Harmoney

Investor Agreement

Please contact us for earlier versions of the Investor Agreement

Investor Agreement

(Please note that Harmoney Limited (FSP373486), Harmoney Investor Trustee Limited (FSP396666), Harmoney Warehouse Limited (FSP617189) and Harmoney Nominee Limited (FSP590148) are being amalgamated with Harmoney Services Limited continuing as the amalgamated company.)

Harmoney Limited

Version 2023 - 1

This document sets out the terms on which a person (whether an individual or a corporate entity) (you or your) agrees to use the service provided by Harmoney Limited (Harmoney) to lend money (through the Trustee as bare trustee) on a peer-to-peer basis to other persons.

By accepting these terms in any manner as may be required by Harmoney (including, without limitation through Harmoney's website), an agreement is formed between you, Harmoney, and the Trustee.

Introduction

1. This agreement sets out the terms on which you are able to access and use the Service. If there is any inconsistency between these terms and any other terms set out on the Website, these terms will prevail (except as expressly contemplated by these terms).
2. You acknowledge that Harmoney provides the Service under a licence which Harmoney holds pursuant to the FMCA.
3. In providing the Service, Harmoney will (and will procure that its Related Companies who provide any aspects of the Service will):
    - exercise the care, diligence, and skill that a prudent licensee for the Service would exercise in the same circumstances; and

- if any aspect of the Service is contracted out, take all reasonable steps to:
    1. ensure that those functions are performed in the same manner, and are subject to the same duties and restrictions, as if Harmoney were performing them directly; and
    2. monitor the performance of those functions.

Registration as an Investor

1. In order to access and use the Service, you must register as an Investor by completing the Investor Application. Harmoney reserves the right not to register any person as an Investor if that person has not completed the registration process to Harmoney's satisfaction or does not meet Harmoney's eligibility criteria.
2. Harmoney's eligibility criteria for registering as an Investor are:
    a. you must satisfy Harmoney's "know your customer" requirements under any applicable law or regulation (including the Anti-Money Laundering and Countering Financing of Terrorism Act 2009);
    b. tax information as required under clause 29;
    c. such other documentation and other conditions precedent as may be determined by Harmoney in its discretion; and
    d. in addition, if you are an individual you must:
        i. be a New Zealand resident, which Harmoney will verify through you having a New Zealand residential address and a bank account with a registered New Zealand bank; and
        ii. be 18 years of age or older when you register.
3. Harmoney may terminate your registration as an Investor at any time at its absolute discretion by notice to you.
4. Harmoney may suspend your registration as an Investor at any time by notice to you if Harmoney reasonably believes that you are not complying with the terms of this agreement or are otherwise not using the Service for its intended purpose.
5. You may terminate your registration as an Investor at any time by notifying Harmoney through the Website or via 0800 HARMONEY or customer.services@harmoney.co.nz.

6. If your registration is terminated or suspended, this agreement will continue to apply in respect of any Loan Contracts and Loans and Optional Service Contracts to which you are a party when the termination or suspension takes effect.
7. Subject to clause 9, this agreement will apply to you for so long as you are registered as an Investor.

Trustee's Role

1. Every Loan you fund through the Service will be made by the Trustee (acting through Harmoney as its agent). The Trustee will then hold that Loan on a bare trust for the benefit of yourself and every other Participating Investor in accordance with clause 15.
2. The process through which Loans will be made is as follows:
    a. All amounts you want to invest through the Service will be credited to the Investor Account (which is a trust account operated by Harmoney, as set out in clause 38).
    b. When you place an Order to invest in a particular Loan Listing, and that Order is filled, the amount you invest will be transferred from the Investor Account to the Advance Account. All other amounts invested by other Investors who Participate in funding that Loan will similarly be transferred from the Investor Account to the Advance Account. In this way, all funding provided by the Participating Investors for that particular Loan will be aggregated in the Advance Account.
    c. The Loan will be made to the relevant Borrower via the Trustee. This will occur by Harmoney (at the Trustee's direction) deducting the Establishment Fee and (if and to the extent applicable under clause 64(b)) Optional Service Charges from the Loan Amount deposited in the Advance Account, and transferring the balance of the Loan Amount to the Borrower's nominated account.
3. You appoint the Trustee as trustee in respect of your interests in the Advance Account, every Loan Contract relating to a Loan in which you Participate, every such Loan, every Optional Service Contract and the Collections Account, all on and subject to the terms of this agreement. The Trustee accepts this appointment.
4. You direct and authorise the Trustee:
    a. if any Loan Listing in respect of which you have placed an Order is Fully Funded, to:

   i. enter into the relevant Loan Contract (and, as applicable, any related Optional Service Contract); and
   ii. (i) apply funds held for you in the Advance Account equivalent to the Order Amount towards Settling that Loan, by way of investing those funds in the Loan for your benefit; and

  b. to appoint Harmoney as its agent as provided in clauses 23 and 24.

5. The Trustee confirms, and the parties agree, that the Trustee holds:

   a. the Advance Account on trust for the benefit of all Investors whose funds have been transferred from the Investor Account to the Advance Account in respect of Loans that have not yet been Settled, in accordance with those Investors' respective interests;
   b. every Loan Contract relating to a Loan, and every such Loan, and every Optional Service Contract on a separate trust for the benefit of the Investors who will or do Participate in that Loan, in accordance with their respective Participations; and
   c. the Collections Account on trust for the benefit of all Investors who are beneficially entitled to any Receipts that have been paid into the Collections Account and that have not yet transferred to the Investor Account (net of deductions allowed by this agreement), in accordance with those Investors' respective interests,

   in each case on and subject to the terms of this agreement.

6. The Trustee further confirms, and the parties agree, that the Trustee has no power to invest, pay, or otherwise apply, any funds or property the Trustee holds for your benefit under clause 15 without your express direction or as provided in this agreement.

7. The Trustee will account to you for your share (in accordance with your Participation) of all Receipts, subject to deductions permitted under this agreement.

8. You acknowledge that the Trustee acts as trustee in respect of the Service and any Optional Service provided by it. You agree that you are not entitled (whether alone or together with any other Participating Investors) to:

   1. give the Trustee a direction that is inconsistent with this agreement;
   2. call for the transfer of all or any share of any Loan in which you Participate or the relevant Loan Contract or any related Optional Service Contract to (or as directed by) you;

3. terminate the trust of any such Loan, Loan Contract, or Optional Service Contract; or
4. discharge or replace the Trustee, or appoint any person as trustee of such trust in addition to the Trustee.

9. Harmoney will pay the Trustee such remuneration and fees as Harmoney and the Trustee may from time to time agree for the Trustee's trustee services under this agreement. You are not liable to pay the Trustee any remuneration or fees.
10. Harmoney can in its discretion replace the Trustee. Any such change will not affect your rights and obligations under this agreement or in respect of any funds or property held on trust for you. The replacement Trustee will have the same rights and obligations as the Trustee it replaces, without further action being necessary.

Harmoney's Role

1. Harmoney will provide the Service as set out in this agreement.
2. Harmoney will provide the Service as principal for its own benefit, subject to clauses 11, 23, 24, and 38.
3. Harmoney will act as the Trustee's agent in:
    a. opening and transacting the Advance Account;
    b. concluding all Customer Services Agreements with Borrowers on the Trustee's behalf (in addition to entering into the Customer Services Agreements as principal);
    c. concluding all Loan Contracts;
    d. agreeing to all additional terms to Loan Contracts relating to Optional Services and concluding all Optional Service Contracts;
    e. advancing all Loans, including by Settling them;
    f. administering all Loans (including without limitation by providing all disclosure statements required to be given under the CCCFA by effecting any applicable rebates if Loans are repaid early, by providing the Collection Services, and by amending any Loan Contracts (including any additional terms relating to Optional Services) under clause 76);
    g. administering all Optional Services Contracts (including without limitation by managing the relevant Optional Services, effecting any applicable rebates if Loans are repaid early, amending any Optional Service

Contracts under clause 76, and settling any disputes relating to Optional Service Contracts as Harmoney may consider appropriate);

h. opening and transacting the Collections Account;

i. performing the Trustee's duties and exercising the Trustee's powers under clauses 29 to 31; and

j. transferring funds held for you in the Collections Account (after deductions permitted by this agreement) to the Investor Account for your benefit,

as provided in, and subject to the terms of, this agreement.

4. The Trustee (which each Investor confirms) appoints Harmoney as the Trustee's agent to do all things referred to in clause 23, and all other things which are (or which Harmoney considers) reasonably incidental to them. Harmoney accepts this appointment.

5. The fees to which Harmoney is entitled for acting as the Trustee's agent are set out in clauses 59, 60, and 63.

6. Harmoney and its Related Companies may be paid a commission or other financial benefit by any person in connection with any Loan or the Service or an Optional Service (which may include Participating in any Loan).

7. Harmoney may subcontract or delegate any of its duties or authorities under this agreement, to the extent permitted by law. Harmoney will be liable for any default by the subcontractor or delegate (subject to the limitations on Harmoney's liability provided in this agreement).

8. If a Harmoney Servicer Default occurs, a back-up servicer will be appointed to carry out the role of Harmoney under this agreement (on terms that the back-up servicer will be paid reasonable fees for doing so). Any such appointment will not affect your rights and obligations under this agreement or in respect of any Loan or Loan Contract or Optional Service Contract. The appointed back-up servicer from time to time will have the same rights as Harmoney did, without further action being necessary.

Taxation and Returns

1. When you register as an Investor:

   a. you must notify Harmoney (acting on behalf of the Trustee) whether you are an NZ Tax Resident or a Non-NZ Tax Resident;

   b. if you are an NZ Tax Resident, you must provide to Harmoney:

      i. (i) your IRD number;

   ii. a copy of your RWT Exemption Certificate (if applicable);
   iii. the rate at which RWT should be withheld from interest payments accruing for your benefit under a Loan; and
   iv. such other tax-related information as Harmoney requests; and
c. if you are a Non-NZ Tax Resident, you must provide to Harmoney:
   i. the country in which you are resident for income tax purposes; and
   ii. such other tax-related information as Harmoney requests.

2. If you are a Non-NZ Tax Resident, the Trustee (acting on behalf of the relevant Borrower, and through Harmoney) will deduct NRWT from interest paid for your benefit under the Loan. However, if the AIL regime is utilised in respect of your Participation in the Loan:
   a. NRWT will not be deducted from the interest paid for your benefit under the Loan; and
   b. instead:
      i. the Trustee (acting on behalf of the Borrower, and through Harmoney) will pay the AIL levied in relation to that interest; and
      ii. the share of the interest the Trustee holds for your benefit will be reduced by an amount equal to that AIL.
3. If you are an NZ Tax Resident and you do not provide Harmoney with a copy of your RWT Exemption Certificate (if appropriate), the Trustee (acting on behalf of the Borrower, and through Harmoney)) will deduct RWT from interest paid for your benefit under the Loan, at the rate you notified to Harmoney under clause 29(b) (or at such higher rate as the law may require). If you do not provide Harmoney with your IRD number (as required under clause 29(b)(i)) or your RWT rate (as required under clause 29(b)(iii)), you will automatically have RWT deducted at the maximum rate then applicable.
4. You acknowledge and agree as follows:
   a. Harmoney, the Trustee, and the Borrower do not have to reimburse you for any amount that is deducted or withheld, whether under clause 30 or 31 or any legal requirement, from any interest paid for your benefit. References in this agreement to amounts being paid to you are to be read accordingly.
   b. If Harmoney, the Trustee, or the Borrower becomes liable to make any payment of, or on account of, tax in respect of any Loan (including any AIL payment), you will indemnify them in respect of that liability.

c. References on the Website to interest rates and rates of return are expressed as gross returns, before deduction of any fees or without any withholding or deductions, unless otherwise specified.

5. You acknowledge and agree that a Borrower is entitled to prepay all or any portion of its Loan early, without penalty, provided that all interest, fees, and charges payable under the Loan Contract accrued to the date of prepayment are also paid. You accept that such early prepayment will affect your returns under the Loan. You further accept and agree that your returns may be affected if the Loan Contract is varied under clause 76 or if liability for a payment is waived in accordance with any applicable Payment Protect Plan (see clause 41).

6. You acknowledge and agree that you are responsible to obtain your own tax advice in connection with your investment in and returns on any Loans (including in connection with any Optional Service, such as Payment Protect).

Retail Investors and Wholesale Investors

1. This agreement applies to both Retail Investors and Wholesale Investors, where:

    a. a **Wholesale Investor** is an Investor whom Harmoney has agreed to treat as a Wholesale Investor for the purposes of the Service (and includes an Investor who is an "eligible investor" within the meaning of the Financial Advisers Act 2008); and

    b. a **Retail Investor** is an Investor who is not a Wholesale Investor.

    References in this agreement to an "Investor" are references to both a Wholesale Investor and a Retail Investor, except as set out in clauses 36 and 37.

2. Harmoney reserves the right to designate a Wholesale Investor as a Retail Investor at any time. This designation will not affect any Loan or Loan Contract in which that Investor has Participated before the designation took effect.

3. A Wholesale Investor:

    a. will be entitled to fund (through the Trustee) entire Loans (in addition to Participating with other Investors in Loans);

    b. will be allocated Loans to fund by Harmoney from the pool of Loans available to be funded, and will not be entitled to select any specific Loans (but can select investment criteria within which Loans are able to be allocated by Harmoney to that Wholesale Investor); and

    c. charged Service Fees under clause 60 (instead of Lender Fees under clause 59), and will otherwise have the same rights and obligations of an Investor under this agreement.

Investor Account

1. Harmoney will maintain an Investor Account, which it will hold on trust for the benefit of Investors whose funds have been deposited into that account (to the extent that their funds have not yet been transferred out of that account). Harmoney will not make any payments from funds that are held for you in the Investor Account without your express direction or as otherwise expressly set out in this agreement.
2. You acknowledge and agree as follows:
    a. When you place an Order, the amount of that Order will be "locked" in the Investor Account until the earlier of:
        i. that Order being accepted (through the relevant Loan being Fully Funded, and a Loan Contract being concluded as set out in clause 52); and
        ii. the expiry of the Listing Period.

    During this period, you will not be able to use the amount of your Order for any other Order or to withdraw that amount from the Investor Account.

    b. If your Order is accepted, and the relevant Loan is funded:
        i. Harmoney is authorised to deduct your Order Amount from the Investor Account, and to transfer it to the Advance Account for your benefit;
        ii. the Trustee (through Harmoney) will enter into the Loan Contract and apply your Order Amount to fund Settlement.
    c. If the Trustee or Harmoney (as its agent) receives any Loan Repayments and other Receipts, those payments will be deposited in the Collections Account, where they will be held on trust for you and each other Participating Investor in proportion to your and their respective Participations. The relevant Investor Fees and any Enforcement Costs owed to Harmoney, any Optional Service Charges, any Optional Service Expenses and any withholdings or deductions on account of RWT, NRWT or AIL will then be deducted from those deposits. Following this, your share of the balance will be paid to the Investor Account for your benefit.

d. Harmoney may of its own accord transfer any unallocated cleared funds that are held in the Investor Account for your benefit, from the Investor Account to your Nominated Account. You may also at any time request Harmoney to make such a transfer, in which case Harmoney will action the transfer within 1 Business Day. You may change your Nominated Account by notice to Harmoney.

e. You can opt for your funds to be transferred into your Investor Account by direct debit. If you opt to do this, you must provide Harmoney with details of your bank account with a registered bank in New Zealand from which transfer of funds are to be made by you. You must choose the amount you wish to be direct debited from your bank account and the frequency for Harmoney to direct debit your account. By providing those details, you agree to Harmoney establishing a direct debit authority against that bank account on the Direct Debit Terms attached to this agreement in relation to the amount you have selected to be direct debited.

Optional Services

1. Optional Services may from time to time be offered to Borrowers.
2. The Optional Services may include Payment Protect. Payment Protect operates as follows:
    a. Payment Protect is a service under which (if the Borrower opts into it):
        i. the Trustee will waive certain payments by the Borrower falling due after the Borrower has given the Trustee (through Harmoney as its agent) written notice that certain events have happened (for example, that the Borrower has died or become disabled – Payment Protect is offered at different levels, each covering different events); and
        ii. in exchange, the Borrower must pay the Trustee a fee (being the Payment Protect Fee) on Settlement.
    b. Harmoney will arrange and manage Payment Protect Plans on the Trustee's behalf. The Trustee will pay Harmoney a sales commission and a management fee in respect of each Payment Protect Plan (at the rates set out on the Website under the "Interest Rates & Fees" section).
    c. The process through which a Loan that is covered by Payment Protect will be made is as follows:

i. The total Loan Amount for which the Borrower applies will be increased by the Payment Protect Fee. This is because the Payment Protect Fee will be capitalised as being a debt due and owing to the Trustee by the Borrower), with the Borrower required to pay the capitalised fee as part of his or her monthly repayments.

ii. Pending Settlement, two amounts will be transferred from the funds held for the Participating Investors in the Investor Account (each Participating Investor's share of each such amount being in proportion to that Participating Investor's Participation) and aggregated in the Advance Account:

- first, an amount equal to the Establishment Fee plus the net amount to be paid to the Borrower's nominated account (in this clause 41, **First Investors' Amount**); and
- secondly, an amount equal to the sum of the sales commission and the management fee payable to Harmoney in respect of the Payment Protect Plan (in this clause 41, **Second Investors' Amount**).

iii. At Settlement, the First Investors' Amount will be applied to make the Loan as set out in clause 12(c).

iv. Concurrently with Settlement, Harmoney (acting as agent of the Trustee, and at the Trustee's direction) will transfer the Second Investors' Amount from the Advance Account to Harmoney's own account, in discharge of the Trustee's obligation to pay the sales commission and management fee to Harmoney.

d. If Payment Protect applies in respect of a Loan, the Participating Investors will have certain benefits, but they will also face certain risks.

i. The benefits are that the Participating Investors will be beneficially entitled (through the Trustee) to the increased monthly principal and interest payments by the Borrower (due to the Borrower having increased the Loan Amount to cover the Payment Protect Fee), in accordance with their respective Participations in the Loan and subject to the terms of this agreement.

ii. The key risks are as follows:

- An event that is covered by the Borrower's Payment Protect Plan may occur. As a result, the Participating Investors (through the Trustee) will not receive the Loan repayments and interest payments that are waived (including any sums on account of the Payment Protect Fee that has been capitalised into the Loan).The Borrower may fully prepay the Loan and therefore be entitled to a proportionate rebate of the capitalised Payment Protect Fee. As a result, the Participating Investors (through the Trustee) will not receive the increased monthly interest payments for the remaining of the term of the Loan. Further, they may not receive a portion of the principal they would have otherwise have expected in relation to the Payment Protect Fee where Harmoney does not rebate the Optional Service Fee.

- If a Borrower notifies Harmoney (as agent for the Trustee) that an event that is covered by the Borrower's Payment Protect Plan has occurred, Harmoney will suspend direct debiting the payments in respect of which the Borrower has applied for a waiver. This suspension will apply until Harmoney has completed its assessment of the waiver application. If Harmoney declines the waiver application, it will reactivate the direct debit at that point. Consequently, there may be some delay before Investors receive payments in respect of which a Borrower unsuccessfully applies for a waiver.

You need to assess for yourself whether the risk/reward balance makes a Loan covered by Payment Protect a suitable investment for you.

e. If Payment Protect applies in respect of a Loan, the terms on which Payment Protect is provided will be part of the terms to the Loan Contract. The terms on which Payment Protect is currently offered to Borrowers, and the rates at which Payment Protect Fees are currently charged, are available on the Website under the "Legal Agreements" and "Interest Rates & Fees" sections respectively.

3. Harmoney may arrange further Optional Services in respect of Loans, whether as the Trustee's agent or as principal.
4. If a Borrower is applying for an Optional Service (such as Payment Protect), the Loan Listing will specify this.

Order Process

General

1. An Order is a legally binding offer by you to lend (through the Trustee) to the relevant Borrower the Order Amount, on the terms set out in the relevant Loan Listing and otherwise as set out in this agreement.
2. The Website will contain details of the available Loan Listings. Each Loan Listing will specify the Loan Amount sought, the applicable Credit Grade, the purpose of the proposed Loan, and the proposed Optional Services (if any) that the Borrower has selected.
3. You may place an Order on a Loan Listing at any time, provided that you have sufficient unallocated cleared funds held for you in the Investor Account at that time. Each of your Orders must be expressed in multiples of $25, and you must state the aggregate amount you want to invest in that Loan Listing.
4. You will be able to select the Loans on which you wish to bid, and the amount you wish to invest in that Loan, on the Website. You will be required to confirm your Order before it is placed in the marketplace on the Website.
5. Once you have placed an Order, you cannot withdraw it. Your Order will remain open for acceptance for the Listing Period. You will be notified by Harmoney if your Order is accepted.
6. You may not be successful with your Order, or may be only partially successful with your Order, regardless of what the unfunded balance of the relevant Loan is shown to be on the Website when you submit your Order.

Auto-lend

1. If you select the "Auto-lend" option on the Website, Harmoney will automatically place Orders to invest in Loans which meet the investment criteria you have selected (subject to the maximum notes per loan, minimum available funds, and daily auto-lend limit, if any, you specified for amounts to be invested through Auto-lend when you selected that option). When you have set an "Auto-lend" instruction:
    a. you are authorising Harmoney to make deductions from the funds held for you in the Investor Account, up to the available funds, in accordance with that instruction;
    b. you may turn off that instruction at any time, but any Orders which have already been placed by Harmoney for your benefit pursuant to that instruction cannot be cancelled or reversed;
    c. Harmoney will place Orders up to either the then current balance of available funds held for you in the Investor Account or the minimum available cash balance set by you, and therefore either the entire balance

of those funds or the amount exceeding the specified minimum balance (as the case may be) may be "locked" pending acceptance or otherwise of those Orders, subject to the daily auto-lend limit; and

d. any money which is paid into the Investor Account for your benefit, including the proceeds of Loan Repayments, may be immediately reinvested, and may not be available to you to withdraw from the Investor Account;

e. Harmoney's ability to place Orders which comply with your investment instructions will depend on the availability of Loans on the Website at the relevant time, and therefore not all of the available funds held for you in the Investment Account may actually be invested at any time; and

f. if there are insufficient funds held for you in the Investor Account, your instruction will not be carried out by Harmoney.

Loan Contract

1. If sufficient Orders are placed during the Listing Period to Fully Fund a proposed Loan, Harmoney will notify the Borrower of that fact and (acting as the Trustee's agent) provide the relevant Loan Disclosure to the Borrower. For the purposes of this agreement, the Loan Disclosure will be treated as provided to the Borrower on the day on which it is emailed to the Borrower, or otherwise sent to the Borrower by electronic communication (within the meaning of section 35 of the CCCFA).
2. Immediately after Harmoney has provided the Loan Disclosure to the Borrower, a Loan Contract will come into existence under which the Trustee (who will be the lender of the Loan) will agree to advance the Loan Amount to the Borrower. The Loan Contract will be on the form set out on the Website when the Borrower lodged the Loan Listing on the Website.

Optional Services Terms or Contracts

1. If an Optional Service will apply in relation to a Loan, the relevant Loan Disclosure will confirm the Optional Service that applies.
2. An Optional Service may be provided either pursuant to additional Loan Contract terms or pursuant to a separate contract, as follows:
   a. If an Optional Service applies in relation to a Loan, and the terms governing that Optional Service provide that they apply as additional terms of the Loan Contract, those terms will be additional terms of the

Loan Contract from its inception. Those additional terms will be on the terms set out on the Website under the "Legal Agreements" section when the Borrower lodged the Loan listing on the Website.

b. If an Optional Service applies in relation to a Loan, and the terms governing that Optional Service provide that the Optional Service will be provided under a separate contract from the Loan Contract, then a separate contract relating to that Optional Service will come into existence immediately after Harmoney has provided the Loan Disclosure to the Borrower. That contract will be on the terms set out on the Website under the "Legal Agreements" section when the Borrower lodged the Loan listing on the Website. The contract will be an Optional Service Contract for the purposes of this agreement if the party providing the Optional Service is the Trustee (acting through Harmoney as its agent) rather than Harmoney (acting as principal).

