

Amigo Loans

Script for Video

Summary

Hello everyone. My name is Jamie Drummond Smith and I am the Chairman of the Customers' Committee for Amigo Loans. Where I talk about Amigo, this is Amigo Loans Limited. This is a short summary of the make up of the Committee and what it has done. The Committee was formed from representatives of current and former borrowers and guarantors of Amigo to negotiate the terms of a new scheme of arrangement. I will explain the history of the negotiations and many of the terms in this summary in much more detail but, in short, the Committee has reached agreement that Amigo will put £112 million into the Scheme Company for the benefit of redress creditors subject to certain conditions being met in the future. In that case Amigo would be able to continue trading. If those conditions are not met, then it is likely Amigo will go into a wind-down scheme.

The £112 million can be compared to approximately £35 million in the original scheme proposed by Amigo last year and the original proposal from Amigo for this revised scheme of a maximum of £55 million. The Company currently estimates that the agreement will result in a payment of 42 pence in the £ for any successful claims if the scheme goes ahead.

Whilst it is not possible to say this agreement is the best agreement that could have been reached as some of the elements are based on estimates and the deal also depends on the attitude of others such as the bond holders and future investors. However, it is a much better deal than proposed by last year's scheme and the original proposals for this new scheme. I have found Amigo to be transparent in its dealings with the Committee

In order to receive any compensation, you must make a claim if you think you have been given a loan that you could not afford to repay. For those borrowers with live loans whose claims succeed, there is a mechanism in place which means that you may receive more if you claim now. You can do this by going to the web address: <https://www.amigoloans.co.uk/make-a-complaint>

I cannot advise you on whether to vote for the schemes, you will need to make that decision for yourself depending on your own circumstances and your own views of the schemes proposed. The purpose of this video is to provide information to you to help you make your decision, and to encourage you to participate in the votes on the schemes so that your voice is heard".

If you want more detail on the history of the negotiations, the deal and many of the terms please watch the longer video.

Introduction

Firstly, I should give you a few words of background.

This video is prepared for those of you who are past or present customers of Amigo Loans- you may have borrowed money from Amigo yourself, or guaranteed the borrowing of someone else who did.

As you probably know, Amigo has been criticised for the way in which it sold loans to its borrowers and guarantors and, it is clear that the new management of Amigo consider that many borrowers and guarantors are owed compensation for loans which have been mis-sold. I shall call these "redress creditors".

Amigo currently estimate the cash amount owed to redress creditors (and the Financial Ombudsman Service) is £270 million. Amigo does not have the money to be able to pay a debt of that size and, as a result, is insolvent.

If Amigo were to go into a formal insolvency process such as administration or liquidation, it is likely that redress creditors would see only a small proportion of their share of compensation paid to them once Amigo's business has been wound up and its assets sold. As a result, Amigo has been looking for a way in which a greater and more certain sum can be paid to redress creditors.

Last year, Amigo put forward a proposal to avoid formal insolvency, known as a scheme of arrangement which included a maximum potential payment of £35 million plus a share of future profits. Under that scheme, it was proposed that Amigo would continue in business. Amigo creditors, including redress creditors, voted to approve it.

The High Court rejected the scheme because it felt that creditors, including the redress creditors, had not been consulted with sufficiently to enable them to form a view as to whether or not the scheme should be approved. As a result, the scheme could not be said to be fair to them. So, the scheme could not proceed.

Since then, the new management of Amigo has worked to present a new scheme to all creditors, including redress creditors. It has also tried to ensure that redress creditors are given more information about the scheme in a way which is easier to understand. Key to this new scheme is Amigo's plan to start lending to customers again, this time striving to ensure that all regulations are complied with and that there is no risk of mis-selling claims.

As part of this the Customer Committee was formed to negotiate with Amigo the terms of a possible new scheme of arrangement to settle claims by redress creditors, in other words customers who had been given loans that they could not afford to repay. I was appointed to chair the Committee. I had no previous connection with Amigo before acting as Independent Chairman of the meeting to vote on the scheme proposed last year, although I have worked in the financial services industry for many years.

Amigo emailed past and present borrowers and guarantors asking for volunteers to serve on the Committee and there were more than 4,000 replies. I selected 8 members randomly, 3 from those who replied who had live loans and 3 from those with settled loans, and 1 guarantor from each category. 8 was believed to be a big enough number to obtain a clear view on any proposals but small enough to be able to manage. I would like to thank those who gave up their time to sit on the Committee.

Over a period of 3 months, the Committee has reached an agreement with Amigo that it believes is much better than the original scheme put forward in March 2021 and the original proposals for the new scheme that is now being proposed.

One important point to note is that, in addition to any money that Amigo owes to redress creditors, it also owes money to finance companies who have lent money to Amigo. These creditors, called bond creditors, must be repaid in full before **any** money can be paid to other creditors. This is because the bond creditors' debt is "secured" - like a mortgage on a house.

In August 2021, Amigo presented 5 possible options to the Committee to be considered but said it was also happy to look at any further option put forward by the Committee.

Two of the options proposed that redress creditors took shares in Amigo rather than receive any cash payments. The Committee rejected these options by a majority of 7 to 1, although the creditor who preferred the share options accepted the majority view and supported the response to Amigo. The Committee said they wanted greater certainty of cash payments rather than being given shares which might, or might not, be worth something in the future and they understood that Amigo would need to raise more money from external parties to make the scheme work.

