Meteoric rise of non-bank lending “an opportunity for most, but dangerous for the unweary”

The rise of non-bank lending or private credit offers quick finance solutions but poses significant risks for unprepared borrowers. Vigilance is key.

Gee Taggar

SYDNEY, NSW, AUSTRALIA, August 11, 2024 /EINPresswire.com/ -- For hundreds of years, human society has relied on traditional banks to finance their lives.

Everything from building up life savings and taking out mortgages all the way to receiving business loans for commercial projects.
So what can we expect with the rise of this relatively new industry – non-bank lending or private credit? (In other words - loans provided by companies that aren’t banks?)

This industry has enjoyed an unprecedented rise in the past 3-5 years – but the rise is going a little too fast for comfort.

Non-bank lenders could amount to nearly 25% of commercial real estate debt within the next few years – and it’s not surprising why.

Banks have tightened their lending criteria more so than they have ever before.

Regulators such as the Australian Prudential Regulatory Authority (APRA) are enforcing new rules that are restricting banks’ ability to provide as much credit as they are used to.

The Reserve Bank of Australia (RBA) has tightened monetary policy so much that banks’ nonequity costs rose by around 380 basis points from February 2022 to December 2023.

It's come the point now where simple bank loans are becoming "like luxury goods".

This means that private lenders – the market's alternative to traditional financiers - are having a field day.

But this is not something to be so easily celebrated.

Receiving a loan outside the parameters of your traditional bank has become fraught with danger. And the unwary can find themselves in a whole lot of trouble if they are not savvy.

Private lenders provide an opportunity to obtain affordable finance – quickly

The new prominence of private lenders should – in most cases - be welcomed, because people in need of finance urgently will have their needs addressed relatively quickly.

Borrowers can obtain large sums of finance in as little as 48 hours from initial enquiry to settlement. It is generally at a higher interest rate, but the loans are for a short term (a term, of 12-24 months rather than a term of 30 years).

People in need of loans also do not have to go through the intense 'vetting' that large banks do. Private lenders won't usually ask for the past 3 months of bank statements. They'll only require minimal amounts of documentation, and they don't place a strong emphasis on the ability of their borrowers to service their loans.

Large debts (even considerable debts to the ATO) generally do not provide a barrier to loan approvals.

The availability of pre-paid interest means that borrowers do not have to worry about high levels of monthly servicing, as the private lender is usually happy to receive all their interest up front.

While private lenders are not regulated in the same way banks are, they are still subject to strict laws enforced by the Australian Securities Investment Commission (ASIC).

There are a number of examples of real-life Australian borrowers over the past few years that highlight the benefit private lenders can provide.

There was John (not his real name) who had $90,000 in tax debt. That did not stop him receiving a loan for $2.83 million to buy a property in Munno Parra West - as he was still able to pay the interest up front.

There was Troy (again, not his real name) who obtained a loan of $2.6 million in 36 hours. He purchased a commercial property in South Australia, but his lender could not raise enough capital from their investors to finance the deal. He was at risk of losing his $200k deposit. The borrower approached a private lender on a Wednesday and received an offer in 45 minutes. The property was valued on Thursday, and the loan was settled on Friday.

Borrowers and their brokers must be careful who they're dealing with

However, speaking as a private lender myself, we must be careful at this industry's meteoric rise.

While the big banks are kept under the close and watchful eye of the Australian Prudential Regulatory Authority (APRA), non-bank lenders are not.

That unfortunately means there are scores of lenders out there ready to pounce on the unweary and the vulnerable.

ASIC announced a crackdown on predatory lending earlier this year. Two particular lenders, Cigno Pty Ltd and BHF Solutions Pty Ltd, were found to have engaged in unlicenced credit activities resulting in many suffering considerable financial harm.

I've seen predatory lending happen to people time and time again.

There was Mason (not his real name) who borrowed $3.75 million to finance a development in Wantirna, Victoria. He was in default, so his lender was going to take possession of his property. He then went to another lender to refinance and paid an upfront fee amounting to $15,000.

Unfortunately, this lender took his money, disappeared and then lodged a caveat on his property – leaving Mason with millions of dollars in debt and a property he couldn't sell. While he was able to refinance urgently with another private lender, this kind of nightmare scenario happens often.

The signs to watch out for when obtaining a private loan

In my experience, borrowers get tricked by shady private lenders more often than people think.

But there are certain red flags anybody can identify if they look close enough.

Private lenders more likely to present an offer that is too good to be true – large sums of finance at an unusually high upfront fee with a high loan-to-value ratio.

They'll also offer the loan at unusually low interest rates, far below what the other non- banks offer.

In terms of their marketing, they’ll usually advertise a strangely quick pre-approval and settlement time. “24 hour loans” is a slogan I’ve seen from time to time.

They’ll usually propose an incredibly expensive valuation and exorbitantly high exit fees.

And of course, they usually won’t have a decent website or any reviews.

My central argument is that while private lending provides a useful alternative for borrowers looking for finance, borrowers must be careful who they work with.

Gee Taggar
Archer Wealth
+61280649608 ext.
Gee@archer-wealth.com
Visit us on social media:
Facebook
X
LinkedIn
Instagram