Your Rights

1. In respect of any Loan in which you Participate, you acknowledge and agree as follows:

   a. Your interests in that Loan and the related Loan Contract and any Optional Service Contract are legally held on trust for your benefit by the Trustee, on the terms set out in this agreement.

   b. You will be entitled to receive your share (in accordance with your Participation) of any Receipts, after deduction and payment to Harmoney of the relevant Investor Fees, any Enforcement Costs, any Optional Service Charges, and any Optional Service Expenses, and after deduction and payment over of any withholdings or deductions on account of RWT, NRWT, or AIL.

   c. You cannot personally pursue the Borrower or carry out any of the Collection Services if the Borrower defaults on any of its obligations under the Loan Contract or any Optional Service Contract.

   d. If a Loan Listing specified that the Borrower is applying for an Optional Service and the Loan is Fully Funded, you accept that the Loan will be made subject to that Optional Service. Without limiting the generality of the foregoing, you accept that if Payment Protect applies to a Loan in which you Participate the Borrower's obligation to make certain payments under the Loan will be waived if events covered by the Borrower's Payment Protect Plan occur (as provided in the Payment Protect terms, which are available on the Website under the "Legal

Agreements" section) and that, in that event, you may not receive any or all of the unpaid Payment Protect Fee given that it is capitalised into the Loan; and you accept that risk.

e. You will not be provided with any information which would enable you to identify the Borrower (unless required by law or to enable you to comply with your obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (or equivalent legislation in other countries).

f. You do not have any contractual relationship with other Participating Investors (whether in the nature of partnership, joint venture, or otherwise) by virtue of Participating in the same Loan.

g. You and the other Participating Investors beneficially co-own the Loan as owners in common (in accordance with your respective Participations), and not as joint owners. Accordingly, if you die, your interest in the Loan will be an asset in your estate; it will not devolve on the surviving Participating Investors.

Collection Services

1. A Borrower will be required to provide a direct debit authorisation for all Loan Repayments and other amounts payable by the Borrower in respect of a Loan, including any fees payable by the Borrower to Harmoney. Harmoney will be entitled to process additional direct debit payments to cover any fees payable by the Borrower to Harmoney.
2. Harmoney will (itself or through a third party) provide collection and enforcement services (collectively, **Collection Services**) in respect of all Loans, as the Trustee's agent. The Collection Services will include:
    a. the administration of all Loan accounts following the advance of the Loan;
    b. monitoring all amounts payable under each Loan Contract;
    c. taking such steps as Harmoney considers appropriate to contact the Borrower for payment arrears; and
    d. taking such recovery action as Harmoney considers appropriate where there is a payment default, including by:
        i. appointing a collection or other agency to recover payment arrears;

    ii. instituting legal proceedings, and recovering the legal and associated third party costs from the Borrower;
    iii. entering into settlements with Borrowers on such terms as Harmoney considers appropriate; and
    iv. selling any Loans that have been charged off if and on such terms (including as to price) as Harmoney considers appropriate.

3. Harmoney will be:
    a. paid the fees described in clauses 59 and 60 (collectively, **Investor Fees**) for providing such Collection Services to the Trustee for the benefit of the Investors; and
    b. reimbursed for all Enforcement Costs it pays or incurs as specified in clause 61.
4. **Fees for providing Collection Services to Trustee for benefit of Retail Investors:** Harmoney will receive the following fees in respect of each Retail Investor who Participates in the Loan, for providing the Collection Services for the benefit of that Retail Investor:
    a. The Trustee will pay Harmoney (beneficially, as a cost to the Retail Investor) a fee (**Lender Fee**) that is calculated:
        i. on the Retail Investor's share (in accordance with its Participation) of the interest amounts actually recovered; and
        ii. at the rate set out on the Website from time to time.

    The Lender Fee will be payable only as a deduction from those interest amounts. Harmoney will not be entitled to be paid the Lender Fee except out of the Retail Investor's share of the interest amounts actually recovered.
    b. In addition to the Lender Fee, the Trustee will pay Harmoney an amount (Loan Administration Fee) equal to that Retail Investor's share (in accordance with its Participation) of all fees and charges (not being Optional Service Fees) payable by the Borrower under the Loan that Harmoney actually recovers (including without limitation all account maintenance fees, overdue fees, and dishonour fees payable under the Loan that Harmoney actually recovers). Neither the Trustee nor the Retail Investor will be obliged to pay the Loan Administration Fee to Harmoney, except out of the Retail Investor's share of the fees and charges actually recovered.

5. **Fees for providing Collection Services to Trustee for benefit of Wholesale Investors:** Harmoney will receive the following fees in respect of each Wholesale Investor who Participates in the Loan:
   a. The Trustee will pay Harmoney (beneficially, as a cost to the Wholesale Investor) a fee (**Service Fee**) that is calculated:
      i. on the Wholesale Investor's share (in accordance with its Participation) of the principal and interest amounts actually recovered; and
      ii. at the rate agreed from time to time between Harmoney and the Wholesale Investor.

   The Service Fee will be payable only as a deduction from those principal and interest amounts. Harmoney will not be entitled to be paid the Service Fee except out of the Wholesale Investor's share of the principal and interest amounts actually recovered (and neither the Trustee nor the Wholesale Investor will be obliged to pay the Service Fee to Harmoney except out of) the Receipts net of any enforcement costs or the Wholesale Investor's proportionate share thereof, as the case may be.

   b. In addition to the Service Fee, the Trustee will pay Harmoney a Loan Administration Fee calculated as, and payable only as set out in, clause 59(b) (read as if all references there to a "Retail Investor" were references to the Wholesale Investor).
6. **Enforcement Costs:** The Enforcement Costs are payable only as a deduction from the enforcement costs due under the Loan Contract that are actually recovered. Neither the Trustee nor you will be obliged to pay Harmoney any Enforcement Costs, except out of the enforcement costs actually recovered.
7. All deductions of the Investor Fees and Enforcement Costs will be made from the Collections Account.

Payments to Harmoney for Optional Services

1. Harmoney will in respect of each Optional Service that is provided under:
   a. additional terms to the Loan Contract; or
   b. an Optional Service Contract,

   be paid such commissions, fees, and charges (collectively, **Optional Service Charges**) as are set out on the Website under the "Interest Rates & Fees" section, all at the rates specified in that section.

2. The Optional Service Charges are payable by the Trustee in full when Settlement occurs. The following provisions will apply:
    a. Subject to the terms of the Optional Service, the Trustee will pay the Optional Service Charges either out of:
        i. funds contributed by the Participating Investors for that purpose (in this clause 64, "First Method"); or
        ii. the Optional Service Fee paid by the Borrower (in this clause 64, "Second Method").
    b. If the First Method applies (as in the case of Payment Protect), the Trustee will pay the Optional Service Charges to Harmoney only out of funds that are:
        i. pending Settlement, contributed by the Participating Investors (by transfer from funds held for them in the Investor Account, rateably in proportion to their Participations) and aggregated in the Advance Account for that purpose; and
        ii. at the time of Settlement, transferred from the Advance Account to Harmoney's own account for Harmoney's use.
    c. If the Second Method applies, the Optional Service Charges will be paid:
        i. only as a deduction from the Optional Service Fee actually received by the Trustee from the Borrower at Settlement;
        ii. by transfer of the Optional Service Charges from the Collections Account to Harmoney's own account for Harmoney's use.
    d. Harmoney is authorised to, and will, effect the transfer contemplated by clause 64(b) or clause 64(c) (as applicable) when Settlement occurs, in discharge of the Trustee's obligation to pay Harmoney the Optional Service Charges.
3. If a Loan in relation to which an Optional Service is provided is prepaid, the following provisions will apply:
    a. Harmoney will (on the Trustee's behalf) rebate to the Borrower such proportion of the Optional Service Fee as may be required under the CCCFA. Harmoney is authorised to make all such adjustments to the Loan account and all such transfers from the Collections Account as may be necessary for this purpose.
    b. If a Borrower is entitled to have a proportion of its Optional Service Fee rebated to it, Harmoney will refund to the Participating Investors (by

payment into the Collections Account for their benefit):

    i. a proportion of the management fee described in clause 41(b); and
    ii. if the Borrower used another Loan to prepay the relevant Loan, a proportion of the sales commission described in clause 41(b),

   in each case calculated using the formula set out on the Website when the Borrower lodged the Loan Listing on the Website.

4. If Harmoney (acting as agent for the Trustee) suffers or incurs any costs, expenses, losses, or liabilities in administering an Optional Service (**Optional Service Expenses**), those Optional Service Expenses will (depending on the terms of the Optional Service) be borne either by Harmoney itself or by the Borrower. If the Optional Service Expenses are to be borne by the Borrower:
   a. the Borrower's Loan account will be debited with an amount equal to the Optional Service Expenses; and
   b. once the Borrower has paid that amount on the Loan account (or it is recovered from the Borrower), it will be transferred to Harmoney in refund of Harmoney's Optional Service Expenses.

   Neither you nor the Trustee will be obliged to pay the Optional Service Expenses to Harmoney, except out of the amount so debited to the Borrower and actually recovered. Harmoney is authorised to (and will) transfer the Optional Service Expenses from the Collections Account to Harmoney's own account for Harmoney's use, if and to the extent that sufficient amounts owed to the Trustee under the Loan have been credited to the Collections Account

Order of Appropriation of Receipts

1. All Receipts will be appropriated as Harmoney determines, and otherwise in the following order:
   a. first, to any enforcement costs, overdue fees, and dishonour fees then owing (and pro rata as between these amounts); and
   b. secondly, to interest then due and owing; and
   c. lastly, as to any balance then remaining, to the principal outstanding and to any other amounts owed to the Trustee under the Loan.

Warranties

1. You warrant to Harmoney that:

a. all information you provide to Harmoney is true, accurate, and complete, and there is no information which has not been provided which would affect Harmoney's decision to register you as an Investor; and

b. you will provide Harmoney with updated information in respect of your Investor Application if any of your circumstances change in a material respect.

Liability of Harmoney and the Trustee

1. Neither Harmoney nor the Trustee will have any liability for any failure to provide the Service, or any Optional Service or otherwise to comply with this agreement, if the failure or non-compliance is caused by events beyond its reasonable control.
2. The parties acknowledge and agree, in respect of Harmoney, each Related Company of Harmoney, and the Trustee, and their respective employees, directors, officers, agents and contractors (together, **relevant persons**) and to the fullest extent permitted by law, that:
   a. none of the relevant persons will have any liability in respect of:
      i. any failure to provide the Service, or any Optional Service or otherwise to comply with this agreement, if the failure or non-compliance is caused by events beyond its reasonable control; or
      ii. any failure by a Borrower to repay all or any amounts which are owing by that Borrower under a Loan Contract; and

   b. any liability of any relevant person will be limited to the amounts actually received by Harmoney which are payable to you, less all deductions from such amounts which are authorised by this agreement (and in aggregate no more than that amount can be recovered from all relevant persons),

   provided that nothing in this clause 70 or this agreement (except for clause 71) limits any rights you may have under the Consumer Guarantees Act 1993.

   This clause 70 is for the benefit of, and is enforceable by, each relevant person, in terms Part 2, subpart 1 of the Contract and Commercial Law Act 2017.
3. If you are in trade, and you acquire the Service in trade, all parties agree that:
   a. the provisions of the Consumer Guarantees Act 1993; and

   b. sections 9, 12A, and 13 of the Fair Trading Act 1986,

   will not apply to this agreement.

4. You acknowledge that you do not rely on Harmoney's skill or judgment as to the suitability or otherwise of the Service for your specific needs, in terms of providing a service through which you can seek to fund loans.
5. You acknowledge that the Website may not be available at all times and that neither Harmoney nor the Trustee will have any liability for any loss of profit or opportunity (however described) arising from any inability to access the Website at any time.

Modification

1. Subject to clause 75(b), Harmoney may modify this agreement, and the way in which it provides the Service, and the way in which it or the Trustee provides any Optional Service at any time by notice on the Website. You should check the notices section of the Website regularly. Any such modifications will apply from the date stated as the effective date on the Website.
2. Harmoney may:
    a. modify any of the fees charged in connection with the Service (including the Establishment Fee, Lender Fee, Loan Administration Fee, and Service Fee) or in connection with any Optional Service (including the Optional Service Fees and Optional Service Charges) at any time; and
    b. introduce any new types of Investor Fees in connection with the Service, and any new types of Optional Service Charges in connection with an Optional Service, with effect from the time specified on the Website; provided that a new type of Investor Fee will apply in respect of a Loan or a new type of Optional Service Charge will apply in respect of an Optional Service only if:
        i. the Borrower lodges the Loan Listing for the Loan on the Website after that new type of Investor Fee or Optional Service Charge came into effect; or
        ii. introducing the new type of Investor Fee or Optional Service Charge is considered necessary as a result of a legal or regulatory development (including as a result of any legislative change or in the interpretation or application of any legislation).

    Any new type of Investor Fees will be charged at Harmoney's prevailing rate (as specified on the Website), and payable as a deduction from amounts due under the relevant Loan that are actually recovered. Neither you nor the Trustee will be obliged to pay any such Investor Fee except out of the amounts actually recovered. Any new type of Optional Service

Charge will be charged at Harmoney's prevailing rate (as specified on the Website), and payable as provided for in clause 64. Neither you nor the Trustee will be obliged to pay any such Optional Service Charge except in accordance with clause 64.

3. You acknowledge and agree that the Loan Contract (including any terms for Optional Services) or an Optional Services Contract may be varied as the Trustee (acting through Harmoney) in its discretion considers fit, including without limitation if the Trustee or Harmoney considers that:
    a. the Borrower is suffering or will suffer unforeseen hardship (including as contemplated by subpart 2.8 of the CCCFA); or
    b. a responsible lender would otherwise agree to such variation.

   Such variation may be in respect of the term of the Loan, the calculation, amount, or time for payment of any amount, or any other matter.

Communications

1. Harmoney may provide you with communications in relation to the provision of the Service, including notices and disclosures, by mail or in an electronic form, including by email.
2. The Trustee (acting through Harmoney) will provide you with information about money or property received, held, or paid for your benefit or to your account (including about transactions effected for you) in accordance with the Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014. You agree that all such information may be provided to you on an ongoing basis through your investor dashboard on the Website.
3. You must provide notices to Harmoney by mail (posted to its registered address) or by email to the email address below.
4. If you have any questions about the Service or the terms of this agreement, please contact Harmoney as follows:
    - Phone: 0800 HARMONEY
Email: customer.services@harmoney.co.nz
5. Each of Harmoney and the Trustee is a member of the Financial Services Complaints Limited dispute resolution scheme. You may refer any dispute as to the provision of the Service to that dispute resolution service, details of which are available at http://www.fscl.org.nz/.

Accounts

1. The entries made in the accounts maintained by Harmoney (as principal or as the Trustee's agent, as the case may be) are, in the absence of manifest error, conclusive evidence of the matters to which they relate.

General

1. You may not transfer or assign any of your rights or obligations under this agreement or in relation to any Participation, Loan, or any Loan Contract or Optional Services Contract without Harmoney's prior written consent (which consent may be withheld at Harmoney's absolute discretion).
2. This agreement and every trust arising under it are governed by New Zealand law. The parties submit to the non-exclusive jurisdiction of the New Zealand courts in respect of all matters arising under or in connection with this agreement (including in connection with any Loan Contract or Loan made under it or Optional Service Contract made under or in connection with it) and every such trust.

Defined Terms

1. In this agreement:

   Advance Account means the bank account operated by Harmoney on behalf of the Trustee into which funds are transferred by Harmoney from the Investor Account when an Order is accepted, and from which Harmoney (as agent for the Trustee) at Settlement transfers funds to the relevant Borrower's nominated account (and transfers the Establishment Fee and any Optional Service Charges payable under clause 64(b) to Harmoney's own account);

   AIL means the approved issuer levy payable under part 6B of the Stamp and Cheque Duties Act 1971;

   Borrower means a person who has registered as a Borrower with Harmoney;

   Business Day means a day other than a Saturday, Sunday or statutory public holiday in New Zealand;

   CCCFA means the Credit Contracts and Consumer Finance Act 2003;

   Collections Account means the bank account operated by Harmoney on behalf of the Trustee:

   a. into which all Receipts are paid; and
   b. from which any tax deductions or withholdings on interest comprised in Loan Repayments (including any NRWT and AIL) are deducted and paid over to Inland Revenue, the Investor Fees, the Loan Administration Fee,

any Enforcement Costs, certain Optional Service Charges, and any Optional Service Expenses are paid to Harmoney, and the balance is repaid to the Investor Account for the benefit of the relevant Investors;

Collection Services means the services described in clause 57;

Credit Checks means the credit checks carried out by Harmoney on a Borrower, either itself or through a Related Company or a third party credit reporting agency;

Credit Grade means Harmoney's proprietary credit grade attributed to a Borrower, which Harmoney generates based on information provided by a Borrower and otherwise obtains in respect of that Borrower (including through Credit Checks), details of which are set out on the Website;

Customer Services Agreement means the agreement entered into by a Borrower with Harmoney and the Trustee in relation to the provision of the Service by Harmoney to that Borrower;

Enforcement Costs in respect of a Loan means all costs, expenses, and liabilities actually incurred by Harmoney in enforcing or attempting to enforce the Loan or recovering or attempting to recover any amounts owing under it (including, for the avoidance of doubt, in selling a Loan that has been charged off), including without limitation all legal costs;

Establishment Fee means the fee owed by the Borrower to Harmoney in respect of a Loan which Settles;

FMCA means the Financial Markets Conduct Act 2013;

Fully Funded in relation to a Loan Listing or a Loan means that Harmoney has received sufficient Orders from Investors to fund the full amount of:

a. the proposed Loan Amount; or

b. any lesser amount the Borrower agreed to accept,

as specified in the relevant Loan Listing;
provided that if an Optional Service is proposed to apply to the Loan, **Fully Funded** means that Harmoney has received sufficient Orders from Investors to fund:

i. the full amount of the proposed Loan Amount (or any lesser amount the Borrower agreed to accept) net of any Optional Service Fee that is proposed to be capitalised; and

ii. the full amount of any Optional Service Charges payable by the Trustee to Harmoney in relation to the Optional Service in accordance with clause 64(b) (if and to the extent applicable);

Harmoney Servicer Default means:

a. the appointment of a liquidator to Harmoney; or

b. Harmoney ceasing to hold a licence for the Service under the FMCA for a period of 5 Business Days;

Interest Rate means the annual interest rate (expressed as a percentage rate per annum)for the Loan specified in the Loan Listing, which will be calculated daily on the outstanding amount of the Loan on the basis of a 365-day year and will be payable monthly in arrears by the Borrower (or compounded if not paid);

Investor means, as the context requires:

a. a person who has registered as an Investor with Harmoney; or

b. in relation to a Loan, a Participating Investor;

Investor Account means a trust account held by Harmoney for the benefit of all Investors whose funds have been deposited into that account for the purpose of investment or reinvestment in Participations or pending repayment to their Nominated Accounts, in accordance with their respective interests;

Investor Agreement means the agreement entered into by an Investor with Harmoney and the Trustee in relation to the provision of the Services by Harmoney to that Investor;

Investor Application means the application to become an Investor, set out on the Website or provided by Harmoney for you to complete and return to Harmoney;

Investor Fees has the meaning given to that term in clause 58(a), and includes any new types of Investor Fees introduced under clause 75(b);

Lender Fee has the meaning given to that term in clause 59(a);

Listing Period means the period from the date on which the Loan Listing appears on the Website for consideration by Investors (or is first allocated to the marketplace for Wholesale Investors under clause 37, where applicable) to the earlier of 14 days from that date and the date on which the Loan which is the subject of that Loan Listing is Fully Funded;

Loan means the Loan Amount lent by one or more Investors (through the Trustee as trustee) to a Borrower, using the Service, and where applicable, includes the amount of all compounded or capitalised interest;

Loan Administration Fee has the meaning given to that term in clause 59(b) (subject to clause 60(b));

Loan Amount means, as the context requires:

a. the amount that a Borrower wishes to borrow (inclusive of the amount of the Establishment Fee and any applicable Optional Service Fee that is to be capitalised) in the relevant Loan Listing; or

b. the total amount of the Loan at Settlement (inclusive of the amount of the Establishment Fee and, if applicable, the capitalised Optional Service Fee,), as set out in the Loan Disclosure;

Loan Contract in relation to a Loan means the contract under which that Loan is made, as described in clause 52;

Loan Disclosure means, in respect of a Loan, the initial disclosure required under the CCCFA for that Loan;

Loan Listing means a listing which is lodged by the Borrower on the Website, and which sets out the details of a Loan which the Borrower wishes to be funded;

Loan Repayments means, as the context requires:

a. the monthly payments of principal and interest which will be payable by the Borrower in respect of the Loan Amount in a Loan Listing; or

b. the monthly payments of principal and interest which are payable by the Borrower on a Loan which has Settled;

Nominated Account means the New Zealand bank account which is nominated by an Investor from time to time as the account into which funds held for the benefit of that Investor may be transferred from the Investor Account by Harmoney;

Non-NZ Tax Resident means an Investor who is not an NZ Tax Resident;

NRWT means non-resident withholding tax imposed under the NRWT rules in the Income Tax Act 2007;

NZ Tax Resident means an Investor who is: (i) resident in New Zealand under the Income Tax Act 2007; (ii) is engaged in business in New Zealand through a fixed establishment in New Zealand and either invests in Loans through that fixed establishment or is a registered bank in New Zealand; or (iii) both;

Optional Service means a service that a Borrower may opt in to when taking out a Loan;

Optional Service Charges has the meaning given to that term in clause 63;

Optional Service Contract in relation to a Loan means a contract under which an Optional Service is to be provided to the Borrower by the Trustee (acting through Harmoney as its agent);

Optional Service Expenses has the meaning given to that term in clause 66;

Optional Service Fee means the fee the Borrower must pay to have the benefit of an Optional Service, as set out on the Website under the "Interest Rates & Fees" section, and includes a Payment Protect Fee;

Order means an offer by an Investor to participate in

a. funding a Loan (or an offer by a Wholesale Investor to fund an entire Loan, where applicable); and

b. if an Optional Service is proposed to apply to the Loan, funding any Optional Service Charges payable to Harmoney in relation to the Optional Service in accordance with clause 64(b) (if and to the extent applicable), based on that Borrower's Loan Listing;

Order Amount means the amount of an Order;

Participating Investor in relation to a Loan means an Investor who participated in providing funds to the Trustee to make that Loan; and in relation to an entire Loan funded by a Wholesale Investor includes that Wholesale Investor and each transferee of any share in that Wholesale Investor's beneficial interest in that Loan; and "Participate" has a corresponding meaning;

Participation means in relation to a Loan, a beneficial interest in that Loan comprising a principal amount of $25 together with the right to repayment from that Loan of that amount and all unpaid interest on that amount calculated at the relevant Interest Rate applicable to that Loan, together with all other rights and obligations of the Investor in respect of that Loan as set out in the relevant Investor Agreement and the beneficial rights of the Investor in the relevant Loan Contract for that beneficial interest (provided that a Wholesale Investor who funds an entire Loan shall be deemed to have invested in a series of beneficial interests in the Loan, each comprising a principal amount of $25, and each of which constitutes a "Participation");

Payment Protect means the Optional Service provided by the Trustee (acting through Harmoney as its agent) under which the Trustee agrees with a Borrower (in consideration of the Borrower paying the Trustee a Payment Protect Fee) that the Borrower will not be liable to make certain payments under the Loan if specified events occur, subject to applicable cover limits;

Payment Protect Fee means the fee that a Borrower must pay the Trustee to have the benefit of Payment Protect;

Payment Protect Plan means an arrangement between the Trustee and a particular Borrower (pursuant to additional terms to the relevant Loan Contact) that Payment Protect will apply to a particular Loan to that Borrower;

Receipts in relation to a Loan Contract, Loan, or Optional Service Contract means all payments that are derived under or from it that are actually received or recovered by or on behalf of the Trustee; and (to avoid doubt) in the case of a Loan Contract and a Loan includes:

a. all Loan Repayments and other payments due under the Loan that are actually received or recovered by or on behalf of the Trustee from the Borrower; and

b. the sale proceeds actually received or recovered by or on behalf of the Trustee, if the Loan is sold under clause 57(d);

Related Company has the meaning given to that term in section 2(3) of the Companies Act 1993;

Retail Investor has the meaning given to that term in clause 35(b);

RWT means resident withholding tax imposed under the RWT rules in the Income Tax Act 2007;

RWT Exemption Certificate has the meaning in section YA 1 of the Income Tax Act 2007;

Service means the peer-to-peer lending service which Harmoney provides through the Website;

Service Fee has the meaning given to that term in clause 60(a);

Settlement in relation to a Loan means:

a. Harmoney arranging for the collection of funds from all Investors who have had their Orders on the relevant Loan Listing accepted, and (as directed by the Trustee) deducting the applicable Establishment Fee for Harmoney's own account, deducting any Optional Service Charge (if and to the extent applicable under clause 64(b)) and transferring the balance of the Loan Amount to the Borrower's nominated account (all via the Advance Account); and

b. the time at which the above transfer occurs;

and **Settle** and **Settled** have corresponding meanings;

Trustee means the entity which is appointed by Harmoney from time to time to hold Loans on trust for the benefit of Investors;

Website means the website at www.harmoney.co.nz, or such other website as Harmoney may from time to time operate to provide the Service; and

Wholesale Investor has the meaning given to that term in clause 35(a).

