

Specialist lending: Key insights and benefits explained - TAB U Podcast - S2 E4 - #TABUniversity

Podcasts

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Are you interested in specialist finance and want to learn more? Your top questions answered in #TABU podcast season 2, episode 3. This season we'll be talking to the experts both at TAB and our special guests to cover all topics ranging from investing in property to lending, and finance.

In episode 4 of season 2, TAB U host Katrina Hindley is joined by Kobi Lehrer, CSO at TAB. Our special guests this episode are Stuart Mogg, associate partner at EY and Jack Dutton, senior manager also at EY. They've joined us to provide an insight on all things to do with specialist finance, including what specialist finance is, how it works and who are the main providers?

The top five questions asked on this week's podcast are:

1. What is the specialist finance market?
2. Who uses specialist finance?
3. How does specialist finance work?
4. Why is specialist finance so popular?
5. Who are the providers of specialist finance?

What is the specialist finance market?

Put simply, the specialist finance market is any 'non-bank' that lends money to small to medium sized enterprises (SME's).

Is there a difference between specialist lending and specialist finance?

It's something that's hotly debated in the alternative finance industry, according to Stuart "we've discussed it at length, and in our view, no there isn't a difference between the terms and they should largely be treated the same."

Why does the specialist finance industry exist?

When we think of finance, we think of large scale banks that operate on economies of scale, however, a lot of consumer needs especially for businesses situated in the SME bracket, are not satisfied by mainstream financial institutions. What's often the case in the specialist financial sector is entrepreneurs who want to create an exciting product, may not be eligible for mainstream finance due to the banks' strict criteria.

Specialist finance allows them to receive funding for their more innovative, unconventional projects. "Specialist lenders are able to evolve and adapt to find different ways of serving the end client, which is why the specialist lending market continues to grow. We've seen the industry take off post 2008, when banks started to retract and change their core areas of focus."

Who uses specialist finance?

"Anyone really and that includes both consumers and businesses. There are multiple types of entities that require specialist finance. It could be property related and you need financing for home improvements, or could be venture capital. There's a whole range of needs that can be satisfied through specialist finance." says Jack.

Specialist finance can often be considered the unsung hero of the finance industry, providing companies that aren't eligible for mainstream finance funding.

How does specialist finance work?

There's a variety of different angles you can take to help answer this question from the mechanics of how the loan works to simpler explanations. Essentially, funding is provided to a client, with the agreement that it will be paid back in instalments, these regular payments are normally paid back

with added interest. Each deal is normally assessed by an underwriter that looks into the feasibility of the deal and gives the green light before completion. There are other options such as bullet repayments where the loan is paid all back at once instead of regular instalments, this is often the case with bridging finance, however, there is always still some level of interest applicable to it. "Some people may argue that this form of financing is expensive due to the interest rates, but I think if you're able to complete your goal or project that couldn't have been achieved through lower interest rates loans, then it's a worthy investment for you," says Jack.

Why is specialist lending 'expensive'?

When comparing specialist lending prices to mainstream lenders, you may find some differences. When looking at banks, the funding they receive or their source of income is generally being paid with single digits and smaller interest rates. For specialist lenders and alternative finance companies, they're often paying much larger and at times double digit interest rates for their funding so they are required to provide larger interest rates to their clients. It allows for a potentially win-win situation where the client receives funding for their project and the specialist lender can also make a return. The benefit for specialist lending is the scope of projects specialist lenders are happy to fund. It's harder to consider whether you're paying more for specialist lending when your unique project may not have been approved for mainstream funding.

Why is specialist finance so popular?

"There's always room for growth and I think we can make it more popular!" says Jack. There's so much that can be achieved through specialist financing that is almost impossible without. High values of capital aren't available to most of the general public and innovative, more unconventional projects and plans aren't always going to be approved.

"There is so much that people can do with specialist lending, it definitely something we need to get out there more and popularise - it's something that we're always banging the drum for, at EY, these products work and can be good for the end user" says Stuart.

Who are providers of specialist finance?

There's such a variety of products available in the specialist financing industry. You're now seeing more institutionalisation of products and high street banks are even coming with their buy now pay later products. Stuart added "The marketing for specialist finance is enormous and growing. You see advertisements on public transport, at conventions, online through Google advertisements are massive and will only get bigger. In the past there were very few specialist finance lenders, now I could point you in the direction of at least five finance providers for just agricultural loans, and those are considered niche!"

This podcast is for information only and does not constitute advice or a personal recommendation. When it comes to financing, any property used as security is at risk of repossession if you do not keep up with your payments. If you are unsure of the risks, you are advised to obtain appropriate professional advice.

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