



# THE PROs AND CONs

## OF PRIVATE LENDING

Private lending stands as a dynamic and flexible alternative to traditional banking channels. As businesses increasingly seek tailored solutions for their financial needs, understanding how private lending works becomes paramount.

If you are a small business owner in search of a reliable private lender, we are here to facilitate your finance needs.

Our commitment to understanding your distinctive finance requirements allows us to source flexible, rapid finance solutions for you and sets us apart from the major lenders.

**However, there are PROs and CONs for this type of finance and you should understand them first.**

### **PROs**

#### **Flexible terms**

Private lenders often offer more flexibility in terms of loan structures, repayment schedules and collateral options compared to traditional banks.

#### **Quick approval**

Private lenders typically have streamlined processes allowing for faster approval and funding. This can be crucial for businesses facing urgent financial needs.

#### **Specialised solutions**

Private lenders often specialise in specific industries or niche markets enabling them to better understand the unique challenges of businesses in those sectors. This specialisation can lead to more tailored loan solutions.

#### **Asset based lending**

Private lending is frequently asset backed, allowing businesses to use their properties, inventory or equipment as collateral. This can be advantageous for companies with valuable assets.

#### **Higher approval rates**

Private lenders may be more willing to work with businesses that have less than perfect credit histories. This provides an option for those who may struggle to secure financing from traditional banks.

#### **Capitalise your interest**

One advantage is that some private lenders may allow you to capitalise your interest, meaning that the interest is only applied to the outstanding loan balance. You just repay the principal amount. However, this may attract higher interest rates.



## CONs

### Application costs

Private lending typically comes with higher entry or application costs or upfront charges, regardless of the outcome, to cover the additional work and time required to prepare your application for approval.

### Higher interest rates

One of the most significant drawbacks is often higher interest rates compared to traditional loans. The increased risk for private lenders may result in a higher cost of borrowing.

### Shorter loan terms

Private loans often come with shorter repayment periods that can lead to higher monthly payments. This may be challenging for businesses with cash flow constraints.

### Potential for unregulated practices

Some private lenders operate in less regulated environments leading to potential issues such as hidden fees or less transparent terms. It's crucial for borrowers to carefully review all terms and conditions.

### Limited consumer protections

Unlike traditional banks, private lenders may not be subject to the same consumer protection regulations. This means borrowers might have fewer avenues for dispute resolution or assistance in case of unfair lending practices.

### Risk of predatory lending

In some cases, businesses may encounter predatory lending practices where lenders take advantage of a borrower's financial vulnerability. Thorough due diligence is essential to avoid falling victim to such practices. By using our finance services you will avoid falling into their hands.

### Impact on credit scores

While some private lenders may not heavily weigh credit scores in their decisions, others may. It's essential for borrowers to understand how the loan may impact their credit profile.

## Limited resources for large loans

Private lenders may have limitations on the amount of funding they can provide for large scale projects. Businesses with extensive capital needs may find it challenging to secure sufficient financing through private lending alone.

When considering private lending it's crucial for businesses to weigh these pros and cons based on their specific needs, financial situation and long term goals.

Due to the higher costs associated with private lending, it is not intended to be a long term finance solution. Preparing an **exit strategy** to a lower interest finance product would be part of our recommended finance strategy.

With thorough research and consultation with our finance team, we can help you make informed decisions.