Interpretation

1. In this agreement:
    a. headings are inserted for ease of reference only, and do not affect the interpretation of this agreement;
    b. references to the singular include the plural and vice versa;
    c. references to a **person** include an individual, company, corporation, partnership, firm, joint venture, association, trust, unincorporated body of persons, governmental or other regulatory body, authority or entity, in each case whether or not having a separate legal identity;
    d. where the Investor consists of more than one person, the terms of this agreement bind each of them jointly and severally;
    e. reference to a party includes its permitted assignee or transferee; and any reference to the Trustee or to Harmoney includes any entity appointed to replace it under clause 20 or clause 28 (as applicable) and any duly appointed subcontractor or delegate in relation to the Service;
    f. reference to the "liability" of a person include references to its liability under any cause of action, whether in contract, tort, or equity or under any enactment;
    g. references to any document (however described) are references to that document as modified, novated, supplemented, varied or replaced from time to time and in any form, whether on paper or in an electronic form; and
    h. a reference to any legislation is a reference to that legislation as amended or replaced from time to time, and includes any regulations or legislative instrument made under it.

Attachment – Direct Debit Terms

1. Harmoney:
    1. Will provide notice either:
        1. in writing; or
        2. by electronic mail where the Investor has provided prior written consent to Harmoney.
    2. Has agreed to give advance Notice of the net amount of each Direct Debit and the due date of the debiting at least 10 calendar days (but not

more than 2 calendar months) before the date when the Direct Debit will be initiated.

    1. The advance notice will include the following message:

       “Unless advice to the contrary is received from you by (date*), the amount of $........... will be directly debited to your Bank account on (initiating date*).”

       *This date will be at least two (2) days prior to the initiating date to allow for amendment of Direct Debits.

3. Alternatively, Harmoney undertakes to give notice to the Investor of the commencement date, frequency and amount at least 10 calendar days before the first Direct Debit is drawn (but no more than 2 calendar months).
    1. Where the Direct Debit System is used for the collection of payments which are regular as to frequency, but variable as to amounts, Harmoney undertakes to provide the Investor with a schedule detailing each payment amount and each payment date.
    2. In the event of any subsequent change to the frequency or amount of the Direct Debits, Harmoney has agreed to give advance notice of at least 30 days before the change comes into effect. This notice must be provided either:
        a. in writing; or
        b. by electronic mail where the Investor has provided prior written consent to Harmoney.
4. May initiate a Direct Debit on the Investor’s account when authorisation is received from the Investor in accordance with the terms and conditions agreed between the Investor and Harmoney of each amount to be debited from the Investor’s account.
    1. Notice will be sent of the net amount of each Direct Debit and the due date of debiting after receiving authorisation from the Investor under clause 1.4 but no later than the date the Direct Debit will be initiated. This notice must be provided either:
        a. in writing; or
        b. by any other means which provides a verifiable record of the initiated transaction and where the Investor has provided prior written consent to Harmoney.

2. Where the notice is in writing it must include the following message:

   "The amount $....... was directly debited to your Bank account on (initiating date)."

3. Where the notice is provided by other means:
   a. Harmoney should hold prior written consent of those means of providing notice; and
   b. the notice should provide a verifiable record of the initiated transaction and include the amount and initiating date of that transaction.

5. May, upon the relationship which gave rise to this Instruction being terminated, give notice to the Bank that no further Direct Debits are to be initiated under the Instruction. Upon receipt of such notice the Bank may terminate this Instruction as to future payments by notice in writing to me/us.

2. The Investor may:
   1. At any time, terminate this Instruction as to future payments by giving written (or by the means previously agreed in writing) notice of termination to the Bank and to Harmoney.
   2. Stop payment of any Direct Debit to be initiated under this Instruction by Harmoney by giving written notice to the Bank prior to the Direct Debit being paid by the Bank.
   3. Where no advance notice is provided under clause 1.4 a variation to the amount agreed between Harmoney and the Investor from time to time to be Direct Debited had been made without notice being given in terms of clause 1.4 above, request the Bank to reverse or alter any such Direct Debit initiated by Harmoney by debiting the amount of the reversal or alteration of Direct Debit back to Harmoney through Harmoney's Bank PROVIDED such request is made not more than 120 days from the date when the Direct Debit was debited to the Investor's account.
   4. Request the Bank to reverse any Direct Debits initiated by Harmoney under the Instructions by debiting the amount of the Direct Debits back to Harmoney through Harmoney's Bank where Harmoney cannot produce a copy of the Instructions and/or Confirmation to the Investor that the Investor is reasonably satisfied demonstrate that the Investor has authorised the Investor's bank to accept Direct Debits from

Harmoney against the Investor's account PROVIDED the request is made not more than 9 months from the date when the first Direct Debit was debited to the Investor's account by Harmoney under the Instructions.

3. The Investor acknowledges that:
    1. This Instruction will remain in full force and effect in respect of all Direct Debits passed to the Investor's account in good faith notwithstanding the Investor's death, bankruptcy or other revocation of this Instruction until actual notice of such event is received by the Bank.
    2. In any event this Instruction is subject to any arrangement now or hereafter existing between the Investor and the Bank in relation to the Investor's account.
    3. Any dispute as to the correctness or validity of an amount debited to the Investor's r account shall not be the concern of the Bank except in so far as the Direct Debit has not been paid in accordance with this Instruction. Any other disputes lie between the Investors and Harmoney.
    4. Where the Bank has used reasonable care and skill in acting in accordance with this Instruction, the Bank accepts no responsibility or liability in respect of:
        1. the accuracy of information about Direct Debits on Bank statements; and
        2. any variations between notices given by Harmoney and the amounts of Direct Debits.
    5. The Bank is not responsible for, or under any liability in respect of Harmoney's failure to give notice in accordance with clauses 1.1 to 1.4, nor for the non-receipt or late receipt of notice by the Investors for any reason whatsoever. In any such situation the dispute lies between the Investors and Harmoney.
4. The Bank may:
    1. In its absolute discretion conclusively determine the order of priority of payment by it of any monies pursuant to this or any other Instruction, cheque or draft properly signed by the Investor and given to or drawn on the Bank.
    2. At any time terminate this Instruction as to future payments by notice in writing to the Investor.
    3. Charge its current fees for this service in force from time to time.

Harmoney

Disclosure Statement

Please contact us for earlier versions of the Disclosure Statement

Disclosure Statement

(Please note that Harmoney Limited (FSP373486), Harmoney Investor Trustee Limited (FSP396666), Harmoney Warehouse Limited (FSP617189) and Harmoney Nominee Limited (FSP590148) are being amalgamated with Harmoney Services Limited continuing as the amalgamated company.)

Harmoney Limited

Version 2023 - 1

Harmoney Limited (**Harmoney**) is required under the Financial Markets Conduct Act 2013 (**Act**) to provide a disclosure statement in respect of its licensed peer-to-peer lending service to retail and wholesale investors who are investing using Harmoney's service. This document is Harmoney's disclosure statement.

Licensing and registration

Harmoney is licensed under the Act by the Financial Markets Authority (**FMA**) to provide a peer-to-peer lending service in New Zealand.

Harmoney is also registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 to provide a peer-to-peer lending service and a broking service.

What is the service which Harmoney provides?

Harmoney provides a peer-to-peer lending service, under which individuals may seek loans to be funded by retail investors and/or wholesale investors through this service (the **Peer-to-Peer Service**). Some of the loans may include an optional service, such as the repayment waiver feature noted under "Payment Protect" below. Harmoney may also provide or make available ancillary services to its peer-to-peer lending service, such as credit checking.

Full details of the terms on which Harmoney provides its peer-to-peer lending service, and of the terms that apply to loans and optional services arranged or provided by Harmoney are available on the Harmoney website at www.harmoney.co.nz.

Harmoney also operates a separate Wholesale Funding Model, where individuals may have their loans funded by wholesale investors. When Borrowers apply for a loan on Harmoney's website they are automatically allocated to be funded through either the Peer-to-Peer Service or the Wholesale Funding Model. Borrowers are not treated any differently based on whether their loans are funded from either funding source. The Wholesale Funding Model is explained in more detail under 'Wholesale Investors' below.

What are the key risks of using this service?

Participating in peer-to-peer loans through Harmoney's service has the potential to provide Investors with greater returns, but may also carry a higher level of risk and provide for less liquidity than traditional investments, such as bank deposits and investment-grade bonds. It may therefore not be suitable for all investors.

Accordingly, prospective investors should assess for themselves whether investing through Harmoney's peer-to-peer lending service is suitable for them in light of their particular financial circumstances and goals and should if necessary obtain independent financial advice.

Some of the key risks of lending on Harmoney's peer-to-peer platform which investors should consider carefully before investing include:

Key Risk	Description
Credit risk	Borrowers who are lent Investors' funds may delay making their repayments or default on loans. The sole recourse for repayment is to the Borrower. There is no security for the loan and no person guaranteeing the loan. Where a Borrower fails to make payments Investors will not receive part or all of their principal and interest payments that are due to them. Harmoney has robust systems to determine the suitability of a Borrower and his or her ability to afford loan repayments. Harmoney may take debt recovery steps,

Key Risk	Description
	which may or may not recover any funds. Harmoney may also sell loans to a collection agency or third party. If it does so, Investors will receive a proportionate share of the net loan sale proceeds.
Borrower risk	Investors may be affected by differences in the creditworthiness of Borrowers in the event of late payment or default. In addition, a Borrower's creditworthiness may change over time, reducing potentially their ability to repay a loan. Harmoney's assessment of a Borrower's creditworthiness for a loan is made as at the date of their loan application. If a Borrower does not repay their loan Harmoney will take debt recovery steps and may sell loans to a collections agency or third party, as outlined above.
Liquidity risk	Investors may suffer loss from other events through their inability to sell a loan investment or demand early repayment (should they need their funds early). Harmoney's licence terms do not permit secondary trading of investments and Investors cannot demand early repayment of a loan. Only Harmoney is entitled to require Borrowers to repay the total amount outstanding on a loan if Borrowers breach their loan contract. Investors are only able to withdraw or reinvest their funds if they have funds available in their Investor account. Investor funds may also need to remain on loan beyond the initial term if the Borrower(s) to whom their funds are lent have not repaid their loan(s) in full when they fall due.
Fraud risk	Harmoney has a thorough and robust credit assessment process to guard against fraudulent applications. There is, however, a risk that Borrowers may be fraudulent, with no intention to repay.

Key Risk	Description
	Borrowers may be the victims of identity theft, in which case the person receiving the money has misappropriated the details of the person whose identity has been used to apply for the loan. Borrowers may also fabricate their expenses, liabilities, or income. In such cases, they may be unable to afford to repay a loan and may default on their loan obligations. It may also mean that Harmoney assigns a risk grade which does not accurately reflect the Borrower's risk and therefore that Borrower's ability to meet his or her loan obligations.
Fraud source conflict risk	Harmoney sources funds for loans from investments made by Investors through its peer-to-peer platform. In addition, certain wholesale investors may also invest in loans through Harmoney Nominee Limited (acting as a trustee for those wholesale investors). When Borrowers apply for a loan on Harmoney's website, they are automatically allocated to be funded through the peer-to-peer platform or the Wholesale Funding Model in accordance with Harmoney's Loan Allocation Policy. Harmoney manages the potential conflict that could arise between obtaining funds from these two different funding sources by maintaining an allocation model where loans are funded from both sources. This policy is designed to ensure funds are allocated to loans without regard to whether the funds were sourced from the peer-to-peer platform or the wholesale funding model (described under 'Harmoney's Loan Allocation Policy' below).
Loan availability risk	There may be insufficient new loans available at any time on the peer-to-peer marketplace that meet an Investor's criteria for investing, and consequently the Investor's available cash (being the cash it deposits in the Investor Account for investment, together with any repaid

Key Risk	Description
	principal and interest held for it in the Investor Account for reinvestment) may not be able to be invested.
Early repayment risk	A Borrower can repay his or her loan at any time. Should a Borrower decide to repay early, then an Investor will not receive the total interest income that would have been earned had the loan run to its full initial term. Current experience shows that a substantial proportion of loans are repaid before maturity.
Concentration risk	Investors who do not diversify their investment across loans and risk grades could face exposure to a concentration of Borrowers of the same type. Having a spread of investments across various Borrowers and risk grades should provide an Investor some protection from a Borrower default.
Operational risk	Harmoney regularly monitors and updates its internal systems to seek to gain efficiencies and improve service standards and experiences. However, there is a risk of financial loss and/or damage to Harmoney's reputation if there is a failure of Harmoney's information technology systems, internal processes, people, or operating systems. This could also arise from external factors such as failure of a supplier to provide a service at agreed service levels or an unforeseen disaster. Should any of those events occur, this could have an adverse effect on Harmoney's financial performance and on the performance of loans.
Regulated loan risks	Borrowers generally have protections under the Credit Contracts and Consumer Finance Act 2003 (**CCCFA**). Investments in loans may be affected if a Borrower exercises certain rights under the CCCFA, including

Key Risk	Description
	seeking a repayment variation due to hardship (which may affect the length of time taken to repay their loan).
Macro risks	There are several factors that may affect Harmoney's Peer-to- Peer Service over which it has little control. These include an economic recession, political turmoil, changes in interest rates, natural disasters, and terrorist attacks, some of which may affect a Borrower's ability to make loan repayments. Harmoney regularly monitors local and global economic and business conditions in order to identify and assess any potential risks that may affect Harmoney's business operations. However, economic conditions are not always predictable, and significant changes in the New Zealand economy could have an impact on Harmoney's business and the performance of loans.
Cybersecurity risk	Harmoney is an online web-based business. As such, Harmoney relies heavily on information technology and computer based- systems that could be a target for illegal hackers. Harmoney is very aware of this risk and therefore has security measures and systems in place that are designed to ensure the system's security. A security breach is a possibility and should this occur it may materially affect Harmoney's ability to operate and to provide access to loan information and loan recoveries.
Legislative and regulatory risk	Failure by Harmoney to comply with (or changes in) laws, codes of conduct and policies could result in loss of Harmoney's peer- to-peer licence, in legal action, and in financial loss.
Risks with Payment Protect	Investors who fund a loan that has Payment Protect have the potential to earn a greater return on it, but also face

Key Risk	Description
	additional risks, as detailed under “Payment Protect” below.

The information in this Disclosure Statement should not be taken as financial advice and is intended to provide information only, without considering an Investor’s investment objectives, financial circumstances or specific needs. Other risks may exist in addition to those identified above. Investors should consider the risks in light of their personal circumstances and, if necessary, seek independent financial advice before deciding whether to invest.

How do potential investors apply for and obtain access to the Harmoney service?

Investors can be either individuals or corporate entities.

Any person wishing to access and use the Harmoney Peer-to-Peer Service as a retail Investor must complete the Investor application process set out on the Website, which requires the person to:

- provide details about themselves (including full name and contact details, IRD number, New Zealand bank account number);
- provide suitable documentary evidence of their identity; and
- agree to the terms of the Privacy Policy, this Disclosure Statement and the Investor Agreement.

Harmoney can refuse to accept any person as an Investor if that person:

- has not completed the registration process to Harmoney’s satisfaction; or
- does not satisfy the eligibility criteria for being an Investor (as set out below).

Harmoney’s eligibility criteria for registering a person as an Investor are as follows:

- The person must satisfy Harmoney’s “know your customer” requirements.
- In addition, if the person is an individual, he or she must:
    - be a New Zealand resident (which Harmoney will verify through the person having a New Zealand residential address and a bank account with a registered New Zealand bank); and

- be 18 years of age or older when registering.

Harmoney may terminate (or in some circumstances, suspend) a person's status as an Investor at any time in accordance with the Investor Agreement.

How do potential Borrowers apply for and obtain access to the Harmoney service?

Only individuals can be Borrowers.

Any person wishing to access and use the Harmoney service as a Borrower must complete the Borrower registration and application process set out on the Website, which requires the person to:

- provide details about themselves (including full name and contact details and New Zealand bank account number);
- provide suitable documentary evidence of their identity;
- agree to the terms of the Privacy Policy, the Loan Disclosure Statement, the standard terms for a loan contract and the Things You Need to Know About Your Loan Contract and Customer Service Terms.

Harmoney can refuse to accept any person as a Borrower if that person has not completed the registration process to Harmoney's satisfaction, or does not satisfy the eligibility criteria for being a Borrower (as set out below).

Harmoney's eligibility criteria for registering any person as a Borrower are that the potential Borrower:

- must be an individual (that is, not a company, partnership, incorporated society, trust or other legal entity);
- must be a New Zealand resident, which Harmoney will verify through the person having a New Zealand residential address and a bank account with a registered New Zealand bank;
- must be 18 years of age or older when registering as a Borrower; and
- must have an acceptable credit record, as determined by Harmoney at its discretion.

Harmoney will apply its Fair Dealing Policy when considering any application by a person to be a Borrower.

Harmoney may terminate (or in some circumstances, suspend) a person's status as a Borrower at any time in accordance with the customer service terms.

How are loans made using the Harmoney Peer-to-Peer Service?

Investment through Trustee

Investors can invest in loans, in multiples of $25. All funds being invested in a particular loan by Investors will be pooled. A trustee (**Trustee**) will then use the pooled funds to make and hold the loan, as bare trustee for the participating Investors.

Accordingly, each Investor who has invested in a loan will have a beneficial interest in that loan and in the underlying loan contract, in proportion to the amount that Investor invested in that loan. That beneficial interest entitles the Investor to a proportionate share of:

- the principal amount lent to and repaid by the Borrower; and
- any returns on that loan (including any interest on that loan paid by the Borrower).

The Trustee must account to the Investor for that Investor's share of the money received from the Borrower (net of permitted deductions) as set out in the Investor Agreement.

The Trustee is currently Harmoney Investor Trustee Limited.

Loan Applications

A person who has successfully registered as a Borrower may apply for a loan. The Borrower's loan application will include:

- the amount sought
- the repayment term sought (which may be either 36 or 60 months)
- the purpose of the loan
- income and expenses
- assets and liabilities
- whether the Borrower wants Payment Protect cover for the loan, and if so what level of cover is sought.

Harmoney will generate a proprietary credit score for the Borrower. Harmoney will use that credit score and the financial data provided by the Borrower to determine the Borrower's loan affordability and the maximum amount and term for the proposed loan to the Borrower, together with the applicable interest rate. The Borrower may then select the loan amount and term from the information provided by Harmoney, requesting a loan for that amount and for that term.

Submitting Loans to the Peer-to-Peer marketplace

Details of loans requested by Borrower that are allocated to the peer-to-peer marketplace will be listed on the Website. Only persons who are registered Investors will be able to view the complete details of that loan submission, which will include:

- the amount sought (and if applicable, any lesser amount the Borrower is prepare to accept)
- the interest rate which will be payable on the loan
- the monthly repayments on the loan
- the purpose of the loan
- whether the Borrower has selected Payment Protect for the loan.

The Borrower's actual name and personal identifying details will not be made available in the loan submission, or at any other time.

A loan listing will be displayed on the Website for consideration for 14 days or until the loan has been fully funded (whichever occurs first). "Fully funded" means that orders have been placed for the full loan amount or (if applicable) the lesser amount the Borrower is prepared to accept, as specified in the loan submission.

Harmoney may allocate certain loans sought by Borrowers to wholesale investors for funding either via the peer-to-peer marketplace or through the Wholesale Funding Model marketplace as discussed under 'Wholesale Investors' below.

Placing Orders

A person who has successfully registered as an Investor will be able to access the Website to view submitted loans.

Investors may make an offer to fund a portion of any loan, by placing an order through the Website. The Investor must have sufficient funding in the Investor Account with

Harmoney in order to cover that offer. Any order, once made, is a legally binding offer and cannot be revoked by the Investor.

Investors can see and assess individual loan submissions prior to placing orders on them. They also have the option of placing orders through the Website's auto-lend function (based on the investment criteria and subject to the investment limits they have specified), as described in the Investor Agreement.

Loan Contract

Once a loan is fully funded (as defined above), a loan contract will be formed between the Borrower and the Trustee (as bare trustee for the Investors who are funding the loan), under which the Borrower agrees to repay the loan amount plus interest at the specified interest rate, over the term of the loan.

Under the Investor Agreement, the Trustee (as directed by each Investor) appoints Harmoney to settle the loan and to provide collection services in respect of the loan. The Trustee (as bare trustee for the Investors) will pay certain fees to Harmoney for providing those services. Those fees will be deducted from the payments the Trustee receives from the Borrowers. The Trustee will then hold the balance of those payments for the Investors in accordance with their proportionate shares.

Even though there will be a loan contract between the Borrower and the Trustee (for the benefit of each Investor who has funded that loan):

- the actual identity of the Borrower and the Investors who have funded the loan to the Borrower will not be made known to each other unless required by law (only Harmoney will hold these details); and
- the Investors will not be able to enforce the Borrower's payment obligations directly against the Borrower; only Harmoney (acting as the Trustee's agent) will be entitled to take any enforcement action against the Borrower.

Any loans which are made through the Harmoney Peer-to-Peer Service are not guaranteed by Harmoney. There is no guarantee that any Investor will recover any or all of the amount advanced to any Borrower and/or any interest on that amount advanced.

Both Investors and Borrowers will be able to access details about their loans on the Website. Harmoney will not provide printed statements, but Investors and Borrowers will be able to print loan summaries from the Website.

Payment Protect

Borrowers are able to opt into a service called Payment Protect (for a fee). If a loan is covered by Payment Protect and a specified event occurs, the Borrower will not be liable to make certain repayments under the loan (being the monthly payments that would otherwise have fallen due after the Borrower provided written notice of the relevant event to Harmoney as agent for the Trustee, subject to applicable cover limits). The specified events covered by Payment Protect and the different levels of cover are set out on the Website. If Payment Protect applies to a loan, additional terms are added to the loan contract setting out the waiver arrangement.

If a Borrower notifies Harmoney (as agent for the Trustee) that an event for which the Borrower has cover has occurred, Harmoney will suspend direct debiting the Borrower's bank account for further monthly repayments while Harmoney assesses the waiver application. Consequently, there may be some delay before Investors receive payments in respect of which a Borrower unsuccessfully applies for a waiver.

Investors who fund a loan that has Payment Protect bear the risk that the Borrower may cease to be liable for certain loan repayments. However, for the extra risk they receive an additional fee that the Borrower pays over the term of the loan, and that fee accrues interest; together, this results in a higher yield to the Investor. This is because the fee the Borrower must pay for Payment Protect cover is added to the loan amount – and therefore the monthly loan repayments are higher relative to the amount actually invested by the participating Investors. However, Investors should be conscious that this capitalisation carries a risk: if the Borrower ceases to be liable for monthly repayments, they may not recover their interest in the unpaid Payment Protect fee for that particular loan in full or at all.

Another risk arises if a Borrower decides to repay the loan in full early. If that happens, the Borrower is entitled to a proportionate rebate of the Payment Protect fee (which will have been capitalised into the loan principal, as noted above). The rebate amount will be deducted from the loan balance, giving the final repayment amount the Borrower has to pay. As a result, the Investors (through the Trustee) will not receive all the additional principal they would otherwise have expected in relation to the Payment Protect fee.

