



## **INSIDE STORY – NOVEMBER 2015 – SWEDEN**

### **Meltdown in Swedish peer-to-peer lending company on the rise**

TrustBuddy - one of the biggest and fastest growing peer-to-peer lending companies in Sweden, active on a number of Nordic and European markets, mainly; Finland, Norway, Denmark, Poland and Estonia was declared bankrupt on the 19<sup>th</sup> of October this year. The business grew with the crowdfunding and peer-to-peer lending trend as an alternative to traditional banking. In 2011 the company was introduced to the stock exchange platform Nasdaq First North. TrustBuddy was registered as a financial institution with the Swedish FSA since 24 March 2010 due to its activities as a loan broker. The company had also filed for license relating to loan brokerage in relation to consumers as well as a license for conducting payment services.

TrustBuddy's business concept was to act as an administrator and matchmaker for individuals willing to lend money to other individuals wishing to borrow limited/lesser sums (between SEK 1,000 and 10,000). Moreover, the loans were syndicated between lenders in even smaller fractions of each loan. In short, lenders sent money to TrustBuddy's client account and as TrustBuddy connected them to borrowers they distributed the loans from the lenders, which were members of the platform. The lenders had the opportunity to decide whether their funds were to be eligible for loans ("active" capital) or if it was to be "stopped" and for obvious reasons TrustBuddy was not authorised to lend these funds.

In the early fall of 2015 the company received a new management team, freshly recruited from Klarna Group and very well reputed. The new management discovered discrepancies in the

balances of the client accounts and as they began to research and solve the issues it became clear that the company had mismanaged the clients' funds. One suspicion was that client funds that should have been kept for repayment were re-loaned without permission or match to a certain lender. Also lenders were allowed under Trustbuddy's terms and condition to take out 90% of its lending, provided that their loans were accepted and re-allocated to other lenders. It was discovered that funds were taken out without remaining lenders approving to take on old loans.

These findings were reported to the Swedish Economic Crime Authority (Sw. *Ekobrottsmyndigheten*) and the Swedish FSA (Sw. *Finansinspektionen*). The initiated new share issue was put on hold and the company froze all assets including funds on the client accounts. Within a mere month at their posts the new management reported suspicions of crime towards several people previously involved with the company and management and filed for bankruptcy. For shareholders, lenders and borrowers the bankruptcy was unexpected.

Stockholm's district court appointed Lars-Henrik Andersson as the official receiver. Once the company was declared bankrupt the insolvency team at Lindahl's Stockholm office took control of all assets and begun the time consuming task to create a clear picture of what had been going on behind the scenes of the company.

Trustbuddy had a number of branches registered in other EU and EEA countries, which has created a number of challenges in relation to the EU Insolvency Regulation and the variety of salary guarantee systems and the estates liability for redundancy payments in different member states.

Another main question has been whether client accounts and loan agreements have the right of segregation. To fully explain the complexity of these questions would require an elaborate and detailed presentation of the facts of this case and the mechanics of the Swedish right in rem legislation and principles. After a thorough analysis the estate's preliminary standpoint is that both the fund in the client accounts and the outstanding loans belongs to the lenders and should be segregated. The estate is still working on the practical management of the collection of the huge amounts of outstanding loans, a monstrous task. This is due to a feature of the system that was actually created to minimize each lenders risk. As mentioned above, to minimize the risk, every loan was divided between a number of lenders. To give an example a loan of SEK 3,000 actually consists of 30 loans, each SEK 100, thus making it, to say the least, a challenge for each lender to pursue their loans individually. Estate is still looking into the best way to ensure that the lenders will be subjected to as little harm as possible, and we feel confident in that we will find a solution that safeguard the lenders interests.

The dismantling of the outstanding loan portfolio will continue for some time and we will report further about coming events.

***Emmeli Wennström is an associate of Advokatfirman Lindahl KB, Stockholm (Sweden)***

***Emmeli.Wennstrom@lindahl.se***