3 to 10

Usual turnaround time, in days, for short-term loans

NEW REVENUE STREAMS: PART 4

SHORTEST LOANS YOU'LL EVER WRITE

Looking to grow your client base and boost your bottom line? Short-term lending might just be the answer

STORY/ Huntley Mitchell

SHORT-TERM LENDING is a rapidly expanding market globally and Australia is no exception.

Short-term lenders are more diverse than banks - each has its own business model, its own way of doing things.

Andrew Littleford, managing director of Interim Finance, says short-term lending used to have more of a "corner shop" mentality.

"To start a product in the past, it would be fair to say that it's been dominated by private lenders - small operations with limited amounts of capital," he explains.

"Ours is more of a corporate-based, professional model. We are strongly backed financially - we have a very large funding base, which allows us to offer rates that are very competitive."

Mr Littleford says that SMEs form around 70 per cent of his company's market, but adds that Interim Finance also services developers and people looking for bridging finance.

"Our market is for businesses that require cash flow or opportunities to be satisfied by being able to have capital in their hands in a short space of time," he says.

"We don't have to - and invariably we don't - upset our clients' existing first mortgage on their home. We're just sitting on the back-end, helping them out for their purpose with an appropriate exit strategy, and it makes sense commercially for them to do it."

Acquire Capital Solutions credit manager Jon Pepper says that while a majority of short-term lenders do the right thing by their clients, there are a few who tend to have fees and rates that are more than the industry standard.

"We really go out of our way to set ourselves apart from those players," he says.

"The industry has a reputation for having high interest rates and therefore a large percentage of brokers probably don't pursue it, when in fact it's a product that every broker should be able to offer their clients as an alternative"

Mr Pepper says the big difference between Acquire Capital Solutions and its competitors is that it is funded by the directors and shareholders of the company.

"This means that we don't rely on funding from banks or other financial institutions to keep Acquire running. The equity is in the business," he explains.

According to Mr Pepper, one thing that Acquire does that its competitors don't do is visit every client and inspect their loan collateral.

"That's the personal service we can add – we take time to understand the deal," he says.

"Reputation in this market is everything, so we don't have a short-term view. We're a long-term player, so we do the right thing."

Broker benefits

Short-term lending offers many opportunities for brokers, the most obvious being an alternative income stream that can prove to be highly profitable.

Turnaround times for short-term loans are generally between three and 10 days and brokers are paid on the day of settlement without the worry of clawbacks.

The post-GFC tightening of the banks' lending criteria has caused more traditional bank clients to move into the specialist lending space, and the growth of the SME sector has also increased the demand for short-term lenders.

Refinancing is often required at the end of the short-term loan period, giving brokers two bites at the cherry.

Short-term lending also gives brokers a competitive advantage by offering a broader service offering and flexible solutions to best suit the client's needs.

From the horse's mouth

Acquire Capital Solutions claims to have about 700 brokers on its database, one of which is The Australian Mortgage Group. The brokerage's owner, Alan Saye, says he is able to turn clients into long-term advocates when he solves their urgent problems.

The payoffs can be rapid because sometimes the clients will want to organise long-term funding once their immediate difficulty is out of the way.

"I would recommend short-term lending to brokers because in a lot of cases you only need to give very limited information to the short-term lender, and they'll often run with the ball themselves after they've been given the introduction," he says.

"While it might seem a bit of an unknown out there, it can be quite easy in that the private lender will do a lot of the work for you."

Scott Roberts, chief executive of IBN Direct: Alternative Funding Solutions, has also experienced the benefits of forging relationships with short-term lenders. The firm uses about 10 lenders, including Acquire Capital Solutions and Interim Finance.

"You may only use them a couple of times a year, but in a broker's working life they are certain to come across clients who need urgent funds," he says.

"If you save a client short term, generally you will have them for the long term. The relationship works best when you know the lender's business and they know yours, allowing the right client to be placed with the right lender. Getting on Google and looking for short-term lenders that you have never dealt with is a recipe for disaster."

A word of warning

Mr Pepper has a word of advice for brokers: make sure you choose your short-term lending partners carefully.

There are many good lenders, but also a few bad ones, so brokers can get burned if they don't do their due diligence, he says. He advises brokers to ask lenders for references and to talk to brokers and borrowers who have used their services.

Brokers who choose wisely will boost their businesses, which is why it is essential to research lenders before working with them.

"Every broker would get at least one deal every couple of months that would fit our policy, but they can't see it because they don't have a relationship, and I guess they don't know how to sell it. We make the process as simple as possible. I'm looking for a five-minute phone call from the broker; we'll discuss it over the phone, and if I'm happy I'll issue a letter of offer," he says.

"Education of brokers is a massive

challenge. The industry has a reputation for having high interest rates and therefore a large percentage of brokers probably don't pursue it, when in fact it's a product that every broker should be able to offer their clients as an alternative," he says.

Mr Saye says he tends to stick with short-term lenders that he knows and trusts. He also likes to use lenders who are local because they have a good understanding of the area he operates in.

Residential brokers need to realise that short-term lending can be expensive, says Mr Saye.

"It can be a shock to a resi broker who is used to writing loans under five per cent."

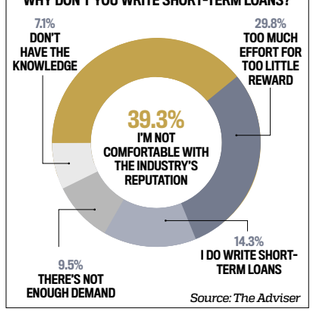
Mr Roberts says one of the key elements of short-term lending is having an appropriate exit strategy.

"There are so many occasions when we get loans where we're bailing other people out that have put clients into short-term funding with no idea how to get them out of it if everything goes belly up," he explains.

"To keep your relationship with both the client and the lender, you need to ensure that you have plan A and plan B to get those clients out of their short-term loan."

STRAW POLL

WHY DON'T YOU WRITE SHORT-TERM LOANS?



Source: The Adviser

Looking ahead

Short-term lending may be a growing market, but what does the future hold for this type of borrowing?

Mr Littleford believes that as long as there is a demand from people and businesses that require quick access to capital, short-term loans will continue to exist.

"However, you have to make sure that you get the price right - you've got to ensure that the price is profitable for the client as well as the business delivering it," he says.

"The cowboys that are still in the market will go when the market realises that there are two or three key players who have a strong capital base, good forensic accounting, good distribution, and a solid price point."

Mr Littleford says market tolerance for rogue operators and sky-high rates has been progressively reduced with the introduction of NCCP legislation and through a fundamental market shift to support professional practices and corporate business models with a demand for short-term loans.

He says that as a result, brokers are in an ideal position to ensure they receive purpose-specific, flexible products that address their clients' requirements at competitive rates and on reasonable terms.

Mr Pepper says the biggest factor is the banks' inability to focus on commercial decisions because they are restricted by policy and time.

"Our process that we use in advancing people's funds allows us to complete the process in three or four days, whereas the banks would take four to five weeks. There is a need for short-term lending, and I think it's got a long future."

Mr Pepper also hopes that a uniform code of conduct is introduced for all short-term lenders down the track.

"We have an idea of what kind of culture we want in our industry, and it would be great if we could sell it with people who support that," he says.

"If the future means changing some of the legislation to incorporate that, then we would support that."

Mr Roberts is confident there will be more demand for short-term loans in the future, and predicts that the industry could see a tightening of lending policy.

He says short-term lending has become more mainstream and has shaken its 'bully' tag.

"Many years ago, it had a stigma that you would be knee-capped if you didn't pay the money back." ■