Under the Investor Agreement, the Trustee (as directed by each Investor) appoints Harmoney to arrange, enter into, and manage, the Payment Protect arrangement. Harmoney will receive a sales commission and a management fee for those services, as discussed under "What charges are payable by Investors".

Wholesale Investors

Harmoney uses two funding models in order to make loans to Borrowers. These are:

- the Peer-to-Peer Service, where Borrower loans are funded from investments by retail and wholesale investors through its peer-to peer marketplace; and
- a wholesale funding model, where Borrower loans are funded from investments by wholesale investors (**Wholesale Funding Model**).

Borrowers are treated the same regardless of whether their loans are funded from the Peer- to-Peer Service or the Wholesale Funding Model. Loans are allocated for funding from either source in accordance with Harmoney's Loan Allocation Policy described below.

Retail investors who invest via the Peer-to-Peer Service will be treated equally from a loan investment availability perspective. Loans will be made available to both classes of investor under the Peer-to-Peer Service as set out in the "How does Harmoney manage its marketplace" section below.

Wholesale Investors under the Peer-to-Peer Service

Harmoney may approve wholesale Investors to invest in loans through the Harmoney Peer- to-Peer Service. The terms on which a wholesale Investor may invest (including as to fees payable by the wholesale Investor in connection with a loan or related optional service) will be as agreed with Harmoney. Wholesale Investors may participate in funding loans similar to any other retail Investor using the Harmoney Peer-to-Peer Service.

Wholesale and retail Investors fund loans through the Harmoney Peer-to-Peer Service on a fractionalised basis. Loans funded via the Peer-to-Peer Service are made by Harmoney Investor Trustee Limited, which acts as a bare trustee for all the investors who fund the loan (see 'Investment by Trustee' above). Borrowers are liable to the Trustee and will deal only with the Trustee (through Harmoney acting as its agent) not with the underlying investors.

Wholesale Investors under the Wholesale Funding Model

Under the Wholesale Funding Model, loans are made by Harmoney Nominee Limited (the **Nominee**), which acts as a bare trustee for all of the wholesale Investors who choose to fund loans through the Nominee. The Wholesale Funding Model is not available for retail investors and is separate and distinct from the Peer-to-Peer Service described in this Disclosure Statement.

Loans are allocated for funding via funds sourced from the Wholesale Funding Model in accordance with Harmoney's Loan Allocation Policy described below. This means that a certain percentage of loans will be randomly allocated for funding from that source.

How does Harmoney manage its marketplace?

Harmoney endeavours to manage loan flow so that each marketplace will show a representative proportion of the overall risk spread of Borrowers approved to list (subject to the exclusions below), so that Investors to whom loans or participations in loans are allocated do not have any undue preference. Not all loans that are approved for submission to the marketplace are shown in the marketplace, for the reasons listed below.

Loan submissions not shown on the Website relate to:

- a new product, service, or feature
- change in risk underwriting process, or policy
- loan flow into the marketplace
- loans funded 100% through the auto-lend option.

Further information on Harmoney's marketplace management is set out on the Website.

Harmoney's Loan Allocation Policy

Harmoney's loan allocation policy is designed to allocate loans between the wholesale and retail investor marketplaces on a fair, reasonable and equitable basis to ensure that each marketplace receives a representation of the overall risk grade of Borrowers approved to submit their loan (**Loan Allocation Policy**).

Harmoney sets a loan allocation percentage for each marketplace. Harmoney does not select specific loans to be allocated to either marketplace. Harmoney may, from time to time where it receives high loan application volumes or a higher proportion of funds from wholesale or retail Investors, allocate a greater proportion of loans to be funded from either the Peer-to-Peer Service or Wholesale Funding Model. Harmoney's

Loan Allocation Policy seeks to ensure that over time there is a representative sample of loan applications available in each marketplace.

How is money provided by Investors dealt with by Harmoney?

Harmoney holds an Investor Account with ASB Bank, into which Harmoney will deposit all funds it receives from investors for investment in loans. Any money paid to Harmoney by an Investor will be received by Harmoney into the Investor Account for the benefit of that Investor.

If an Investor makes an offer to fund all or part of a loan, the amount which has been offered by that Investor will be "locked" in the Investor Account until the offer is accepted (by the relevant loan being fully funded) or the loan submission expires. On settlement of a loan, the Investor's funds will be transferred by Harmoney to an Advance Account, which is a trust account held by the Trustee with ASB Bank. Those funds will be aggregated with the funds of other Investors who are investing in that loan and whose funds are similarly held in the Advance Account. Harmoney (acting as the Trustee's agent) will then use the aggregated loan amount to settle the loan. Additionally, Harmoney will at settlement transfer the Payment Protect Fees from the Advance Account into Harmoney's fee account.

A Borrower will make loan repayments to the Collections Account, which is a trust account held by the Trustee for the benefit of all Investors who are invested in loans (to the extent of their entitlements) and which Harmoney transacts on the Trustee's behalf. Any recoveries made from a Borrower will similarly be paid into the Collections Account. Harmoney will: (i) deduct any required tax withholdings, as well as the fees which the Trustee (for the Investors) must pay Harmoney for Harmoney's services in relation to the loan; and (ii) then transfer each Investor's proportionate share of the balance of the amounts received from the Collections Account to the Investor Account for that Investor's benefit (where it will be available for reinvestment in other loans or for repayment to the Investor, depending on the Investor's instructions to Harmoney).

An Investor may withdraw any available amounts from its Investor Account at any time (subject to any banking restrictions and any loan offers which are outstanding at that time). Harmoney may of its own accord transfer such amounts back to the Investor.

Harmoney and the Trustee are each registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 to provide a broking service, and are required to comply with that Act in respect of dealing with Investors' and Borrowers' money.

What checks and assessments are made by Harmoney in relation to Borrowers?

Harmoney will carry out credit checks and identity verification steps in respect of persons who wish to be registered with Harmoney as a Borrower.

Harmoney makes an assessment of the affordability of a loan for a potential Borrower based on the verified financial data provided by the potential Borrower, including income, expenses and debt servicing information.

It is important to note that a credit score attributed by Harmoney to a Borrower in respect of a loan:

- represents Harmoney's subjective interpretation of the information which has been provided to Harmoney by the Borrower and other information which has been obtained by Harmoney itself or through third party credit report providers;
- does not guarantee that the Borrower will in fact be able to (or will) repay all or part of any loan or all or part of any interest charged on that loan; and
- is a reflection of the information available to Harmoney at the relevant time and will not be updated by Harmoney during the term of any loan.

What happens if a Borrower gets into arrears?

The following key steps are taken by Harmoney (as agent for the Trustee) to ensure effective collection of debts.

- All Borrowers are required to agree to a direct debit authority as part of signing up for a loan. Borrowers can update their direct debit authority at any time online or by contacting Harmoney directly.
- A succinct and regimented debt collection procedure is systemised. Harmoney's platform methodically tracks and monitors all arrears transactions through the arrears lifecycle, to ensure appropriate action is taken at the right time.
- Arrears reporting is updated daily and monitored by Harmoney senior management.

- Regular internal reviews are undertaken by Harmoney to ensure that procedures are followed and are effective.
- Harmoney applies the use of automated technologies including e-mail and 2 way SMS to maintain contact with Borrowers, to ensure efficiency and effectiveness is achieved in managing loans.
- Automated workflow tools direct collections activity, ensuring that items are actioned as per the collections plan.

If a Borrower makes a successful application for undue hardship, the loan contract will be varied to provide relief to the Borrower as set out under the Credit Contracts and Consumer Finance Act 2003.

If a Borrower to whom Investor funds are lent defaults on a loan, and Harmoney is unable to recover the outstanding debt owing, Harmoney may assign the defaulted loan to a third party, such as a collections agency, for an amount it is able to negotiate. Once a loan has been sold to a collections agency, Investors may not benefit from any recoveries that may then be made from that Borrower, but Investors will receive their proportionate share of the net loan sale proceeds.

See further the section “The Collections Process” on the Website.

What will happen if Harmoney goes into liquidation or fails to carry out its collection activities?

If Harmoney goes into liquidation or ceases to hold its licence to provide a peer-to-peer lending service in New Zealand for a period of 5 business days, a back-up servicer has been contracted to carry out collection services in respect of the loan portfolio, and will collect repayments from Borrowers and make payments to Investors as the Trustee’s replacement agent.

What disclosures are made in respect of any loan?

Harmoney will make a formal loan disclosure to the Borrower in compliance with the requirements set out in the Credit Contracts and Consumer Finance Act 2003 when Harmoney notifies the Borrower that its loan has been fully funded. The loan contract will be formed immediately after that loan disclosure has been provided to the Borrower.

What interest is payable by Borrowers?

A Borrower is charged interest on the amount he or she owes, calculated as a percentage of the loan amount (as set out on the Website).

If a Borrower repays a loan or any portion of it early, the prepaid amount will not bear further interest. Similarly, if a Borrower repays a loan and that loan is rewritten, the original loan will have been repaid in full with no further interest earned on it. As a result, the Investors (through the Trustee) will not receive interest on the prepaid or rewritten amount as the loan has been repaid.

What charges are payable by Borrowers?

Harmoney will charge Borrowers an establishment fee for using the Harmoney service. The establishment fee is due under the Customer Service Terms, and is paid at settlement, by way of a deduction from the principal amount of the loan prior to the balance of the loan amount being advanced to (or for the benefit of) the Borrower.

Borrowers are liable to pay monthly account fees on their loan accounts, as well as overdue fees or dishonour fees where loan repayments are late or dishonoured.

If enforcement action is required against a Borrower, any legal and associated third party costs incurred will be charged to the Borrower's account. The costs charged are due in the Borrower's next payment.

If a Borrower takes out Payment Protect, he or she must pay the Trustee a separate fee for that cover. The Payment Protect fee will be calculated as a percentage of the loan amount (as set out on the Website) and will be capitalised. If a Borrower who has taken out Payment Protect repays the loan in full early, he or she will be entitled to a proportionate rebate of the Payment Protect fee. This rebate will be calculated in accordance with a statutory formula.

A Borrower who has taken out Payment Protect will be responsible for certain costs, such as the costs of a medical examination required by Harmoney if the examination shows that he or she does not qualify for a waiver being claimed. If the Borrower does not pay those costs, Harmoney can pay them and add them to the loan.

A list of the current fees charged to Borrowers is available on the Website. The amounts (or calculation methods) and the types of fees charged in connection with the Harmoney service or under loan contracts are subject to modification from time to time in accordance with the Customer Service Terms and the Loan Contract (as applicable).

What fees are charged to Investors?

Fees for loan administration and collection services – retail Investors

Harmoney will receive two types of fees for the administration and collection services it provides to the Trustee for the benefit of a retail Investor in respect of a loan:

- Harmoney will charge a retail Investor (through the Trustee) a fee ("Lender Fee"), being a percentage of that Investor's share of the interest amounts Harmoney recovers. The Lender Fee will be calculated on the basis of a percentage-based tiered structure that recognises the principal amount which the particular Investor has outstanding on the platform. It will be paid as a deduction from the interest component of loan repayments recovered. Harmoney is not entitled to payment of the Lender Fee except out of the interest component of loan repayments it actually recovers.
- Additionally, Harmoney will be paid a fee ("Loan Administration Fee") that is equal to the retail Investor's share of all fees and charges payable by the Borrower under the loan (not being fees for optional services such as the Payment Protect Fee) – eg of all account maintenance fees and any overdue fees and dishonour fees the Borrower must pay. Harmoney is not entitled to be paid the Loan Administration Fee except out of the fees and charges it actually recovers from the Borrower. In practical effect, the Loan Administration Fee is not a net cost to retail Investors (through the Trustee).

Fees for loan administration and collection services – wholesale Investors

Harmoney will charge a wholesale Investor the fees from time to time agreed between Harmoney and the wholesale Investor.

Fees for Payment Protect services

If a Borrower takes out Payment Protect, Harmoney will charge Investors a sales commission for arranging the Payment Protect as well as a management fee for administering it. The sales commission and management fee are each calculated as a percentage of the Payment Protect fee, and are payable by the Investors (through the Trustee) on drawdown of the loan (with the Investors then having the ability to recoup that expense from the higher monthly payments made by the Borrower). If a Borrower who has taken out Payment Protect repays the loan in full early, Harmoney will refund the Trustee (for the benefit of the participating Investors) a proportion of the management fee and (if the prepayment was due to a refinancing through the Harmoney service) of the sales commission Harmoney received.

If a Borrower who has Payment Protect does not pay costs for which he or she is responsible under the Payment Protect terms, Harmoney may meet those costs. In that case, an amount equivalent to the costs Harmoney paid will be added to the loan balance. The Trustee (as trustee for the Investors) will then refund Harmoney's costs when the Borrower repays the amount added to the loan. Neither the Trustee nor the Investors have any liability to refund Harmoney's costs except out of the additional payment actually recovered from the Borrower. (In this way, the costs repayment is channelled from the Borrower to Harmoney, and the Investors do not bear those costs.

General

A list of the current fees charged to retail Investors is available on the Website. The amounts (or calculation methods) and the types of fees charged are subject to modification from time to time in accordance with the Investor Agreement.

What other financial benefits may Harmoney receive?

Harmoney and its related companies may be paid a commission or other financial benefit by any person in connection with any loan or the Harmoney Peer-to-Peer Service.

Can Harmoney (and its related companies) use the Harmoney service?

Harmoney, its related companies, and their directors, shareholders and employees are not entitled to use the Harmoney Peer-to-Peer Service as Borrowers.

Harmoney, its related companies, and any of their directors, shareholders, employees and advisers (in their own capacities) may use the Harmoney Peer-to-Peer Service as Investors at any time, subject to compliance with the Harmoney Conflicts of Interests Policy set out on the Website. Although Harmoney has the ability to be an Investor, it does not invest in loans arranged through the Peer-to-Peer Service. Harmoney may invest in loans via the Wholesale Funding Model from time to time through Harmoney Nominee Limited.

What interests does Harmoney have which may materially adversely impact on Harmoney's ability to have fair, orderly and transparent systems and processes?

Harmoney makes every attempt to align interests of all stakeholders including shareholders, employees, Investors, and Borrowers. Conflicts of interests are pro-actively sought out and wherever possible Harmoney will attempt to align interests. Where this is not possible Harmoney looks to ensure the following:

- That the conflict is clearly disclosed in a timely fashion and wherever possible on our website and in documentation.
- Harmoney systems and processes are designed to ensure that operations continue in a fair and orderly way pro-actively managing any conflict of interest to a set of agreed principles or within a committee charter.
- Wherever possible Harmoney looks to separate compliance roles including managing conflicts from those other roles focused on revenue.

Potential conflicts for retail Investors

Known potential conflicts for retail Investors that Harmoney manages include:

Potential Conflict	Description
Assessing, grading and pricing of Loans	Harmoney recognises that a conflict may arise when it assesses, grades and prices loans, between its interest in earning revenue from fees (such as Investor fees) and the Investors' interest in ensuring that all loans are assessed, graded and priced accurately. Harmoney manages this conflict by ensuring that all Borrower loan applications are assessed objectively using robust systems and processes in line with its Credit Policy. Harmoney also notes that the ultimate performance of loans is based on the Borrowers meeting their repayment obligations.
Investment in loans	Harmoney considers there may be a conflict where it invests, or arranges, for a related party of Harmoney to invest, in loans through the Wholesale Funding Model. Harmoney manages this conflict by: (i) ensuring that loans are allocated to the Peer-to- Peer Service or Wholesale Funding Model marketplaces to ensure that

Potential Conflict	Description
	each marketplace receives a representation of the overall risk grade of Borrowers approved to submit their loan; and (ii) ensuring that loans are treated equally regardless of their source of funding.
Repeat Borrowers	Harmoney considers there may be a conflict between interests of Investors and Borrowers from its goal to retain good quality Borrowers by offering refinancing options and Investors' interest in continuing to earn interest on the original loans offered to those Borrowers. For example, if Harmoney offers a repeat Borrower refinanced credit to repay their existing loan, the Investors who fund that loan will be repaid early (and thereby lose the opportunity to continue to earn revenue over the full life of that loan). Harmoney manages this conflict through controls that set limits on refinancing loans.
Allocation of Lending Capital between retail and wholesale Investors	Harmoney considers there may be a conflict between the differing revenue amounts it earns from retail Investors and wholesale Investors investing in loans via both the peer-to-peer and wholesale funding models. Harmoney seeks to manage this conflict by (i) ensuring that loans are allocated on a quantitative/volume basis rather than a qualitative/quality basis in accordance with its Loan Allocation Policy; and (ii) not including any preference over any other wholesale or retail Investor for credit quality.
Loan volume allocation to wholesale investors	Harmoney has contractual obligations with wholesale Investors who may have either an expectation or a contractual right to a certain volume of loans. These arrangements are entered into in return for wholesale Investors providing liquidity to the platform. Harmoney seeks to manage this potential conflict by applying the Loan Allocation Policy, which requires that loan

Potential Conflict	Description
	allocation does not prefer one investor over others for credit quality.
Specific loans allocated to wholesale Investors	Harmoney may occasionally offer selected loans to wholesale Investors as part of its marketplace management role, e.g. if it is testing new features and services, including new products, or where it is testing changes to its risk underwriting policy or process. Harmoney may choose to test these changes exclusively with wholesale Investors. Harmoney considers this may create a conflict of interest because selected loans will not be made available to retail Investors to invest in. Harmoney manages this potential conflict by ensuring that any such decision to test changes with wholesale Investors and offer selected loans to them is made in accordance with its Loan Allocation Policy, which is designed to ensure that loans are allocated between wholesale and retail Investors on a fair, reasonable and objective basis (see 'Harmoney's Loan Allocation Policy' above).
Shareholders investing on the platform	Harmoney considers a conflict may arise if shareholders invest on the platform. Harmoney manages this potential conflict by ensuring that shareholder investments in loans are not treated any differently from investments made by others and ensuring that the majority of directors of Harmoney Corp Limited are independent.

Monitoring of compliance by the Borrower with its obligations and recovery on default

Under the Investor Agreement, Harmoney is appointed as the Trustee's agent to receive repayments of principal and interest from the Borrower and to seek to recover any amounts owing where the Borrower is in default of its repayment obligations.

The recovery action Harmoney can take includes:

- appointing a collections agency;
- suing the Borrower;
- entering into settlements; and
- selling a loan that has been "charged off". A loan is charged off if it is in default and Harmoney considers that it is not recoverable (which generally happens once the loan has been overdue for 120 days). Investors authorise the Trustee to assign loans for this purpose.

Importantly, an Investor does not have any right to pursue a Borrower directly where a default has arisen or at any other time. Only Harmoney can take this action.

For more details about the scope of these obligations, see the Investor Agreement on the Website.

Complaints and dispute resolution

If you have a query or complaint about any aspect of Harmoney's services, please contact Harmoney at the contact details set out above.

Harmoney is a member of the Financial Services Complaints Limited dispute resolution scheme. You may refer any dispute as to the provision of the Service by Harmoney to that dispute resolution service, details of which are available at http://www.fscl.org.nz/.

The Trustee is a member of the Financial Services Complaints Limited dispute resolution scheme. You may refer any dispute as to the performance by the Trustee of its obligations to that dispute resolution service, details of which are available at http://www.fscl.org.nz/.

Provision of information and contact details

You may contact us at any time as set out below to obtain at no charge an electronic copy of your Investor Agreement, this Disclosure Statement, and any other documents which relate to the licensed peer-to-peer lending service provided by Harmoney.

You will be able to obtain print-outs of your transaction information through the Website (Harmoney does not provide copies of transaction information).

If you have any questions, you can contact Harmoney as follows:

- by email at customer.services@harmoney.co.nz
- by calling the Harmoney helpdesk on 0800 HARMONEY or 0800 427 666
- by writing to Harmoney the address on the Website.

Harmoney

Conflicts of Interest Policy

Please contact us for earlier versions of the Conflicts of Interest Policy

Conflicts of Interest Policy — Effective from July 2014 to July 2015

Effective 1 July 2014 to 23 July 2015

CONFLICTS OF INTEREST POLICY

Under the Financial Markets Conduct Act 2013 (Act) and the Regulations under the Act, Harmoney is required to have in place adequate systems and procedures for handling conflicts between the commercial interests of Harmoney (and its associated persons and entities) and the need for Harmoney to have fair, orderly, and transparent systems and procedures for providing its services.

This document is Harmoney's conflict of interests policy, which forms part of the systems and procedures referred to above.

SUMMARY OF POLICY

Harmoney is part of the Harmoney group of companies, which provide certain aspects of the services which are offered by Harmoney through the Harmoney website at www.Harmoney.co.nz. In addition, certain Harmoney group companies, Harmoney itself, and Harmoney's associated persons and entities may use the Harmoney services for their own benefit.

In order to ensure that all persons dealing with Harmoney and its associated persons and entities are fully informed about the way in which Harmoney delivers the services, and the involvement of the Harmoney group of companies and their associated persons and entities in the provision and use of the Harmoney services, Harmoney has implemented this policy.

APPLICATION OF POLICY

This policy applies to:

- all companies in the Harmoney group from time to time.
- all shareholders in each Harmoney group company
- all directors of each Harmoney group company
- each employee of each Harmoney group company

Each of these persons and entities is referred to in this policy as a relevant person.

DISCLOSURE OF CURRENT INTERESTS

With effect on the date of this policy, the following disclosures are made of current interests:

- Harmoney Limited pays a fee to Harmoney Systems Limited to use the platform IP and licences.
- Harmoney Limited pays a fee to Harmoney Services Limited for the provision of support and administration services.

RESTRICTIONS ON USE OF THE HARMONEY SERVICES

Any shareholder, director or employee who wishes to use any of the services provided by Harmoney:

- must do so on the same terms as any other user of the service; and
- must not use any knowledge that person has of the Harmoney business, operations or services to create for him or her any benefit or advantage which is not otherwise available to any other user of that service.

Fair Dealing Policy

Fair Dealing Policy

Harmoney Limited

This document is in effect from July 2014

Under the Financial Markets Conduct Act 2013 (Act) and the Regulations under the Act, Harmoney is required to have in place a fair dealing policy. This document is Harmoney's fair dealing policy.

Summary of Fair Dealing Policy

Harmoney has in place specific processes and procedures for the purpose of verifying the identity of the Borrower, and for assessing the credit-worthiness of the Borrower (which, through the application of Harmoney's proprietary credit scoring process to that information, will result in Harmoney generating a credit score for that Borrower).

In order for a person to register as a Borrower, that person must:

- provide to Harmoney all information which Harmoney requires, as set out in the application process on the Harmoney website at http://www.harmoney.co.nz; and
- be otherwise acceptable to Harmoney at Harmoney's absolute discretion.

Harmoney reserves the right at any time to:

- not register any person as a Borrower;
- revoke the registration of any person as a Borrower; or
- restrict the activities of any Borrower,
- where Harmoney believes or has cause to believe that the relevant person or Borrower has, in relation to the Harmoney service or application process or otherwise:

- engaged in conduct that is misleading or deceptive or likely to mislead or deceive;
- made a false or misleading representation in contravention of section 22 of the Act;
- made an unsubstantiated representation in contravention of section 23 of the Act; or
- has otherwise been in breach of any of the terms under which Harmoney provides any service or access to its website at http://www.harmoney.co.nz

Application of the Fair Dealing Policy

Harmoney implements its fair dealing policy with a combination of automated and manual checks. During the automated credit approval process credit rules will pick up anomalies and inconsistencies in information provided, and either decline the Borrower or refer it for manual review by Harmoney staff.

If the lending purpose disclosed by the Borrower is debt consolidation, and the Borrower successfully funds a loan through the Harmoney platform, then the Harmoney process automates the payment of existing debt providers with the loan funds from the Harmoney platform to ensure the loan is used for its intended purpose. If the Borrower's affordability analysis undertaken by Harmoney discloses that the Borrower can service existing debt as well as the Harmoney sourced loan then the loan proceeds will be paid directly to the Borrower.

