaken will present a risk to lenders that the construction works may not be completed to the required quality or may be subject to overrun on costs or timescales. The loan structure proposed provides a contingency for both cost and time with the security coverage calculated assuming the full amount (including contingency) being drawn. A key comfort for lenders in this loan is that there is no requirement for any sub-structure works and are predominantly cosmetic in nature, meaning that the usual uncertainty regarding this element of the build costs is not a concern. With the developer and contractor being effectively the same entity, there is no danger of the borrower being negatively impacted by an errant 3rd party, unrelated contractor

Exit Risk – The loan is being provided on the basis that the repayment will come via receipt of sales proceeds. The obvious risk to lenders is that the borrower is unable to sell the property at the expected price point. The primary mitigant to this risk is provided by the security coverage held. The valuation appears robust (especially after being reduced) and, based upon the positive commentary from the valuer, it is fully expected that the loan structure proposed should provide ample time to achieve a sale on the property. Notwithstanding this, the expected values used to assess the GDV loan security cover could reduce by 33.04% before any lender capital is at risk. In addition to the scope to reduce price providing comfort, a viable alternative exit route exists to the borrower by way of refinance. The anticipated rental income would be adequate to service a long-term loan should the borrower retain ownership and hold the property as an investment.