The official NEWSLETTER of Quantum Credit
BUSINESS AND INVESTMENT LENDERS

"Let's Talk"
1300 135 212

Edition Q63

Short Term Loans - Exits 101

Short term business loans are intended to be just that - short! At the outset the borrower and the lender agree the loan term - usually between 3 and 12 months with an average around 6. The parties also develop a clear plan on the means by which the loan is to be paid back - the exit plan.

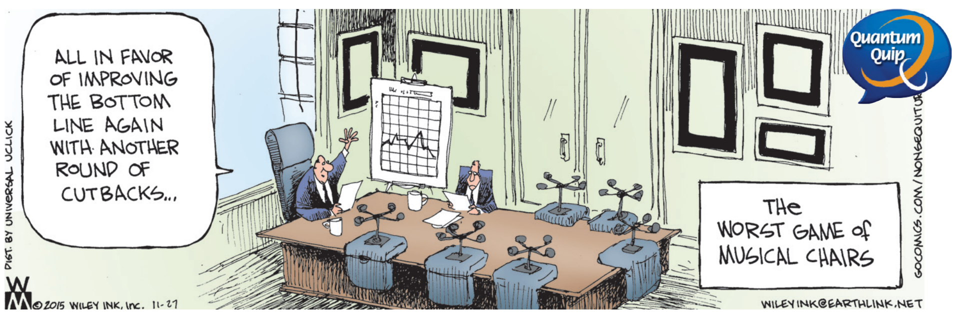
The following three exits plans are the most common:

- *In around 50% of our loans - sale of a property - usually (though not necessarily) the property that has been mortgaged as loan security. The borrower needs interim funding and equity in a property is an obvious means to raise cash. The intent to sell is clear and the property has either been listed already when the loan is set or, in the case of a development, it will be listed when it has been completed*

- *Refinance with another lender is the exit intent in 30% of cases. The short term loan is only to bridge the period while the borrower completes application to a bank or second tier lender for a longer term or meets covenants for an approved loan draw. The application process may take time because financials need to be updated or because of delays in fulfilment of a loan covenant – such as pre-sales. When the finance comes through the funds are used to exit the short term loan*

- *In some cases, usually the smaller loans, the borrower simply trades out of the loan using free cash flow from the business to settle the loan on due date.*

Repaying a loan on due date (or even early) is of course in everyone's best interest. As the lender, Quantum Credit is committed to keeping its cash resources 'invested' in loans and the more frequently this can be done the better. Cash to a lender is like stock in a trading business - it needs to be rotated as often as possible. For the borrower it makes sense to



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exit short term loans on time - not least because the costs are usually higher than bank finance can be! For the broker, sourcing cheaper finance adds value to the client and presents the opportunity to earn a new broker fee.

Dealing with the unexpected

What happens when the best laid plans to exit fall through? The sale of a property falls over, a credit application is declined, the presales don't materialise. Lenders treat these situations differently.

A professional short term lender, working closely with a broker as required, should deal with a delayed exit as follows:

- *Months out from the scheduled loan end date, engage the borrower to discuss the exit plan*
- *If there's likely to be a delay, work closely with the borrower to understand the new circumstances*
- *assist if possible in the sale process or introduce alternative funding sources if required.*

If circumstances permit, the lender should be willing to consider a formal restructure of the loan terms. This may need a revaluation of the security property and the approval of a revised exit strategy. Successful renegotiation of the loan could result in an extension in time (for example a six-month roll-over), a change in loan covenants, a revision of the interest rate and a requirement for further security.

All options for timeous loan exit or for loan continuity on revised terms should be explored. Formal default and legal proceedings really should be a lender's last resort.

A case study

Quantum Credit had set a 6 month loan for $1.5m on a commercial mortgage in WA and the exit was to be the development of the property. There were unexpected delays in the approval process and on application we extended the initial term by a further 6 months on the same terms and conditions. Eventually, the project as planned was put on hold because of the dramatic change in the economics of the region and we were requested to restructure the loan to a term debt over two years. As the borrower had strong monthly cash flow and sale of the development property would have been badly timed, we approved a two year loan on favourable terms.

The last word

Quantum Credit has earned a solid reputation for integrity in lending practice and over ten years we have built an enviable base of repeat customers. Open and frank discussions about borrower needs and funding realities have resulted in many successfully negotiated revised exits. Our low incidence of legal action for repayment of our loans is testament to our pragmatic approach and willingness to work with honest borrowers in tough situations.

Why not give us a call - Let's Talk about your situation and we'll see if we can help.

John Broadway -Director

Quantum Credit

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