Harmoney's customer service and collections staff are trained to identify deceptive and misleading conduct and report it to Harmoney management for investigation. For example, a 20 year old who discloses a significant annual income would be flagged for further investigation by Harmoney to ensure appropriate verification is completed and (where appropriate) the conduct will be reported to the relevant authorities.

Harmoney

LENDERS

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Glossary

We've put together a glossary to help with those confusing financial terms.

Written by Ana Wedlock
Updated over a week ago

Finance jargon can be confusing, so we've put together this handy list of terms to make understanding these terms a little easier.

Account

Everyone who signs up to Harmoney will need to create an account. Creating an account does not commit you to anything.

Actual Performance

The real outcome. The result of operations and decisions. Not forecast, the factual outcome.

Annualised

This is when a rate, such as an interest rate or a rate of return on investment, is expressed as a yearly value, even though it may not directly relate to a full year. For example, if there has been 2% interest after one month, this can be recalculated to an annualised return by multiplying by 12, resulting in an interest rate of 24% per annum. As with this example, all annualised rates are often theoretical, and there is no guarantee that it will be achieved.

Arrears

This is the legal term for any repayments that are currently overdue, having missed one or more scheduled repayment dates. If a payment goes into Arrears, Borrowers are charged an overdue fee.

Borrower

Borrowers refers to everybody who has a loan, or is in the process of applying for a loan.

CCCFA

The Credit Contracts and Consumer Finance Act 2003, also known as CCCFA, is one of the 21 pieces legislation that Harmoney is subject to.

Find out more about the CCCFA

Charge Off

When a loan is charged off, it means the borrower has defaulted on the loan and there is a high probability that no further money will be collected from the borrower.

Consumer Credit

Consumer Credit means any credit, or borrowed funds, made available to everyday consumers, as opposed to businesses. This includes personal loans but may also refer to other products such as mortgages, overdrafts or credit cards.

Credit Data

In general terms this refers to all the data associated with the performance of a loan portfolio and/or the credit underwriting processes that deliver that performance. It is sometimes used more specifically to refer to a borrower's profile, including their credit bureau file.

Credit Grade

Also known as a Credit Score, or Risk Grade, a credit grade is a ranking of a potential Borrowers creditworthiness based on a level analysis of their credit files and credit history.

Credit Scorecard

This is a mathematical model used to estimate the probability that a Borrower will display a defined behaviour (e.g. loan default, bankruptcy, etc.). Harmoney has a bespoke Credit

Scorecard, which it uses to assess every Borrower. The Harmoney Credit Scorecard has been tested against existing credit scorecards in the New Zealand market and been proven to be more robust in most cases.

Credit Performance

This refers to how a loan has behaved in relation to scheduled payments that had to be made. Where a loan has been repaid on time according to the loan schedule then it has performed well, if paid later than schedule it is poorly performing. The term is often rolled up to refer to the collective loan behaviour, to describe the “credit performance” of a loan portfolio.

Dashboard

A single secure place online to view all the relevant information related to your Harmoney account. This includes an up-to-date statement of your loan repayments, as well as any messages and warnings.

Establishment Fee

This is a one-off fee charged by Harmoney to borrowers when they take out a loan. This fee is added to the total amount of a loan.

Financial Markets Authority (FMA)

The Financial Markets Authority (FMA) is the governing body that regulates financial services providers in New Zealand. Harmoney’s Peer-to-peer operating license was issued by the F.M.A.

Find out more about the FMA

Fractionalisation

Every loan is divided up (fractionalised) into $25 chunks, which we call notes. So, for example a $10,000 loan will have 400 notes ($10,000 ÷ $25 = 400). This is a legacy from Harmoney's origins as a peer-to-peer lending platform, as it simplified processing when each loan was funded my multiple lenders.

Guarantee

Harmoney and its related companies/entities do not guarantee any return/yield, nor do they guarantee that a Borrower will fulfil its loan obligations including making payments as and when they fall due for payment.

Gross

This is the return before defaults, fees, taxes are taken out. This is opposed to net.

Interest Rate

This is the rate at which interest is paid by the Borrowers each year. Specifically, the interest rate is a percentage of the principal which the Borrower will repay over and above the principal repayments each year. The interest rate is fixed for the term of a loan.

Issued

Loans that have been reviewed and approved, and where the borrower has accepted their loan terms.

Lend

Providing borrowers with the funds for which they have been approved, and which they have agreed to pay back under the terms of their loan.

Listing ID

A unique code assigned to identify each individual loan listing, while keeping the identity of the borrower private.

Loan Book

The collective term for all loans originated on the Harmoney platform and the collective value of receivables (i.e. what is expected to be repaid).

Loan Portfolio

Often used interchangeably with ‘Loan Book’ it refers to a collection of loans. It can refer to a subset of the ‘Loan Book’ such as a specific Lender’s loan portfolio, which would be loans funded by them alone.

Net

This is the return after defaults, fees and sometimes taxes have been removed. This is opposed to gross return.

No guarantee

Harmoney and its related companies/entities do not guarantee any return/yield, nor do they guarantee that a Borrower will fulfil its loan obligations including making payments as and when they fall due for payment.

Note

Under the Harmoney model, every loan is divided up (fractionalised) into smaller chunks of $25, which we call notes. So, for example a $10,000 loan will have 400 notes ($10,000 ÷ $25 = 400). This is a legacy from Harmoney's origins as a peer-to-peer lending platform, as it simplified processing when each loan was funded my multiple lenders.

Number (#) of Enquiries

When a person applies for credit and a credit provider requests a copy of the applicant's credit report, that places a record of 'enquiry' on the credit file (regardless of the application outcome). The count of these enquiries (amongst other things) is of interest to credit providers when assessing credit risk.

p.a.

Per annum, per year

Payment Protect

Payment Protect is an optional payment waiver product offered to Harmoney borrowers. It offers protection to help borrowers during unexpected events that may impact their ability to make their loan repayments such as involuntary redundancy, bankruptcy, disability, or death. It is not an insurance product, but instead allows for some payments, meeting the conditions of the Payment Protect policy, to be waived under certain circumstances. The borrower pays a set fee for Payment Protect if they choose to take it up, and that fee is added to the loan.

Personal Loan

This is a loan that is granted for personal use; usually unsecured and based on the borrower's integrity and ability to pay.

Portfolio Return

The monetary return of all the Loans made on the Harmoney platform. It is also known as the Index Return.

Pre-payment

This is when a Borrower repays its loan before the agreed terms. A Borrower can make a prepayment at anytime and without notice. Borrowers are not charged any additional fees for pre-paying their loan early.

Principal

This is the amount of money borrowed or invested excluding interest incurred or paid.

Principal Outstanding

The amount of principal currently still outstanding on a loan. As Borrowers pay off their loan, the principal outstanding reduces.

Realised Annual Return

Realised Annual Return (RAR) is a measure of the actual rate of return on funds invested on the Harmoney Platform. As RAR is based on historic performance that may not be a good indicator of future returns.

In simple terms, RAR takes the income from lending (interest) and deducts the costs you have incurred (credit losses and Service Fees) to provide your net return. This is then divided by the average principal outstanding and annualised to provide your Realised Annual Return or RAR.

You can see your portfolio RAR in your Lender dashboard. It is important to note that RAR is first calculated 90 days after you make your first investment. Until that time no measure of RAR will be available. RAR is a dynamic calculation that will change based on transactions in your portfolio, if there were no further transactions the RAR would remain at its current rate.

RAR does not include tax in its calculation as each Lender’s tax situation may be different.

Regulators

This refers to the various government departments that have been charged with overseeing the implementation of, and ongoing compliance by peer-to-peer providers with, legislation introduced by parliament. For example, see FMA or CCCFA.

Return

A return is the profit made from an investment, net of any fees or losses. It can be gross or net, expressed as gross or net. Gross return is interest earned. Net Return is with fees and losses (and sometimes tax) deducted.

Harmoney and its related companies/entities do not guarantee any return/yield, nor do they guarantee that a Borrower will fulfil its loan obligations including making payments as and when they fall due for payment.

Repeat Borrower

A current borrower who has decided to repay their current loan in-full and replace it with a new loan. This new loan is referred to as a re-write.

Service Fee

This is a fee charged to Lenders for the processing and management of loan repayments. Amongst other costs it covers the cost of the Customer Service and Collections team as they work to ensure Borrowers maintain regular scheduled repayments.

Static Loss Rate

Sometimes referred to as a static pool analysis. The pool is usually a pool of loans written in a specific month (referred to as a cohort).

Each cohort, each month, has a calculation done of loss (charged off accounts) divided by the total loan value for the cohort in the first month. These values are then plotted.

Within a chart, you will normally see a line for each cohort, all starting month 1 (which means that each cohorts line will be 1 month shorter than the previous cohort).

The resulting lines can all be compared to every other cohort to see how much of the months loans as a percentage have gone to loss compared to other cohorts at the same point in time.

This tells us whether a particular month performs better or worse.

All of these cohorts can be rolled into 1 group, to show the total static loss for the portfolio.

Unsecured loan

An unsecured loan is one that is obtained without the use of an asset as collateral for the loan

Waived

This is when one or more monthly repayments are waived, i.e. the Borrower does not need to pay that repayment.

Weighted Average

Rather than a straight average, a weighted average is when each component is assigned a weight. These weights then determine the relative importance of each component. Weightings are the equivalent of having that many like items with the same value involved in the average.

Withdraw

All approved borrowers who have accepted their loan terms and received their funds, can still change their mind and withdraw their loan application within 7 working days of the loan disbursal date, without penalty.

Borrowers who withdraw must return all funds including any interest accrued.

Please see your loan disclosure document for details.

You can also withdraw your loan before you have received your funds at any time via your dashboard.

Yield

This is another word for return on investment.

Harmoney and its related companies/entities do not guarantee any return/yield, nor do they guarantee that a Borrower will fulfil its loan obligations including making payments as and when they fall due for payment.

Changes to retail lending

No new loans available to retail lenders from 1 April 2020

After careful analysis of our business model and the company's strategic direction Harmoney has made the decision to **close our online lending** platform to **any new retail lending from 1 April 2020**.

NOTE: A retail lender is any lender (individual, company or trust) who funds loans under the peer-to-peer model and is **not** a large institution such as a bank.

This means:

- You can no longer register as a new retail (peer to peer) lender with Harmoney.
- Existing retail (peer to peer) lenders will no longer be able to invest in new loans.

This does **not** affect existing loans, and all current retail investments will continue to run out over the life of the loan in accordance with our normal processes.

What changed on 1 April 2020

- Retail lenders are now unable to invest in new loans with Harmoney.
- If loans in your portfolio are rewritten or are paid off early, principle and interest repayments back into your account will not be able to be reinvested with Harmoney.
- Auto-lend has been deactivated.

What did not change on 1 April 2020

- All existing loans funded by retail investors will continue with no change for the life of the loan.
- Your principal and interest will be deposited into your Harmoney account as your investments repay. The auto-withdraw function is available to you and we recommend using this so uninvested funds can be automatically transferred to your nominated bank account.
- Regular reporting, including real-time dashboard reporting and tax certificates, are still available.
- Harmoney collections policy remains the same.
- Harmoney Lender Services team are available to you on investorservices@harmoney.co.nz or 0800 427 666.

Frequently asked questions

Withdrawing funds

Can I withdraw funds from my lender account now?

You can withdraw funds from your lender account at any time, through your lender dashboard. We recommend enabling the auto-withdraw feature of your Harmoney account so all unallocated funds are automatically transferred to your nominated bank account.

What happens to any money I have sitting in my account?

We recommend withdrawing these funds by enabling the auto-withdraw feature so any unallocated funds are automatically transferred to your nominated bank account. Funds sitting in Harmoney accounts do **not** attract interest.

How quickly will I get my principal back?

All loans currently in your portfolio will be repaid according to their contractually scheduled repayments over the three or five year term of the loan (subject to any earlier repayment, or extension due to a hardship application). There is no change to how these loans will be repaid and managed.

Harmoney's peer-to-peer licence does not allow Harmoney to offer a secondary market (ie. to repurchase loans from retail lenders).

Can I cancel any investments I currently have?

No. Harmoney's current lender terms will still apply, and loans cannot be cancelled by lenders.

Can I sell my loan portfolio to another investor?

Harmoney's peer-to-peer licence does not allow Harmoney to offer a secondary market (i.e. to facilitate lenders purchasing loans from other lenders).

Will Harmoney offer to buy out my loans?

Harmoney's peer-to-peer licence does not allow Harmoney to offer a secondary market (ie. to repurchase loans from retail lenders).

Can I still deposit funds into my Harmoney account?

No.

Managing existing loans

What does this mean for the current loans in my portfolio?

Any current loans will continue to be repaid over the three or five year term of the loan (subject to any earlier repayment, or extension due to a hardship application), unless the borrower chooses to rewrite (Top Up) their loan, or the loan defaults.

Should an eligible borrower choose to repay their loan in full by taking out a new larger loan, your principal will be repaid to you at the time the original loan is repaid, rather than waiting for the full term. This is unchanged from what occurs today.

You will no longer be able to reinvest these funds in loans on the platform.

We recommend enabling the auto-withdraw feature of your lender account so funds not invested are automatically transferred to your nominated bank account.

Should loans default after 1 April 2020, Harmoney's current collections policy will still apply.

Tax certifications and regular reporting will continue.

Will there be any change to Harmoney's results reporting?

You will continue to receive real time reporting via your Harmoney dashboard. Harmoney will also continue monthly reporting, which is also accessible via your account dashboard. Tax reporting will be annual.

What happens if loans I have invested in are cancelled?

If a borrower opts to cancel a loan within the seven day “cooling off period” after settlement, lender funds will be returned to lenders. We recommend activating the auto-withdraw feature of your Harmoney account so any unallocated funds are automatically transferred to your nominated bank account.

What happens if any of the loans I have invested in default or go into arrears after 1 April 2020?

Harmoney’s current collections policy will still apply.

What happens if a borrower repays the loan early?

There is no impact on how Harmoney manages early repayment of loans. In the case of early repayment, any funds due will be paid to the lender’s account and will be available for withdrawal. Lenders will no longer be able to reinvest those funds from 1 April 2020. We recommend enabling the auto-withdraw feature of your Harmoney account so all unallocated funds are automatically transferred to your nominated bank account.

Is there any change to lender fees?

No. The rate of lender fees is fixed at the time lenders invest in a loan. A reducing principal balance over time will **not** result in higher fees.

Risks and returns

Does this increase the risk of any investments I have already made?

There will be no impact on your current investments and no change to Harmoney’s predicted default rates. Harmoney will not change how it assesses borrower creditworthiness as a result of this decision. Harmoney’s collections policy will not change.

Does this mean any change to interest rates or repayments on current loans?

No. Interest rates and the repayment schedules on current loans will remain the same (subject to any earlier repayment, or any extension due to a hardship application).

Will this impact how my returns are paid?

There is no change to our payments or collections policy. We recommend activating the auto-withdraw feature of your Harmoney account so any unallocated funds are automatically transferred to your nominated bank account.

Does this mean Harmoney is no longer an FMA-licensed peer-to-peer lender?

Harmoney will retain its FMA peer-to-peer lending licence for the foreseeable future. Harmoney has notified the FMA of its changes to retail lending from 1 April 2020.

Interest rates and fees — archived October 2014

Note: this is an old version - rates and fees listed on this page are out of date - you can view the current rates here.

At Harmoney, we’re 100% open and transparent about our rates and fees. If you're thinking about getting a loan, you can check what interest rate will apply to you through our no obligation loan application process, and you won't be charged a Platform Fee until your loan is issued. If you're an investor, you'll find details regarding the service fee below.

Investor fees

The only fee paid by investors is the Service Fee as outlined below.

Service Fee

Investors are charged a Service Fee of 1.25% of the principal and interest payments collected on each note. The service Fee is deducted from repayments into the investor account. The fee is paid to Harmoney for managing borrower repayments and administering the account on behalf of investors.

Interest rates and fees — archived August 2016

Note: this is an old version - rates and fees listed on this page are out of date - you can view the current rates here.

At Harmoney, we're 100% open and transparent about our rates and fees. If you're thinking about getting a loan, you can check what interest rate will apply to you through our no obligation loan application process, and you won't be charged a Platform Fee until your loan is funded. If you're a lender, you'll find details regarding the service fee below.

Lender fees

Service Fee

Lenders are charged a Service Fee of 1.25% of the principal and interest payments collected on each note. The service fee is deducted from repayments into the lender account. The fee is paid to Harmoney for managing borrower repayments and administering the account on behalf of lenders.

Service Fees are charged on principal and interest when a loan is prepaid early by the borrower, even when that loan is an on platform re-write.

NOTE: The Service fee will be replaced by a lender fee on all new lending from 13 June, 2016. All lending prior to 13 June, 2016 will continue to incur the Service Fee.

Lender Fee (from 13 June, 2016)

The Lender Fee will apply on all new lending from 13 June 2016. The Lender Fee is charged on gross interest received.

The Lender Fee will be tiered based on how much principal outstanding each lender has on the Harmoney platform, and lenders will move up and down tiers as that amount changes.

Click here to read more FAQs on the Lender fee.

Tier	Outstanding Principal	Lender Fee (% of Gross Interest)
Tier 1	< $10,000	20%
Tier 2	$10,000 - $49,999	17.5%
Tier 3	$50,000 +	15%

Interest rates and fees — archived 7 September 2016

Note: this page was updated on 7 September 2016. See archived page. See current version.

At Harmoney, we're 100% open and transparent about our rates and fees. If you're thinking about getting a loan, you can check what interest rate will apply to you through our no obligation loan application process, and you won't be charged a Platform Fee until your loan is funded. If you're a lender, you'll find details regarding the service fee below.

Payment Protect Fees for Lenders (from 15 August 2016)

Harmoney receives a Sales Commission for arranging the sale of the Payment Protect. The commission is set at the industry standard rate of 20% (rounded to the nearest $25 note) for arranging the sale.

There is also a Management fee of 15% (rounded to the nearest $25 note) of the Payment Protect fee. This is for Harmoney to conduct fair and transparent claims assessment and processing; effective complaint and dispute settlement procedures; and appropriate supervision of claims-related services.

On full loan prepayment by borrowers, Lenders get rebated the Payment Protect SalesCommission and Management Fee pro-rata as per the table.

Event	Rebate Rule
Rewrite	The sales commission and management fee are rebated on a pro rata basis.*
Prepayment	The unused portion of the management fee is rebated on a pro rata basis.*
Charge off	The unused proportion of the management fee is rebated on a pro rata basis.*
Full Waiver	The unused proportion of the management fee is rebated on a pro rata basis.*

* The refund is calculated as follows:

Payment Protect fee Refund = (p × s × (s + 1)) ÷ (t × (t + 1))

where:

- "p" is the amount of the Payment Protect Fee
- "s" is the number of whole months in the unexpired portion of the period for which the plan applied
- "t" is the number of whole months for which the plan applied.

Interest rates and fees — archived July 2020

Note: this page was updated on 31 March 2020. See current version. See previous version.

At Harmoney, we're 100% open and transparent about our rates and fees. If you're thinking about getting a personal loan you can check what interest rate will apply to you through our 100% accurate, online quote. You won't be charged an Establishment Fee until your loan is funded.

The information below is for Retail Lenders and applies to lending prior to 1 April 2020.

Service fee

Lenders are charged a Service Fee of 1.25% p.a. of the principal and interest payments collected on each note. The service fee is deducted from repayments into the Lender account. The fee is paid to Harmoney for managing borrower repayments and administering the account on behalf of Lenders.

Service Fees are charged on principal and interest when a loan is prepaid early by the borrower, even when that loan is an on platform re-write.

NOTE: The Service fee will be replaced by a Lender fee on all new lending from 13 June, 2016. All lending prior to 13 June, 2016 will continue to incur the Service Fee.

Lender Fee (from 13 June, 2016)

The Lender Fee will apply on all new lending from 13 June 2016. The Lender Fee is charged on gross interest received.

The Lender Fee is tiered, based on how much principal outstanding a Lender has on the Harmoney platform, and Lenders will move up and down tiers as that amount changes. The applicable fee is applied on an individual loan basis, and is fixed at the time the Lender invests in the loan (it does NOT change over the life of the loan regardless of whether the Lender moves up or down tiers).

Tier	Outstanding Principal	Lender Fee (% of Gross Interest)
Tier 1	< $10,000	20%
Tier 2	$10,000 - $49,999	17.5%
Tier 3	$50,000 +	15%

Payment Protect Fees

The Payment Protect fee is calculated as a percentage of the loan amount (including Establishment Fee), rounded to the nearest $25, for those customers who chose to take Payment Protect.

If Payment Protect is taken out on a joint application, it must be taken out by both the primary borrower and the co-Borrower; it cannot be taken out by only one party.

Event	Rebate Rule
Rewrite	The sales commission and management fee are rebated on a pro rata basis.*
Prepayment	The unused portion of the management fee is rebated on a pro rata basis.*
Charge off	The unused proportion of the management fee is rebated on a pro rata basis.*
Full Waiver	The unused proportion of the management fee is rebated on a pro rata basis.*

* The refund is calculated as follows:

Payment Protect fee Refund = $(p \times s \times (s + 1)) \div (t \times (t + 1))$

where:

- "p" is the amount of the Payment Protect Fee
- "s" is the number of whole months in the unexpired portion of the period for which the Plan applied
- "t" is the number of whole months for which the Plan applied.

Investment risks

Harmoney is no longer offering loans for investment by retail lenders.

After careful analysis of our business model and the company's strategic direction Harmoney has made the decision to close our online lending platform to any new retail lending from 1 April 2020.

Find out more

While Harmoney has taken significant measures to minimise risks, they do exist and should be considered. We recommend consulting a financial advisor before making any investment decisions.

Credit risks

Borrowers who are lent investors' funds may delay making their repayments or default on loans. The sole recourse for repayment is to the borrower. There is no security for the loan and no person guaranteeing the loan. Where a borrower fails to make payments Investors will not receive part or all of their principal and interest payments that are due to them.

Harmoney has robust systems to determine the suitability of a Borrower and his or her ability to afford loan repayments. Harmoney may take debt recovery steps, which may or may not recover any funds. Harmoney may also sell loans to a collection agency or third party. If it does so, Investors will receive a proportionate share of the net loan sale proceeds.

Borrower risk

Lenders may be affected by differences in the creditworthiness of borrowers in the event of late payment or default. In addition, a borrower's creditworthiness may change over time, reducing potentially their ability to repay a loan. Harmoney's assessment of a borrower's creditworthiness for a loan is made as at the date of their loan application. If a borrower does not repay their loan Harmoney will take debt recovery steps and may sell loans to a collections agency or third party, as outlined above.

Liquidity risk

Lenders may suffer loss from other events through their inability to sell a loan investment or demand early repayment (should they need their funds early). Harmoney's licence terms do not permit secondary trading of investments and lenders cannot demand early repayment of a loan. Only Harmoney is entitled to require borrowers to repay the total amount outstanding on a loan if borrowers breach their loan contract.

Lenders are only able to withdraw funds if they have funds available in their lender account. Lender funds may also need to remain on loan beyond the initial term if the borrower(s) to whom their funds are lent have not repaid their loan(s) in full when they fall due.

Fraud risk

Harmoney has a thorough and robust credit assessment process to guard against fraudulent applications. There is, however, a risk that borrowers may be fraudulent, with no intention to repay.

Borrowers may be the victims of identity theft, in which case the person receiving the money has misappropriated the details of the person whose identity has been used to apply for the loan.

Borrowers may also fabricate their expenses, liabilities, or income. In such cases, they may be unable to afford to repay a loan and may default on their loan obligations. It may also mean that Harmoney assigns a risk grade which does not accurately reflect the borrower's risk and therefore that borrower's ability to meet his or her loan obligations.

Early repayment risk

A borrower can repay his or her loan at any time. Should a Borrower decide to repay early, then an Investor will not receive the total interest income that would have been earned had the loan run to its full initial term. Current experience shows that a substantial proportion of loans are repaid before maturity.

Concentration risk

Investors who do not diversify their investment across loans and risk grades could face exposure to a concentration of borrowers of the same type. Having a spread of investments across various borrowers and risk grades should provide an Investor some protection from a borrower default.