Two further options both offered £25 million being paid into the scheme, up to £15 million depending on the level of live borrower entitlements to set off any successful claims against their loans (what I will refer to as balance adjustments) and then either £15 million raised from issuing shares in Amigo or a share of future profits. The Committee chose the option of funds from a share issue as it offered more certainty. However, the Committee did not think that the sum of £25 million was enough. Instead, they said that the £50 million should be paid into the scheme and they also wanted something which would offer more money if the new Amigo was very successful. **Amigo's first proposal was a maximum of £55 million to redress creditors.**

The Company issued a business plan at the end of September which met the Committee's request for more money being paid into the scheme. The plan also included either a balance adjustment mechanism that offered a possible further sum between £0 and £30 million depending on the level of set off or a fixed payment of £15 million to be paid 9 months after the scheme had become effective. Amigo offered a further £15 million to be paid from new money raised of at least £70 million from investors within 12 months of the scheme becoming effective. These payments would only happen if Amigo could start lending again and succeeded in raising at least £70 million from investors.

Amigo said their advisors had said it would be very complex to add a mechanism which would offer more money if the new Amigo was very successful. **This new, second, proposal offered a maximum of £80 million to redress creditors.**

The Committee wanted a fixed payment instead of the balance adjustment mechanism, and also wanted more than the £15 million from this element. The Committee also wanted to know how Amigo was going to use its existing cash between the date of the scheme and the making of the two delayed payments of £15 million each.

Amigo would need to lend some money to new customers to see if the new products that they have developed could be successful which would then allow them to raise money from investors. The Committee wanted the new lending to be restricted to a maximum amount in the scheme. The Committee was aware that a successful new scheme would allow Amigo to continue without paying existing creditors in full. However, a new scheme gave the chance of a better return to redress creditors than a wind-down or insolvency.

Amigo then reworked all its forecasts to make a final offer to the Committee which met the Committee's request for greater certainty. Amigo management also decided on a partial repayment of the bonds (which they announced on 4 January 2022). Collections from existing loans were also better than expected. Amigo had not been sure in the first half of 2021 how customers would repay through the pandemic and when furlough and other support was withdrawn. Balance adjustments were also less than forecast.

On 11 November Amigo made what it said was its final offer to the Committee. It comprised:

- £60 million to be paid into the scheme within 5 business days of the scheme becoming effective;
- £37 million to be paid into the scheme within 9 months of the scheme becoming effective;
- £15 million to be paid into the scheme within 12 months of the scheme becoming effective;

All these payments **totalling £112 million** are dependent on Amigo starting lending again and raising at least £70 million from investors within 12 months. We understand from Amigo that this additional fundraising will result in material dilution of existing shareholders which does not sound an unreasonable assumption.

All the members of the Committee agreed this offer on the basis that new net lending (new lending less any repayments on that lending) will not be more than £35 million before all the conditions are met and £112 million is paid into the scheme. Amigo agreed to this condition. I shall call this option the **preferred scheme**.

Whilst it is clear that there is likely to be sufficient money to pay the bond creditors in full, on a liquidation or administration there will not be enough to pay any other creditors what they are owed in full. Under the preferred Amigo scheme, redress creditors will still not be paid in full but they should get a much greater proportion of their compensation paid than they would on insolvency.

The preferred scheme has some conditions to be met in the future, even if the scheme was approved. What would happen if the conditions for the preferred option are not met? In that case, Amigo will not lend any further money, and Amigo will revert to a fallback option where the existing loans will be collected and the money raised will be paid first to the bond creditors and then any remaining funds to the redress creditors.

If redress creditors decide that they do not want the preferred scheme, an alternative option to insolvency will be provided by Amigo in the form of a wind down scheme (the fifth original option proposed). In a wind down scheme, similar to the fallback option, existing loans will be collected and the money raised will be paid first to the bond creditors and then any remaining funds to the redress creditors.

The Committee said that they would prefer the wind down scheme to a formal insolvency process for Amigo as it is very likely that more money would be available to redress creditors under it than would be paid if Amigo went into administration and liquidation. This is because formal insolvency process is expensive and the administrators' or liquidators' fees are paid ahead of any payments to unsecured creditors also repayments from existing loans are forecast to be less in a formal insolvency. The court will therefore also be asked to approve the wind-down scheme as an alternative to the preferred scheme.

Conclusion

In conclusion, the original scheme offered a maximum of £35 million plus a possible share of future profits (the level of which was uncertain). Through negotiation the Committee has increased the first proposal for a new scheme from Amigo from £55 million to £112 million in the preferred scheme. The company currently estimates that this will result in a payment of 42 pence in the £ for any successful claims. We cannot say that we have achieved the best deal possible as some of the elements are based on estimates and the deal also depends on the attitude of others such as the bond holders and future investors. What we can say is that the mechanism of the Customers' Committee has produced a much better offer to redress creditors.

For the preferred scheme to work, it must be approved by the court and sufficient creditors. Then Amigo needs to be allowed to start lending again and it needs to raise at least £70 million from investors. Otherwise, Amigo will go into the wind-down scheme (or possibly insolvency if the court or the creditors do not approve either the preferred scheme or the wind-down scheme).

Again, I repeat that I cannot advise you on whether to vote for the schemes. You will need to make that decision depending on your own circumstances and views of the schemes proposed. The purpose of this video is to provide information to help you make your decision, and to encourage you to participate in the votes on the schemes so that your voice is heard".

Finally, I must stress that if you think you have been given a live loan that you cannot afford you should make a claim as soon as possible. You do this by **going to the web address: <https://www.amigoloans.co.uk/make-a-complaint>. Any borrower or guarantor will also be able to make a claim through the scheme if it is approved by creditors and the Court.**