Operational risk

Harmoney regularly monitors and updates its internal systems to seek to gain efficiencies and improve service standards and experiences. However, there is a risk of financial loss and/or damage to Harmoney's reputation if there is a failure of Harmoney's information technology systems, internal processes, people, or operating systems. This could also arise from external factors such as failure of a supplier to provide a service at agreed service levels or an unforeseen disaster. Should any of those events occur, this could have an adverse effect on Harmoney's financial performance and on the performance of loans.

Regulated loan risks

Borrowers generally have protections under the Credit Contracts and Consumer Finance Act 2003 (**CCCFA**). Investments in loans may be affected if a Borrower exercises certain rights under the CCCFA, including seeking a repayment variation due to hardship (which may affect the length of time taken to repay their loan).

Macro risks

There are several factors that may affect Harmoney's Peer-to- Peer Service over which it has little control. These include an economic recession, political turmoil, changes in interest rates, natural disasters, and terrorist attacks, some of which may affect a borrower's ability to make loan repayments.

Harmoney regularly monitors local and global economic and business conditions in order to identify and assess any potential risks that may affect Harmoney's business operations. However, economic conditions are not always predictable, and significant changes in the New Zealand economy could have an impact on Harmoney's business and the performance of loans.

Cybersecurity risk

Harmoney is an online web-based business. As such, Harmoney relies heavily on information technology and computer based- systems that could be a target for illegal hackers. Harmoney is very aware of this risk and therefore has security measures and systems in place that are designed to ensure the system's security. A security breach is a possibility and should this occur it may materially affect Harmoney's ability to operate and to provide access to loan information and loan recoveries.

Legislative and regulatory risk

Failure by Harmoney to comply with (or changes in) laws, codes of conduct and policies could result in loss of Harmoney's peer- to-peer licence, in legal action, and in financial loss.

Risks with Payment Protect

Lenders who fund a loan that has Payment Protect have the potential to earn a greater return on it, but also face additional risks.

First, if a borrower notifies Harmoney of the occurence of an event for which the borrower is covered, Harmoney will suspend payments from the borrower while Harmoney assesses the waiver application. Consequently, there may be some delay before lenders receive payments while the claim is being processed.

Secondly, if an event occurs for which the borrower has cover and the borrower is entitled to a waiver, the lenders will not receive the waived principal, interest and loan repayments for the duration of the waiver depending on the level of cover chosen by the borrower.

Thirdly, the Payment Protect fee is capitalised (i.e. is added to, and paid by the borrower out of, the loan amount). Therefore, on occurrence of an event for which the borrower is covered, in addition to not receiving principal and interest payments, the lender will also not receive the Payment Protect Fee component of those repayments in the repayments.

Fourthly, if the borrower repays the loan early (due to a prepayment or Rewrite) then the borrower will be entitled to a proportionate rebate of the Payment Protect fee. As a result, the lenders will not receive all the additional principal and interest they would otherwise have expected in relation to the Payment Protect fee.

Depending on the level of cover the borrower has taken, the risk will be different. If the borrower has taken Complete cover, then they are covered for more events, therefore there is a higher probability of payments being waived than if they have taken Partial cover.

Estimated defaults and losses

An estimated annual default rate is the probability that a loan will default in each year of the loan - it is an annual rate. The principal loss to Lenders as a result of a default will depend on when in the loan term it is written off. The later in the loan term the more principal has been repaid and the loss to a Lender is lower.

Although the rate is shown as a consistent annual rate in reality defaults are more likely to happen in the first 2 years of the loan as can be seen by the hazard curve below.

Estimated default rates by risk grade

Each loan in the marketplace has a estimated default rate based on its risk grade. It is important to understand that this is a estimated rate and the actual default rate may vary from the rate shown. Information about actual default rates will be published as they become available.

The table below shows the estimated annual default rate for applications approved after 6 November 2019, under scorecard 1.6. There will be a 60-day period in which the platform will list some loan applications that have been assessed and priced using the previous scorecard (Scorecard 1.5) as well as some other loan applications that have been assessed and priced using the new scorecard and pricing model. This is because borrower approvals remain valid for up to 60 days.

Estimated default rate p.a.

Grade	Scorecard 1.6
A1	0.02%
A2	0.05%
A3	0.06%

Estimated default rate p.a.

Grade	Scorecard 1.6
A4	0.07%
A5	0.09%

Estimated default rate p.a.

Grade	Scorecard 1.6
B1	0.11%
B2	0.13%
B3	0.16%
B4	0.20%
B5	0.25%

Estimated default rate p.a.

Grade	Scorecard 1.6
C1	0.32%
C2	0.42%
C3	0.55%
C4	0.73%
C5	0.96%

Estimated default rate p.a.	
Grade	**Scorecard 1.6**
D1	1.24%
D2	1.59%
D3	2.01%
D4	2.50%
D5	3.05%

Estimated default rate p.a.	
Grade	**Scorecard 1.6**
E1	3.63%
E2	4.25%
E3	4.90%
E4	5.56%
E5	6.25%

Estimated default rate p.a.	
Grade	**Scorecard 1.6**
F1	6.98%
F2	7.67%

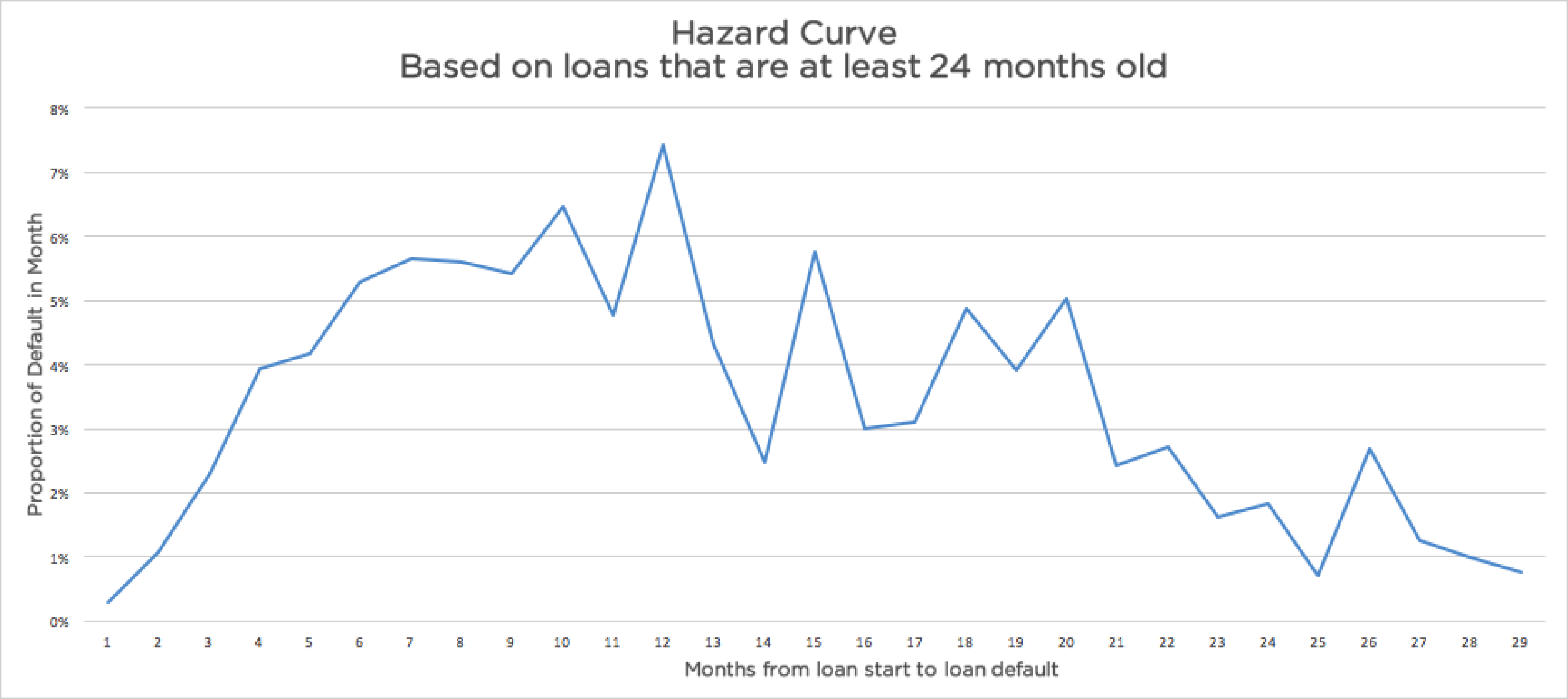
Estimated default rate p.a.

Grade	Scorecard 1.6
F3	8.31%
F4	8.95%
F5	9.56%

Hazard Curve

The estimated default rates are shown as a consistent annual rate over the term of the loan. In reality, defaults are more likely to follow what is known in statistical terminology as a time-varying hazard rate. This chart shows the profile of the hazard curve of the personal loan portfolio to date and shows that almost 60% of the defaults that have occurred may been within the first 15 months of the loan.

See full size Hazard Curve



Hazard Curve
Based on loans that are at least 24 months old
Proportion of Default in Month
8%
7%
6%
5%
4%
3%
2%
1%
0%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29
Months from loan start to loan default

Collections process

Harmoney is no longer offering loans for investment by retail lenders.

After careful analysis of our business model and the company's strategic direction Harmoney has made the decision to close our online lending platform to any new retail lending from 1 April 2020.

Find out more

How does Harmoney handle collections?

As the operator of the lending platform, we take the debt collection process very seriously. Harmoney's own in-house collections team manages any delinquent accounts.

We follow Responsible Lending principles and an industry defined process, to proactively contact borrowers who have repayment defaults, via SMS, email, and telephone to attempt to get them back on track. We manage these delinquent accounts through our own in house collections team. By utilising two teams, we are able to ensure maximum performance and results.

If we are unable to collect the debt from the borrower within 120 days, the loan moves into a "charged off" status. In some cases, loans may not be charged off at 120 days if there is a reasonable likelihood of payments being made. If any payments are made after a loan becomes charged off, the funds are transferred to the Lenders, as they still hold a beneficial interest in the loan.

What is the collections process?

We proactively start communicating with borrowers 5 days prior to the due date for a repayment. Many of our borrowers use direct debit to make their repayments, but for those who don't, these reminders help to ensure repayments are made on time.

We understand that there will always be unexpected life events that can create disruptions and sometimes payments get missed. In the first 5 days Harmoney will contact the delinquent Borrower via:

- Email (first written notice)
- SMS
- Phone

During this time, a member of the Harmoney Collections team will be assigned to manage the delinquent Borrower.

Days in arrears 5 – 15

Over this time period, further attempts will be made by the Collections team to contact the borrower and arrange for immediate repayment. During this period a second written notice will be sent to the delinquent borrower informing them of the consequences of late repayments.

It is at this point that Harmoney will consider sharing the repayment delinquency with New Zealand's Credit Bureau as part of **CCR**.

Days in arrears 15 – 30

Over this time period, further attempts will be made by the Collections team to contact the borrower and arrange for immediate repayment. During this period a third written notice will be sent to the delinquent borrower informing them of the consequences of late repayments, including, but not limited to:

- Written Letter of Notice
- SMS
- Email
- Phone

Notice of adverse credit may also be passed to New Zealand's Credit Bureaus at this point.

Days in arrears 30 – 60

The borrower is informed that they are now in breach of their repayment obligations under their Harmoney contract, and that Harmoney reserves the right to commence legal action. Further to this, a 'Notice of Demand' is issued to the Borrower.

If no attempt at resolution is made by the Borrower, the case is handed to our Recovery Team. However, at this point the aim is to continue with an attempt to collect the debt, and the Collections team will continue to work with the delinquent Borrower to reach an amicable solution.

Days in arrears 60 – 90

A second written 'Notice of demand' is issued, as well as numerous further attempts at resolution.

This is the final opportunity for the Borrower to resolve the situation prior to further collections steps being taken. Failure to make payment at this stage may result in consideration of commencement of legal action, and the lodgement of a default on the Borrower's Credit file with New Zealand's Credit Bureau.

Days in arrears

90 – 120+

This stage represents the last possible stage for a borrower to make repayment before legal action is considered.If no attempt at remediation is made, the loan will move into a 'Charged Off' state, and the case handed over to an outsourced recoveries team.

Unforeseen hardship

If borrowers find themselves unable to reasonably keep up their loan repayments due to unexpected life event, they can apply for Unforeseen Hardship relief.

Unforeseen Hardship can happen due to illness or injury, a major life event (e.g. death of a loved one, divorce, loss of employment), or another reasonable cause.

Once Harmoney receives an application, including all supporting documentation, the hardship team will assess the application and make a decision on whether or not to approve the application for Unforeseen Hardship. If the application is successful one of the following will happen:

- The borrower may receive an extension to the term of their loan – this will reduce the amount they pay with each repayment, but increase the number of repayments;
- The borrower may have some of their repayments postponed for a set time; or
- The borrower may get a combination of the two – i.e. an extension of the loan term, and a a postponement of some repayments for a set period of time.

Not all applications will be successful, and there is stipulated criteria that a borrower must comply with in order to be granted relief on the grounds of Unforeseen Hardship.

Ultimately, it’s important to remember that borrowers who have their contracts varied, because of Unforeseen Hardship will still repay their loan in full – it may just take longer than initially expected.

First month delinquencies

First payment delinquencies can be common in lending, as borrowers attempt to arrange repayments around their monthly pay schedules, and establish a direct debit. This is typically because borrowers are so focused on completing their loan application, rather than thinking about the date for debiting of their loan repayments to come out. In these cases, the borrower is contacted by our Collections team and a new repayment schedule is established. The account will typically move back into "current" within a week.

That said, defaults are more likely to happen between 8-12 months - as represented by the Hazard Curve. There is more information about this on our Investment Risks page.

What is a 'charged off' loan?

A charged off status indicates that a borrower has defaulted on their loan, usually due to bankruptcy, sickness, job loss, death, or other unforeseen circumstances. Typically, this means that we've exhausted our collections efforts and there's a low statistical likelihood that we'll be able to collect any funds from the Borrower; resulting in a capital loss for Lenders.

Once the loan is charged off, there may still be some chance of recovery of the outstanding debt via **Debt Recovery**; you would see this as a loan payment against the existing loan.

Debt recovery and debt sales

An important part of Harmoney's collection and loss mitigation strategy is ensuring we are able to recover debt, both while it is still in arrears (pre-120 days) as well as when it has deemed to be **charged off** (post 120 days).

Accordingly, as part of Harmoney's **collections process**, we have investigated a number of debt recovery professionals who are experienced in purchasing debt, and would be able to offer Harmoney's lenders a return on their charged off debt – i.e. a percentage of every dollar charged off.

In addition, Harmoney has also engaged with a specialist debt recoveries broker to ensure a 360 degree view on debt recovery options.

Debt recovery is generally done post charge-off by selling a portfolio to an external agency via a 'debt sale'.

What is a 'debt sale'?

A debt sale is when a portfolio (collection of loans) of charged off debt is generally sold to a third-party company, typically a collection agency or a private debt collection firm.

These companies purchase delinquent or **charged-off** loans for a reduced amount of the face value of the debt. The debt purchaser can then collect on its own.

Depending on the age, type and size of the portfolio, a debt purchaser typically pays between 2 and 20 percent of the face value of the debt. Accounts that come directly from the original creditor, without having been placed with a collection agency, have the highest value, with prices decreasing based on the number of agencies that have previously attempted to collect the debt.

Harmoney's approach on behalf of its lenders

To help lenders regain maximum cents in the dollar, Harmoney has selected appropriate partners to work with and will be focusing on an early payment of cents in the dollar rather than a strung out approach over a 3-5 year period.

Harmoney will:

- Ensure appropriate internal policies and procedures are developed and implemented to govern debt sale arrangements consistently;
- Perform appropriate due diligence when selecting a debt purchaser;
- Ensure debt sale arrangements with debt purchaser cover all important considerations (including duties and obligations of the parties, particularly provisions for compliance, confidentiality, privacy and information security; a termination plan; and minimum service-level agreements;
- Offer the debt for consideration to multiple parties to obtain the best price;
- Provide accurate and comprehensive information regarding each debt sold, at the time of sale.

It is also important to note that a debt cannot be sold if:

1. Debt is otherwise settled or in the process of settlement;
2. Debt of deceased account holders;
3. Debt of borrowers that have sought or are seeking bankruptcy protection;
4. Debt of account holders currently in litigation with the institution; have a hardship application pending or are subject to a payment arrangement and;

5. Debt incurred as a result of fraudulent activity.

Benefits for Lenders?

- Recover principal quickly rather than a drip feed over time;
- Funds are transferred to Lender on completion of the sale for further investment or cash withdrawal;
- Increased RAR as net charge-offs are reduced on a net basis by the recovered amount.

Debt recovery FAQs

Do investors get 100% of the sale price of the debt?

The cost of the debt sale transaction (broker costs) are deducted from sale amount and the remaining proceeds are paid against the loan using the standard payment hierarchy. This means collections fees are paid first, followed by interest owing and then principal. Investors receive their share of the principal and interest paid against the loan.

Under the CCCFA (Credit Contracts and Consumer Finance Act) the collections fees charged to the borrower account must reflect the real cost incurred by Harmoney for conducting the activity.

How do I know Harmoney is getting the best price for the debt?

To ensure a fair process and fair that lenders are receiving a market rate for the debt, Harmoney has implemented the process outlined above in the section ‘The debt sale process’.

Why has there not been a debt sale until now?

There have been two debt sales since November 2017. The debt sold were single loans with institutional investors. This enabled Harmoney to test the process and the market before loans with multiple investors were sold.

How often will debt sales happen moving forward?

Harmoney plans to implement a ‘forward flow’ agreement with a debt purchaser so that debt is sold on a regular basis soon after charge off to maximise the sale price of the debt.

Can I elect for loans in my portfolio to be sold?

No. The process is managed by Harmoney on your behalf. It will identify which loans qualify for the debt sale process.

What impact do debt sales have on my account?

Funds received from a debt sale will increase your Cash Available and show as a principal or interest recovery in your account. The loan status of sold loans will change from ‘Charged off’ to ‘Debt Sale’. The debt sale loans will still be included in the charged off amount and the funds received from the debt sale will show as recoveries and reduce the net charged off amount.

Does Harmoney earn income on debt sales?

Harmoney may recover the collections costs that have been charged against borrowers account. See the question above ‘Do investors get 100% of the sale price of the debt?’.

Auto-withdraw

Harmoney is no longer offering loans for investment by retail lenders.

After careful analysis of our business model and the company’s strategic direction Harmoney has made the decision to close our online lending platform to any new retail lending from 1 April 2020.

Find out more

Following feedback from Harmoney Lenders, many expressed an interest for an easy-to-use automated, process for withdrawing funds from their Harmoney account into their nominated bank account.

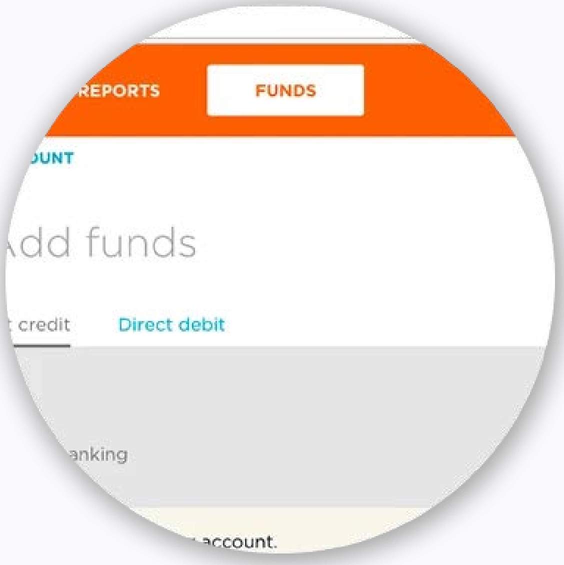
What is Auto-withdraw

Auto-withdraw allows Lenders to automatically withdraw Funds Available from their Lender account once a week. A minimum of $25 will always be left in their account. Withdrawals are processed on a Monday to their nominated bank account; allow 2-3 days clearance.

How does it work?

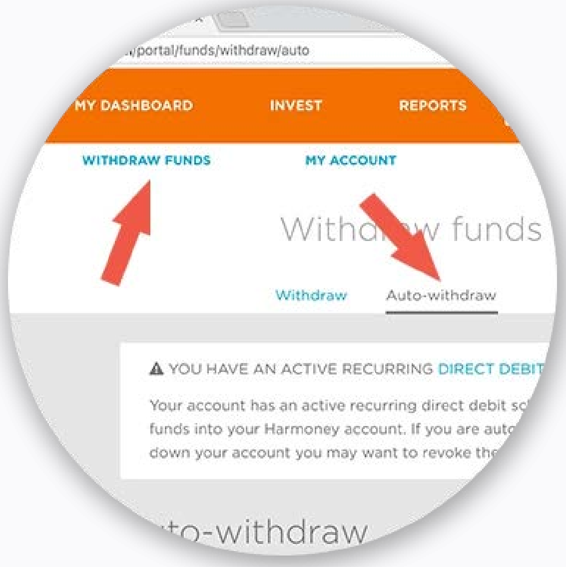
There are currently no personalisation options with Auto-Withdraw. The functionality is either turned on or off. Lenders who elect Auto-Withdraw will receive an email on each transaction advising them of the amount that was withdrawn from their Lender account and deposited to their bank account.

How to set up Auto-Withdraw from your Lender dashboard



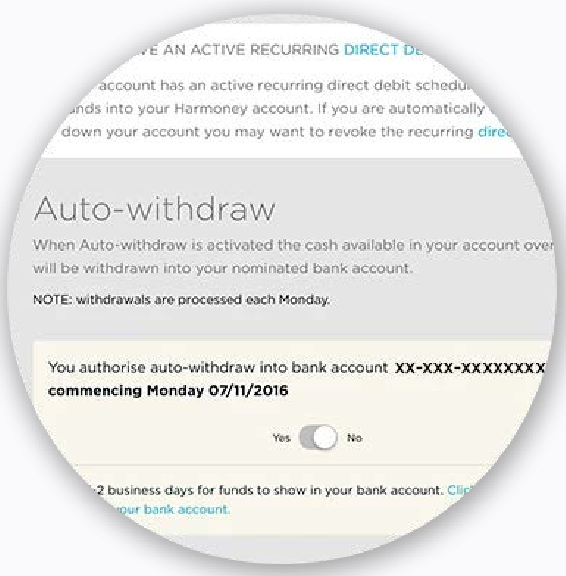
1. Sign in and select 'Funds'

Sign in to your Lender dashboard, and click on the menu item in the header options named **'Funds'**. On mobile, you would select the in the top right corner, then 'funds'.



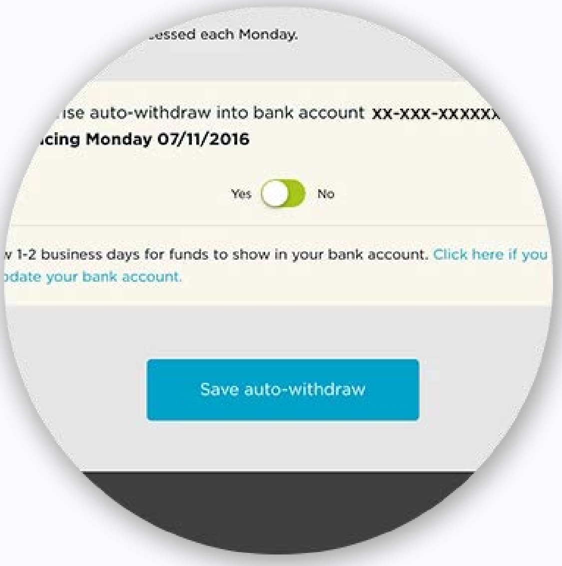
2. Select 'Withdraw funds' then 'Auto-withdraw'

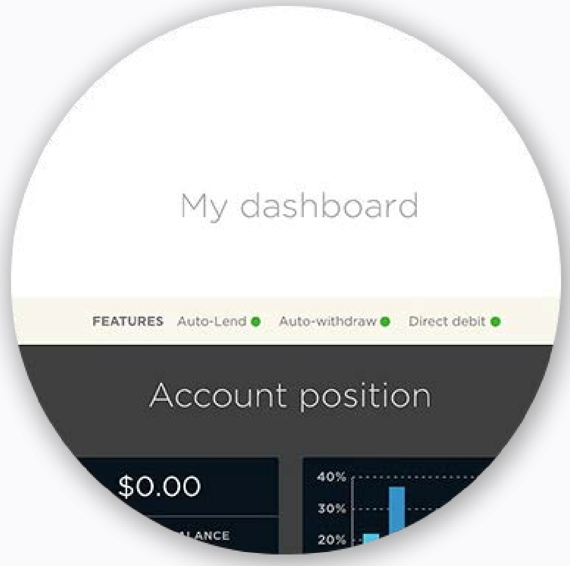
Select 'Withdraw Funds' from the sub-header navigation, and then 'Auto-withdraw'. On mobile, this would be the same step, however the menu would now be vertical down your screen.



3. Switch 'Auto-Withdraw ' on

Read the Auto-withdraw information and then, if you wish to activate Auto-withdraw, slide the switch to 'Yes'. Note: Auto-withdraw is not able to be personalised and will withdraw any Funds Available over $25 each Monday.



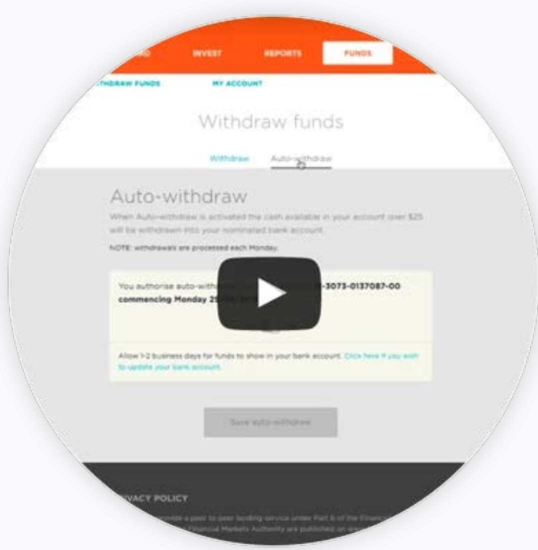


4. Save Auto-Withdraw

Click 'Save auto-withdraw'. Your Auto-Withdraw preferences will then be updated and saved.

That's it!

On your dashboard, the feature light will remind you that Auto-withdraw has been enabled. You will receive a weekly email notifying you of the amount of the weekly withdrawal. You can also see the details of all withdrawals in the 'Reports Deposits' Section.



Watch the video

Watch our how to switch on Auto-Withdraw video to help you set up this feature in your lender Dashboard.

Watch the video on our YouTube channel

Sign in to set up

Frequently asked questions

How often do withdrawals from my account happen?

They happen every week on a Monday or first banking day after Monday.

When will I see the funds appear in my nominated account?

Allow 1-2 business days for funds to show in your bank account.

Can I set the amount I want to auto-withdraw each week?

There is no limit on withdrawals. From 1 April, 2020 we recommend switching on Auto-withdraw so any uninvested funds are transferred to your nominated bank account.

Why can I not auto-withdraw all the funds in my account?

Auto-Withdraw leaves $25 in your account so that there is a buffer if Borrower payments are reversed.

Payment Protect for Lenders

Payment Protect is no longer available on new loans from 1 April 2020

Loans with Payment Protect attached prior to 1 April 2020 will not be affected.

The repayment waiver that offers borrowers financial protection and lenders the opportunity to increase your returns.

A closer look at Payment Protect

How many repayments could be waived?

This table is an overview of the benefits that are offered for each claim type.

There are two levels of Payment Protect available to borrowers: Partial and Full. Partial includes death and terminal illness, while Full cover also offers disability, illness and involuntary redundancy.

Event	Waived Payments
Death and terminal illness	The borrower's remaining loan repayments
Disability, illness	The borrower's remaining loan repayments until they can work again, with a maximum of 24 months repayments waived.
Involuntary Redundancy	The borrower's loan payments while they are out of work due to redundancy with a maximum of 5 months repayments waived.

Payment Protect pricing

Payment Protect pricing is driven from the claims rate with an added risk margin for lenders, and operating costs added to get the Payment Protect retail rate (fee):

Term	36 months	60 months
Individual (Complete)	7.24% of loan amount	9.88% of loan amount
Individual (Partial)	5.92% of loan amount	8.18% of loan amount
Co-Borrower (2x Complete)	9.34% of loan amount	12.75% of loan amount
Co-Borrower (2x Partial)	7.64% of loan amount	10.56% of loan amount
Co-Borrower (1x Complete 1x Partial)	8.49% of loan amount	11.66% of loan amount

Payment Protect Fee = Claims Rate* + Risk Margin + Operating Costs

*The claims forecast claims rate was provided by a registered actuary specialising in repayment insurance.

This was completed for each Borrower type and cover type combination. The fee is then calculated as a percentage of the principal loan amount.

Forecast waiver claims rate

The waiver claims rate is the forecast value of waivers shown as a percentage of the Payment Protect fee paid by the borrower. For example, for individual borrowers, 21% of the Payment Protect fee paid by borrowers is expected to be claimed as principal and interest waivers. The waiver claims forecast rate is calculated on a portfolio basis, but actual performance may vary (refer risks section).

Term	Forecast Claims rate
Individual (Complete)	24%
Individual (Partial)	24%
Co-Borrower (2x Complete)	33%
Co-Borrower (2x Partial)	33%
Co-Borrower (1x Complete 1x Partial)	33%

The claims rate analysis and forecasts were provided by a registered actuary.

Payment Protect Fees

Harmoney receives a Sales Commission for arranging the sale of the Payment Protect. The commission is set at the industry standard rate of 20% for arranging the sale. There is also a Management fee of 15% of the Payment Protect fee. This is for Harmoney to conduct fair and transparent claims assessment and processing; effective complaint and dispute settlement procedures; and appropriate supervision of claims-related services. The sales commission and management fees are paid paid by the lender as a deduction on settlement of the loan. You can see more details here.

On full loan prepayment by borrowers, Lenders get rebated the Payment Protect Sales Commission and Management Fee pro-rata as per the table. The same rebate formula is used to calculate borrower rebates is to calculate investor rebates. Click here for more information.

Event	Rebate Rule
Rewrite	The sales commission and management fee are rebated on a pro rata basis.*
Prepayment	The unused portion of the management fee is rebated on a pro rata basis.*

Event	Rebate Rule
Charge off	The unused proportion of the management fee is rebated on a pro rata basis.*
Full Waiver	The unused proportion of the management fee is rebated on a pro rata basis.*

* See Rebates section for details.

Payment Protect Fee rebates to borrowers

If a borrower prepays their loan in full before the end of the term they are entitled to a pro rata rebate of Payment Protect Fees for the remainder of the loan term, using a formula prescribed in the Credit Contracts and Consumer Finance Act (CCCFA). The same formula is used to calculate Lender fee rebates whenever a rebate is due. The refund is calculated as follows:

Fee Rebate = $(p \times s \times (s + 1)) \div (t \times (t + 1))$

Where:

- "p" is the amount of the fee
- "s" is the number of whole months in the unexpired portion of the period for which the Plan applied
- "t" is the number of whole months for which the Plan applied.

Here is an example:

Payment Protect Borrower Fee $1,000
Payment Protect Sales Commission $200
Payment Protect Management Fee $150
Loan Term 36 months

Borrower prepays in full month 12 and gets a pro rata rebate of the Borrower Payment Protect Fee. As the loan is prepaid because it is rewritten, the Lender gets a pro rata rebate of the Sales Commission and Management fee.

Protect Rebate	Paid By	Total Fee	Rebate	Net
Protect Fee	Borrower	$1,000	$450	$550
Sales Commission	Lender	$200	$90	$110
Management Fee	Lender	$150	$68	$82
Net Payment Protect Income				$358*

*In this example net income from Payment Protect is $358 as there has been no claims. The net income figure does not include interest income on the unfunded amount.

Let's look at some examples:

There are two examples below of a loan with Payment Protect attached vs a loan without it. The first example is a loan where no waiver is applied. The second shows a loan that has a waiver event. Both examples are illustrative and do not represent the actual cashflows.

Loan without a waiver event occurring:

Protect Impact	Without Protect	With Protect	Variance	Notes
BORROWER LOAN				
Loan Amount before Payment Protect Fee	$10,000	$10,000	$0	No change

Protect Impact	Without Protect	With Protect	Variance	Notes
Payment Protect fee (Borrower)	$0	$750	+$750	The Payment Protect fee (paid by the Borrower) is calculated as a percentage of the loan amount (rounded to the nearest $25).
Total Loan Amount (principal)	$10,000	$10,750	+$750	The Borrower Payment Protect fee is added (capitalised) to the loan amount
Lender Funded Amount	$10,000	$10,275	+$275	Lenders do not fund the Total Loan Amount. They fund the loan amount before Payment Protect + the Lender Payment Protect Fees.
LENDER INCOME				
Payment Protect Fee	$0	$750	+$750	Payment Protect Fee income
Interest	$2,742	$2,948	+$206	Lenders receive interest on

Protect Impact	Without Protect	With Protect	Variance	Notes
				the Total Loan Amount although they have only funded part of it.
Lender Income	$2,742	$3,698	+$956	Payment Protect Fee + interest Income increases Lender income.
LENDER EXPENSES				
Payment Protect Lender Fees	$0	-$275	-$275	Lenders pay a 20.00% p.a. sales commission and 15.00% p.a. management Fee to Harmoney (each is rounded to the nearest $25)
Waiver	$0	$0	$0	This example assumes no repayment waivers apply
Lender Fee (Tier 2 17.50%)	-$480	-$516	-$36	Lending Fees increases as the borrower pays more interest.
Net expenses	-$480	-$791	-$311	Lenders incur $311 more in

Protect Impact	Without Protect	With Protect	Variance	Notes
				expenses on this Payment Protect Loan.
TOTAL				
Returns (pre-tax)	$2,262	$2,907	+$645	Lender return increased $1.54 per note, due to Payment Protect

Loan *with* a waiver event occurring:

Protect Impact	Without Protect	With Protect	Variance	Notes
Borrower Loan				
Loan Amount before Payment Protect Fee	$10,000	$10,000	$0	No change
Payment Protect fee (Borrower)	$0	$750	+$750	The Borrower Payment Protect Fee (paid by the Borrower) is calculated as a percentage of the loan amount (rounded to the nearest $25).
Total Loan Amount	$10,000	$10,750	+$750	The Borrower Payment

Protect Impact	Without Protect	With Protect	Variance	Notes
(principal)				Protect Fee is added (capitalised) to the loan amount
Lender Funded Amount	$10,000	$10,275	+$275	Lenders do not fund the Total Loan Amount. They fund the loan amount before Payment Protect + the Lender Payment Protect Fees.
Lender Income				
Payment Protect Fee	$0	$750	+$750	Payment Protect Fee income
Interest	$2,742	$2,948	+$206	Lenders receive interest on the Total Loan Amount although they have only funded part of it.
Lender Income	$2,742	$3,698	+$956	Payment Protect Fee + interest Income increases Lender income.
Lender Expenses				

Protect Impact	Without Protect	With Protect	Variance	Notes
Payment Protect Lender Fees	$0	-$275	-$275	Lenders pay a 20.00% p.a. sales commission and 15.00% p.a. management Fee to Harmoney (each is rounded to the nearest $25)
Waiver	$0	-$761	-$761	In this example, two month's repayments waived due to Borrower redundancy. The forecast waiver rate for individuals taking Complete Cover is 24% of the Payment Protect. Note: The forecast waiver rate for individuals taking Complete Cover is 24% of the Payment Protect fee paid by the Borrower (e.g. $750 X 24% = $180).
Lender Fee (Tier 2 17.50%)	-$480	-$516	-$36	Lending Fees increases as the borrower pays more interest.
Net expenses	-$480	-$1,552	-$1,072	Lenders incur $1,072 more in expenses on

Protect Impact	Without Protect	With Protect	Variance	Notes
				this Payment Protect Loan.
Total				
Returns (pre-tax)	$2,262	$2,146	-$116	Lender return is reduced 28c per note, due to the repayment waivers

Loan Terms used in examples: Interest Rate 17.50%, 36-month Term, Payment Protect Borrower Fee 7.24%

Lenders' Tax treatment for loans with Payment Protect

The tax treatment for Payment Protect will be different for each Lender, depending on their personal circumstances and whether the Lender is a cash basis or non-cash basis for New Zealand income tax purposes. Therefore it is recommended that independent tax advice is sought before participating in Payment Protect loans. The information below is supplied as guidance only.

Tax returns

Harmoney does not pay income tax on the Payment Protect Fee on behalf of lenders. Lenders are responsible for including the Payment Protect Fee as income in their income tax returns and for claiming any deductions referred to below that are available to them. Lenders should seek independent tax advice when preparing income tax returns.

Tax treatment

The tax treatment of a Payment Protect loan is different for lenders taxed as a cash basis person and those taxed as a non-cash basis person (see definition below)

Item	Tax Treatment: Cash basis	Tax Treatment: Non-cash basis
Payment Protect Fee	Taxable income when received, over term of loan	Taxable income, income spread over term of loan under the financial arrangements rules
Sales Commission	Deductible expense when charged (i.e. at commencement of loan)	Deductible expense, deductions spread over term of loan under the financial arrangements rules
Management Fee	Deductible expense, deductions spread over term of loan as prepaid expenditure	Deductible expense, deductions spread over term of loan under the financial arrangements rules
Lender Fees	Deductible expense, deductions spread over term of loan	Deductible expense, deductions spread over term of loan under the financial arrangements rules
Waiver of Principal (inc. waived Payment Protect Fee)	Deduction for interest which has been included as taxable income but not received (if any), at conclusion of loan No deduction for waived Principal or Payment Protect Fee unless Lender is a dealer in financial arrangements or carries on a business of lending.	

Cash basis person

A lender is a cash basis person for an income year if:

- The value of the lender's income and expenditure in the income year under all financial arrangements to which the lender is a party is $100,000 or less; OR

- On every day of the income year, the absolute value of all financial arrangements to which the lender is a party added together is $1,000,000 or less; AND
- The result of applying the following formula: (accrual income – cash basis income) + (cash basis expenditure – accrual expenditure) to each financial arrangement to which the lender is a party at the end of the income year and adding the outcomes together is $40,000 or less.

If a Lender is not a cash basis person the lender will be a non-cash basis person for tax purposes.

FAQs

How are Lender Payment Protect fees paid to Harmoney?

The sales commission and management fees are paid by the ender as a deduction on the settlement of the loan.

Who manages the claims process?

The claims process is managed in-house by Harmoney claims specialists. This ensures that the customer experience is consistent, fair and transparent and that the process is compliant with regulation.

Is this repayment insurance?

No. This is a repayment waiver. The agreement is only to waive the right to collect repayments, although the terms of the policy have some similarities to loan repayment insurance.

Can Borrowers cancel Payment Protect?

No. The only way borrowers can cancel Payment Protect is by repaying their loan in full.

What happens when a borrower “rewrites” their loan with Payment Protect?

The lenders are rebated their Payment Protect fees as described in the rebates section above.

Can a loan be rewritten if repayments are being waived or there is a claim outstanding?

Borrowers cannot re-write their loan when repayments are being waived or if there is a claim outstanding.

How is this treated for tax purposes?

As the tax treatment for Payment Protect will be different for each Lender, depending on their personal circumstance (e.g. cash basis, non-cash basis etc). It is recommended that independent tax advice is sought before participating in Payment Protect loans.

What is the unfunded amount on Payment Protect loans?

The unfunded amount is the difference between the loan amount owned by a borrower and the amount funded by lenders. Take for example a $11,000 loan that includes $1,000 Payment Protect Fee. The unfunded amount on this loan is $11,000 - $10,350 = $650. The lender only funds $10,350 ($10,000 paid to the borrower on settlement + $350 Payment Lender Protect Fees paid to Harmoney) of a total loan amount of $11,000.

Historical annual default rates

Harmoney is no longer offering loans for investment by retail lenders.

After careful analysis of our business model and the company’s strategic direction Harmoney has made the decision to close our online lending platform to any new retail lending from 1 April 2020.

Find out more

Comparing actual default rates to estimated default rates

For every risk grade Harmoney provides an estimated annual default rate. This is the probability that a loan will default in each year of the loan – it is an annual rate.

The charts below show a comparison of Harmoney's estimated annual default rate and actual default rates that have occured.

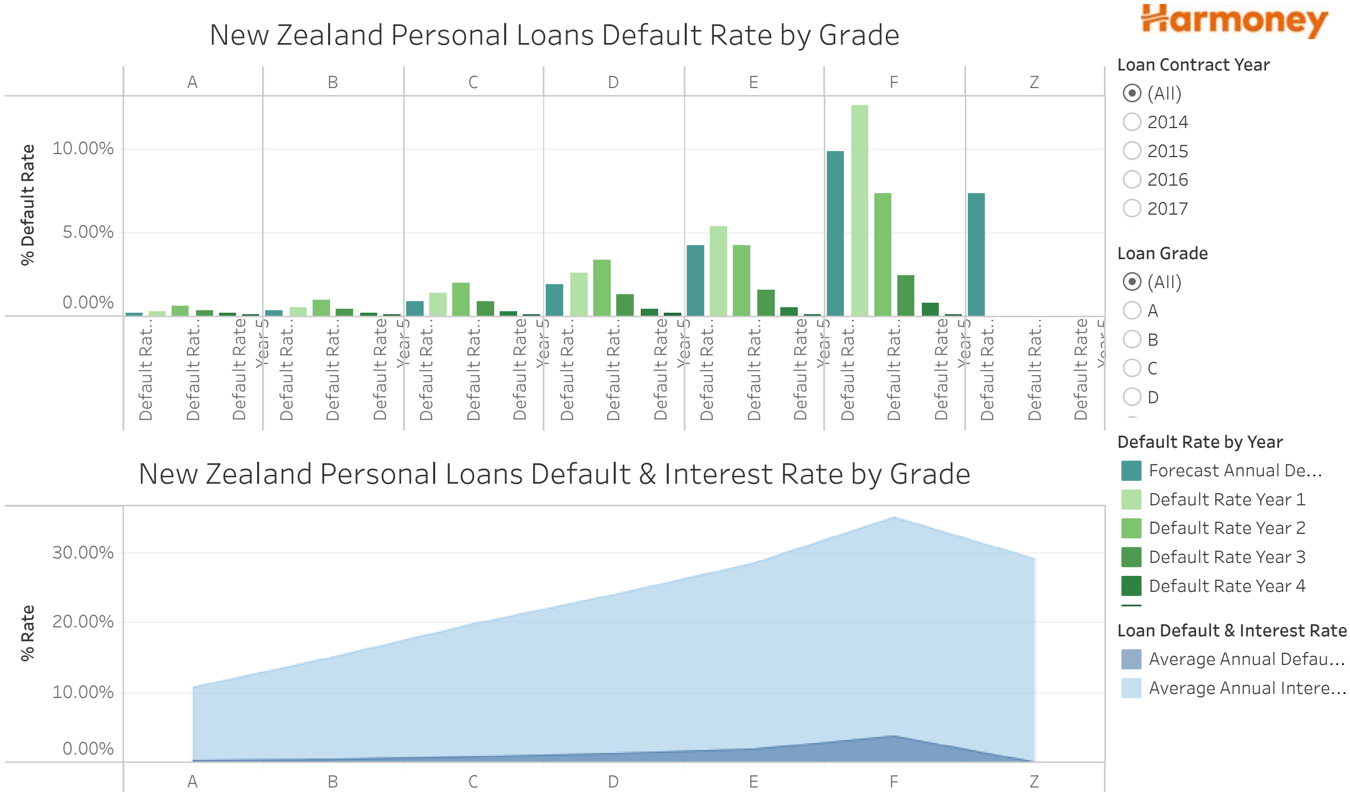
Although the rate is shown as a consistent annual rate in reality defaults are more likely to happen in the first 2 years of the loan as can be seen by the hazard curve. For this reason we are showing the default rate for each year of the loan. All default rates here are in based of the count of loans, rather than the loss amount. The principal loss amount to Lenders as a result of a default will depend on when in the loan term it is written off. The later in the loan term the more principal has been repaid and the loss to a Lender is lower.

The estimated Annual Default Rate shown is the average rate as this rate was updated when a new scorecard was implemented in August 2017.

The data is for loans funded by both retail and wholesale funders.

A default (Charged off) status indicates that a Borrower has defaulted on their loan, usually due to bankruptcy, sickness, job loss, death, or other unforeseen circumstances. Typically, this means that we’ve exhausted our collections efforts and there’s a low statistical likelihood that we’ll be able to collect any funds from the Borrower; resulting in a capital loss for Lenders.

Past performance is not necessarily an indication of future performance.



Expand the charts by clicking on the [+] mark found to the left of the grade values in either the top or bottom half. For more detailed analysis, you can filter on particular origination years or risk grades by using the controls on the right. Click the Full Screen view icon (bottom right) to make the graphs and data bigger, making the information easier to read. Data shown is gross level of defaults (i.e. before any debt collection).

Frequently asked questions

How is the actual default rate calculated?

The count of defaulted loans over total loans for the period.

For example in 2015, for grade C3, 447 loans were funded and 4 loans defaulted during 2016 to give a default rate of 0.89% in the 2nd year of the loans. This is vs an estimated default rate of 1.19%

How is the cumulative default rate calculated?

The cumulative default rate is calculated by dividing the total number of defaults by the total number of loans funded. For example in 2015, for grade C3, 447 loans were funded and 17 loans defaulted to the end of 2017 creating a cumulative default rate of 3.8%.

How is the average default rate calculated?

The average annual default rate is calculated by dividing the cumulative default rate by the number of years that have elapsed. For example in 2015, for grade C3, 447 loans were funded and 17 loans defaulted up to the the time of writing this, giving a cumulative default rate of 3.8%. The cumulative rate of 3.8% is then divided by 3 years since loan start to calculate a average annual default rate of 1.27% against an estimated default rate of 1.19%.

Scorecard 1.6

FAQs

Why do I need to turn my Auto-Lend back on?

You need to do this as the lending parameters are changing (interest rates, loan limits, pD rates) and Auto-Lend will be de-activated when this occurs. You should only turn Auto-lend back on if you are comfortable lending under the new parameters.

Why are borrower interest rates being reduced?

The new scorecard has re-calibrated the risk grades and the type of borrower in each grade. This combined with the improved accuracy of the scorecard provides greater certainty that borrowers have been graded correctly. It also means that interest rates can be sharpened. These should result in a higher volume of loans benefiting more borrowers and lenders.

Is a borrower that is a C3 in the old scorecard the same as a borrower that is C3 under the new scorecard?

Scorecard 1.6 has re-calibrated the risk grades so a C3 borrower under the old scorecard is likely to be different to a C3 under the new scorecard. This is reflected in the interest and pD rate.

Do these changes apply to institutional lenders as well?

They apply to all loans and therefore to institutional and retail lenders alike.

How will the changes affect re-writes?

All loan re-writes that are applied for once the new scorecard is implemented will be subject to the new Scorecard 1.6 interest rates. Credit limits on new loans will now be the same as those offered on re-write loans. (Re-write loan limits on most risk grades were increased in May 2019)

If a borrower adds Payment Protect to their loan – will this have any bearing on their risk grade?

No, it will not.

How will this affect my current Auto-Lend settings?

The interest rate and default rate filters are being recalibrated for the new interest rates and default rates. Before turning Auto-Lend back on you should review your settings and the new interest rates and default rates and turn Auto-Lend back on only if you are comfortable lending under the new parameters.

Do these changes affect my existing portfolio?

The changes apply to new loan applications only. Existing loans in your portfolio do not change in any way.

November 2019

This content was created November 2019. Interest rates and borrowing limits have since changed.

Using five years' worth of data science and machine learning, Harmoney is now able to update our scorecard to more accurately predict borrower risk. This allows us to review interest and default rates, and lending limits.

While our upper and lower interest rate limits (6.99% - 29.99%) remain unchanged, interest rates for risk grades B1 to F4 have all been reduced. Find the full table of new interest rates below.

Borrowing limits on B1-F5 grade loans have also increased by $5000 in each grade.

Scorecard 1.6 is Harmoney's third iteration of its assessment, following the scorecard used when the company launched in 2014, and Scorecard 1.5 launched on the platform in 2017. The changes are not an indication of any issues with previous scorecards, simply that with more data the accuracy of the assessment process can be improved.

What is changing for lenders?

Once released Scorecard 1.6 will introduce the following changes:

- Increase accuracy of pricing risk significantly from Scorecard 1.5
- The probability of a default for each grade will change marginally

- Borrower interest rates will reduce across risk grades B1-F4. The minimum rate will remain 6.99% p.a. and maximum rate will remain at 29.99% p.a.
- The maximum loan limits are being increased in grades B1-F5. However, it is important to note that individual affordability testing will not change.
- There will be a 60-day period in which the platform will list some loan applications that have been assessed and priced using the previous scorecard (Scorecard 1.5) as well as some other loan applications that have been assessed and priced using the new scorecard and pricing model. This is because borrower approvals remain valid for up to 60 days.

Once released, all new loan applications will be assessed using Scorecard 1.6

What you need to do

- Assess whether lending under the new parameters is right for you. Keep in mind that credit scoring uses historical data together with information about a specific borrower that is current when they make their application to assess the risk grade for that borrower.
- Harmoney provides detailed risk information on lending. Consider the risks associated with lending prior to committing any funds on the platform.
- Review the changes outlined and consider if lending via the Harmoney platform continues to meet your needs. Note the changes to pricing and credit limits.
- Auto-Lend will be deactivated for all lenders when these changes come into effect. If you use Auto-Lend you will need to re-activate that function in your lender dashboard if you wish to auto-lend funds under the new parameters.
- These changes apply to new lending only. There will be no changes to the existing loans in your portfolio.

The new scorecard in more detail

We regularly review our policy and process with regards to underwriting risk. Harmoney has a data science team tasked with producing analytical work to improve the quality of the decisions Harmoney makes in the approval and risk grading of potential borrowers who list their loans on the marketplace. Read more about investment risks.

The scorecard (short name for 'credit scoring predictive model') is an important part of the process of underwriting risk. It takes borrower data and runs it through an algorithm to give each borrower a credit grade with an associated interest rate and a probability of default. The current borrower scorecard (1.5, launched in 2017) is being replaced by a new scorecard (1.6) to provide a greater degree of accuracy in determining the borrower's risk grade. We have taken loan performance data from tens of thousands of loans and used machine learning to create this improved scorecard.

The scorecard calculates for each borrower a probability of default (pD). The pD in turn is mapped to a Harmoney subgrade, e.g. C5, which has an associated interest rate and maximum limit. The mapping of pD's to grades is changing marginally compared to scorecard 1.5.

Summary of changes

- Updating borrower interest rates, loan limits, and the probability of default. With the 1.6 version of the scorecard borrower interest rates, loan limits and default rates are being updated.

- Updating borrower interest rates. The 1.6 version means that the interest rates for all grades have been re-calibrated, with a minimum and maximum rates unchanged (6.99% - 29.99%). This combined with the improved accuracy of the new scorecard providing greater certainty that borrowers have been graded correctly means that interest rates can be adjusted. The new lower interest rates should result in a higher volume of loans available to lenders for investment.

- Increasing borrower loan limits in most grades. Borrowing limits for all B1 to F5 grade loans have also increased by $5000 in each grade.
- Update to the annual Probability of default (pD) for risk grades. The probability of default rate (pD) is the forecast probability that a loan will default with no further repayments are expected to be received. A different rate is assigned to each risk grade. The pD rate is shown as an annual rate to enable comparison to the annual interest rate Learn more about pD rates here. The annual pD rates have been re-calibrated to the forecast default rates for each grade with the new scorecard.

Risk grade	Borrower Interest Rate p.a.	Forecast Probability of Default p.a.	Grade Limit
A1	6.99%	0.02%	$70,000

Risk grade	Borrower Interest Rate p.a.	Forecast Probability of Default p.a.	Grade Limit
A2	7.99%	0.05%	$70,000
A3	9.20%	0.06%	$70,000
A4	10.50%	0.07%	$70,000
A5	11.99%	0.09%	$70,000
B1	12.39%	0.11%	$55,000
B2	12.59%	0.13%	$55,000
B3	12.80%	0.16%	$55,000
B4	13.99%	0.20%	$55,000
B5	14.80%	0.25%	$55,000
C1	15.90%	0.32%	$45,000
C2	17.40%	0.42%	$45,000
C3	17.59%	0.55%	$45,000
C4	17.99%	0.73%	$45,000
C5	18.49%	0.96%	$45,000
D1	18.99%	1.24%	$35,000
D2	19.49%	1.59%	$35,000

Risk grade	Borrower Interest Rate p.a.	Forecast Probability of Default p.a.	Grade Limit
D3	19.99%	2.01%	$35,000
D4	20.99%	2.50%	$35,000
D5	21.49%	3.05%	$35,000
E1	21.99%	3.63%	$25,000
E2	22.49%	4.25%	$25,000
E3	23.99%	4.90%	$25,000
E4	24.29%	5.56%	$25,000
E5	24.69%	6.25%	$25,000
F1	26.99%	6.98%	$15,000
F2	27.99%	7.67%	$15,000
F3	28.99%	8.31%	$15,000
F4	29.69%	8.95%	$15,000
F5	29.99%	9.56%	$15,000

Comparing interest rate and PD for Scorecard 1.6

This comparison below takes the entire population of new loan applications received for version 1.5 of the scorecard and run it through the 1.6 version. It then compares the resulting weighted average portfolio of loans under each version. Note: the interest rates and PDs are a forecast and may not be a good indicator of your future returns. The actual change in return as a result of the scorecard version change will depend on your lending criteria and what mix of risk grades you lend to, and your applicable Lending Fee.

Loan variable	Scorecard 1.5 actual (weighted average)	Scorecard 1.6 forecast (weighted average)	Variance	Comment
Interest Rate p.a.	19.64%	17.82%	-1.82%	Lower borrower interest rates reflect increased scorecard accuracy and a lowering of expected credit default by grade.
Probability of Default p.a. (pD)	2.33%	1.70%	-0.63%	The lower forecast losses due to charge off will reduce due to better prediction of loss.

FATCA obligations for USA tax residents

Under the Foreign Account and Tax Compliance Act (FATCA), Harmoney is required to register with the US Inland Revenue Services as a Foreign Financial Institution, as well as provide to them annual reports via the New Zealand IRD.

Therefore, we are required to obtain from you self-certification of your “FATCA” status to determine whether your account information needs to be included.

If you would like to update your record, please contact us on 0800 HARMONEY (0800 427 666) or email us to request a call-back. Please don't send your SSN or TIN via email.

RAR calculation FAQs

What was the issue with my previous RAR calculation?

In updating our data warehouse we have identified that the amount of charged-off principal has been inconsistent between the borrower account and the corresponding investor reporting .

Charged-off principal is a deduction in the return portion of the RAR calculation. If your charged-off principal was being overstated your RAR may have decreased. If your charged-off principal was being understated your RAR may have increased.

What will be the impact on my account?

There is no cash impact to lenders however in some cases the charged-off principal has been over- or under-stated on the investor dashboard. Some lenders may see a change on their RAR, Charged-off Principal and Outstanding Principal fields.

When will be the RAR and other numbers update on my dashboard?

The RAR figures have now been updated on your dashboard.

What is RAR (Realised Annual Return)?

Can you show me an example of how the RAR is calculated?

RAR = ((i + p - d + r - f - w - s) x 365 / t) / p

yt1:tn = (∑ (it + pt - dt +rt -ft -wt - st) x 365) / ∑pt

RAR = Realised Annual Return
i = interest amount received
p = payment protect borrower fee
d = funded principal defaulted (written off)

r = funded principal defaulted recovered

f = Service/Lender fees

w = payment protect waived principal

s = net payment protect management / sales commission

t = days principal funded was invested

p = principal funded

Tax returns

Under New Zealand taxation law, the responsibility for the completeness and correctness of income tax returns remains with the Lender. Harmoney does not take any responsibility for income tax obligations of lenders.

The following is a summary of the New Zealand income tax treatment of income and expenses arising in respect of Harmoney Lending. It is not exhaustive. Lenders should be aware that their own particular circumstances may affect the New Zealand income tax treatment of these amounts. This is a general guide only and does not constitute financial or tax advice and does not take into account your financial objectives, or tax position. It should be treated with appropriate caution. It is recommended that independent tax advice is sought before preparing your tax return.

Please note that this summary is relevant for New Zealand tax residents (who are not transitional residents). Lenders who are not New Zealand tax residents or who are transitional residents should obtain relevant independent tax advice.

Tax returns

Harmoney does not pay income tax on behalf of lenders. Lenders are responsible for including the income and expenditure arising in respect of their Harmoney lending in their income tax returns and for claiming any deductions that are available to them.

Interest derived from Harmoney Lending will be taxable to lenders. Harmoney withholds Resident Withholding Tax on interest earned and passes that to Inland Revenue on lenders' behalf. Resident Withholding Tax is calculated using the tax rate provided by each Lender. Resident Withholding Tax withheld by Harmoney should be allowed as a credit against Lender's tax liability in respect of interest derived.

Lenders are charged a Service Fee of 1.25% p.a. of the principal and interest payments collected on each note or a Lender Fee of 15%/17.5%/20% of interest payments collected on each note. The Service Fee or Lender Fee is deducted from repayments into the lender account and should be tax deductible. Lenders will need to claim a deduction based on the information provided in their Tax Statement.

The tax treatment of interest income, Service Fees, and Payment Protect income and expenditure will be different for each lender depending on their personal circumstances and:

- whether you are a **cash basis person** or a **non-cash basis person** for the purposes of the financial arrangements rules;
- whether you **carry on a business** of dealing or holding financial arrangements; and
- whether you are **associated** with the Borrower for tax purposes.

Cash basis persons v non-cash basis persons

A lender is a cash basis person for an income year if:

- The value of the lender's income and expenditure in the income year under all financial arrangements to which the lender is a party is $100,000 or less; OR
- On every day of the income year, the absolute value of all financial arrangements to which the lender is a party added together is $1,000,000 or less; AND
- The result of applying the following formula: (accrual income – cash basis income) + (cash basis expenditure – accrual expenditure) to each financial arrangement to which the lender is a party at the end of the income year and adding the outcomes together is $40,000 or less.

If a lender is not a cash basis person the lender will be a non-cash basis person for tax purposes.

Carrying on a business/association with

borrower

Whether you carry on the business of holding or dealing in financial arrangements, and whether you are associated with the borrower for tax purposes, will depend on your own specific circumstances. Lenders should seek their own independent advice on these issues.

Explanation of the fields on your Tax Statement

Field Name	Explanation
Average Tax Rate for year ended dd/mm/yyyy	This is your average tax rate applied to RWT for the year. If you updated your tax rate with Harmoney during the year, then the rate shown is an average rate of the rates supplied, weighted by the RWT paid under each rate.
Actual tax rate at 31 March xxxx	The tax rate on your account as at 31 March xxxx.
Gross Interest	Gross cash interest income earned on your lending during the income year.
Resident Withholding Tax	RWT on interest earned withheld and paid to Inland Revenue by Harmoney on your behalf.
Net Interest	Gross Interest less RWT.
Service Fees Paid	Retail Lenders are charged a Service Fee of 1.25% p.a. of the principal and interest payments collected on each note or a Lender fee of 15%/17.5%/20% of interest payments collected on each note. The Service or Lender fee is deducted from repayments into the Lender's account.
Charged Off Principal	Charged off principal indicates that this unpaid principal has become unlikely to be repaid. Loans are put into a charged off state after being in arrears for 120 days or

Field Name	Explanation
	earlier if a review has found there is no reasonable likelihood that the debt will be repaid. The charged off amount represents the principal that is owing under the loan when it is charged off. Any amounts recovered after charge off are shown in the Recovered Principal line.
Recovered Principal	Principal recovered from Borrowers after a loan has been put into a charged off state.
Net Charge Offs	Net of charged off principal and Recovered Principal.
Waived Principal	The Waived Principal amount shows the amount of principal that has been waived due to a successful Payment Protect claim.
Protect Borrower Fee Amount	The total protect fee payable by the Borrower over the term of the loan to receive the benefits of Payment Protect.
Protect Borrower Fee Realised	An allocation of the principal repayments for the income year that is attributed as Payment Protect Fee income. This is calculated as an allocation of the monthly principal when received.
Protect Borrower Fee Waived	The amount of the Protect Borrower Fee that has been waived (not paid by the Borrower) due to a successful claim.
Protect Borrower Fee Charged Off	If a loan has been charged off then a proportion of the charged off amount is the Protect Borrower Fee.
Protect Borrower Fee Rebated	This is the amount of the Protect Borrower Fee that has been rebated to the Borrower as they have prepaid their loan in full.
Commission Amount	The amount of Sales Commission that Lenders pay to Harmoney for arranging the sale of Payment Protect to Borrowers.

Field Name	Explanation
Commission Realised	An allocation to the relevant income year of Sales Commission payable to Harmoney over the life of the loan. The monthly allocation is made using the same formula that is used to calculate the Protect Borrower Fee Realised - this allocates an amount of the Sales Commission Fee to each monthly repayment.
Commission Rebated	This is the amount of the Sales Commission that has been rebated to Lenders.
Management Fee Amount	The amount of Management Fee that Lenders pay to Harmoney to conduct fair and transparent claims assessment and processing; effective complaint and dispute settlement procedures; and appropriate supervision of claims-related services.
Management Fee Realised	An allocation to the relevant income year of the Management Fee payable to Harmoney over the life of the loan. The monthly allocation is made using the same formula that is used to calculate the Protect Borrower Fee Realised - this allocates an amount of the Management Fee Realised to each monthly repayment.
Management Fee Rebated	This is the amount of the Management Fee Commission that has been rebated to Lenders.

Summary of tax treatment of income and expenditure

Set out below is a general summary of the income and expenditure items arising under Harmoney lending.

Item	Tax Treatment	
Cash basis	**Non-cash basis**	
Gross Interest	Taxable income when received, over term of loan	Taxable income, income spread over term of loan under

Item	Tax Treatment	
Cash basis	Non-cash basis	
		the financial arrangements rules
Service / Lender Fees	Deductible expense when charged (i.e. deductions spread over term of loan)	Deductible expense, deductions spread over term of loan under the financial arrangements rules
Payment Protect Borrower Fee	Taxable income when received, over term of loan	Taxable income, income spread over term of loan under the financial arrangements rules
Payment Protect Sales Commission	Deductible expense when charged (i.e. at commencement of loan)	Deductible expense, deductions spread over term of loan under the financial arrangements rules
Payment Protect Management Fee	Deductible expense, deductions spread over term of loan as prepaid expenditure	Deductible expense, deductions spread over term of loan under the financial arrangements rules
Waived Principal (inc. waived Payment Protect Fee)	Deduction for interest which has been included as taxable income but not received (if any), at conclusion of loan. No deduction for waived Principal or Payment Protect Fee unless: • the lender is a dealer in financial arrangements or carries on a business of lending; and • the borrower is not associated with the	

Item	Tax Treatment
Cash basis	Non-cash basis
	lender.

Tax Statement items to note — non-Payment Protect loans

Cash basis Lenders

For a cash-basis lender that does not carry on the business of holding or dealing in financial arrangements, the following figures should be relevant for the calculation of your taxable income in relation to your Harmoney Lending:

- Income = Gross Interest1
- Deductions = Service/Lender Fees Paid2
- Tax credits = Resident Withholding Tax3

	Year to Date (FY16-FY17)	Life to Date
Harmoney Interest Income		
Gross Interest**1**	$1,234.56	$1,234.56
Resident Withholding Tax**3**	$1,234.56	$1,234.56
Net Interest	$1,234.56	$1,234.56
Harmoney Fees*		
Service and Lender Fees Paid**2**	$23.40	$23.40

	Year to Date (FY16-FY17)	Life to Date
Charged Off Loans**		
Charged Off Principal	$1,234.56	$1,234.56
Recovered Principal	$1,234.56	$1,234.56
		$1,234.56
Net Charge Offs	$1,234.56	

On termination or conclusion of a loan, a cash basis person will generally be required to calculate a base price adjustment**(BPA)**under s EW 31 of the Income Tax Act 2007. In broad terms, a BPA is a "wash-up" calculation that brings to tax all income and expenditure accruing under a financial arrangement that has not already been accounted for, for tax purposes.

Where a cash-basis Lender**does**carry on the business of holding or dealing in financial arrangements, that Lender should be able to claim a bad debt deduction for Net Charge Offs (and provided the Lender is not associated with the Borrower).

Non-cash basis Lenders

For a non-cash basis Lender, income and expenditure arising in respect of Harmoney Lending, will need to be accrued over the term of the relevant loan, in accordance with an applicable spreading method under the financial arrangements rules.

The financial arrangements rules prescribe various methods of spreading such income and expenditure over the term of the relevant financial arrangement.

Where a Lender prepares financial accounts in accordance with International Financial Reporting Standards, that Lender should be able to apply the IFRS spreading method under s EW 15D of the Income Tax Act 2007. Under this method, the tax treatment of income and expenditure will generally follow the treatment for accounting purposes (subject to some potential modifications).

Where a Lender is permitted to use a default method under s EW 22 of the Income Tax Act 2007, the Lender will be able to spread income and expenditure over the term of loans in a manner that is consistent with commercially acceptable practice and allocates reasonable amounts to each income year over the loan term. For a taxpayer permitted to use a default method, it may be possible to allocate income and expenditure as follows:

- Income = Gross Interest1
- Deductions = Service/Lender Fees Paid2
- Tax credits = Resident Withholding Tax3

	Year to Date (FY16-FY17)	**Life to Date**
Harmoney Interest Income		
Gross Interest**1**	$1,234.56	$1,234.56
Resident Withholding Tax**3**	$1,234.56	$1,234.56
Net Interest	$1,234.56	$1,234.56
Harmoney Fees*		
Service and Lender Fees Paid**2**	$23.40	$23.40
Charged Off Loans**		
Charged Off Principal	$1,234.56	$1,234.56
Recovered Principal	$1,234.56	$1,234.56
&nsbp;	&nsbp;	$1,234.56
Net Charge Offs	$1,234.56	&nsbp;

However, non-cash basis lenders should seek their own specific tax advice as to which spreading method to use, and how this spreading method applies to income and expenditure arising in respect of their lending.

As above, on termination or conclusion of a loan, a non-cash basis person will generally be required to calculate a BPA under s EW 31 of the Income Tax Act 2007. In broad terms, a BPA is a “wash-up” calculation that brings to tax all income and expenditure accruing under a financial arrangement that has not already been accounted for, for tax purposes.

Where a non-cash basis Lenders carries on a business of holding or dealing in financial arrangements, that Lender should be able to claim a bad debt deduction for Net Charge Offs (provided that the Lender is not associated with the Borrower).

Tax Statement items to note – Payment Protect loans

Cash basis Lenders

For a cash-basis Lender that does not carry on the business of holding or dealing in financial arrangements, the following figures should be relevant for the calculation of your taxable income in relation to your Harmoney Lending:

1Income = Gross Interest +**4**Protect Borrower Fee Realised +**5**Commission Rebated

2Deductions = Service Fees Paid +**6**Sales Commission Amount +**7**Management Fee Realised

3Tax Credits = Resident Withholding Tax

	Year to Date (FY16-FY17)	Life to Date
Harmoney Interest Income		
Gross Interest**1**	$1,234.56	$1,234.56

	Year to Date (FY16-FY17)	Life to Date
Resident Withholding Tax[3]	$1,234.56	$1,234.56
Net Interest	$1,234.56	$1,234.56
Harmoney Fees*		
Service and Lender Fees Paid[2]	$23.40	$23.40
Charged Off Loans**		
Charged Off Principal	$1,234.56	$1,234.56
Recovered Principal	$1,234.56	$1,234.56
&nsbp;	&nsbp;	$1,234.56
Net Charge Offs	$1,234.56	

	Year to Date (FY16-FY17)	Life to Date
Payment Protect***		
Protect Borrower Fee Amount	$200.00	$1,234.56
Protect Borrower Fee Waived	$1,234.56	$1,234.56
Protect Borrower Fee Charged Off	$1,234.56	$1,234.56

	Year to Date (FY16-FY17)	Life to Date
Protect Borrower Fee Rebated	$1,234.56	$1,234.56
Protect Borrower Fee Realised[4]	$1,234.56	$1,234.56
Sale Commission Fee Amount[6]	$50.00	$1,234.56
Sale Commission Fee Realised	$1234.56	$1,234.56
Sale Commission Fee Rebated[5]	$1234.56	$1,234.56
&nsbp;		
Management Fee Amount	$25.00	$1,234.56
Management Fee Realised[7]	$1,234.56	$1,234.56
Management Fee Rebated	$1,234.56	$1,234.56
Waived Principal	$1,234.56	$1,234.56

On termination or conclusion of a loan, a cash basis person will generally be required to calculate a base price adjustment**(BPA)**under s EW 31 of the Income Tax Act 2007. In broad terms, a BPA is a “wash-up” calculation that brings to tax all income and expenditure accruing under a financial arrangement that has not already been accounted for, for tax purposes.

Where a cash-basis Lender **does** carry on the business of holding or dealing in financial arrangements, that Lender should be able to claim a bad debt deduction for Waived Principal where that Waived Principal is written off as bad (and provided the Lender is not associated with the Borrower).

Non-cash basis Lenders

For a non-cash basis Lender, income and expenditure arising in respect of a Harmoney loan, including amounts of income and expenditure in relation to Payment Protect, will need to be accrued over the term of the relevant loan, in accordance with an applicable spreading method under the financial arrangements rules.

The financial arrangements rules prescribe various methods of spreading such income and expenditure over the term of the relevant financial arrangement.

Where a lender prepares financial accounts in accordance with International Financial Reporting Standards, that Lender should be able to apply the IFRS spreading method under s EW 15D of the Income Tax Act 2007. Under this method, the tax treatment of income and expenditure will generally follow the treatment for accounting purposes (subject to some potential modifications).

Where a lender is permitted to use a default method under s EW 22 of the Income Tax Act 2007, the Lender will be able to spread income and expenditure over the term of loans in a manner that is consistent with commercially acceptable practice and allocates reasonable amounts to each income year over the loan term. For a taxpayer permitted to use a default method, it may be possible to allocate income and expenditure as follows:

1 Income = Gross Interest + **4** Protect Borrower Fee Realised + **5** Commission Rebated

2 Deductions = Service Fees Paid + **6** Sales Commission Amount + **7** Management Fee Realised

3 Tax Credits = Resident Withholding Tax

	Year to Date (FY16-FY17)	Life to Date
Harmoney Interest Income		

	Year to Date (FY16-FY17)	Life to Date
Gross Interest**1**	$1,234.56	$1,234.56
Resident Withholding Tax**3**	$1,234.56	$1,234.56
Net Interest	$1,234.56	$1,234.56
Harmoney Fees*		
Service and Lender Fees Paid**2**	$23.40	$23.40
Charged Off Loans**		
Charged Off Principal	$1,234.56	$1,234.56
Recovered Principal	$1,234.56	$1,234.56
		$1,234.56
Net Charge Offs	$1,234.56	

However, non-cash basis Lenders should seek their own specific tax advice as to which spreading method to use, and how this spreading method applies to income and expenditure arising in respect of their lending.

As above, on termination or conclusion of a loan, a non-cash basis person will generally be required to calculate a BPA under s EW 31 of the Income Tax Act 2007. In broad terms, a BPA is a “wash-up” calculation that brings to tax all income and expenditure accruing under a financial arrangement that has not already been accounted for, for tax purposes.

Where a non-cash basis lenders carries on a business of holding or dealing in financial arrangements, that Lender should be able to claim a bad debt deduction for Waived Principal, where the Waived Principal amount is written off as bad (provided that the lender is not associated with the borrower). In addition, where an amount of interest or Protect Borrower Fee owing by a borrower is written off, non-cash basis lenders (whether or not they are carrying on a business of holding or dealing in financial arrangements) should be able to claim a bad debt deduction to the extent that the interest or Protect Borrower Fee had already been accrued by the lenders as income for tax purposes.