REACT news

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Alternative lenders can seize the moment

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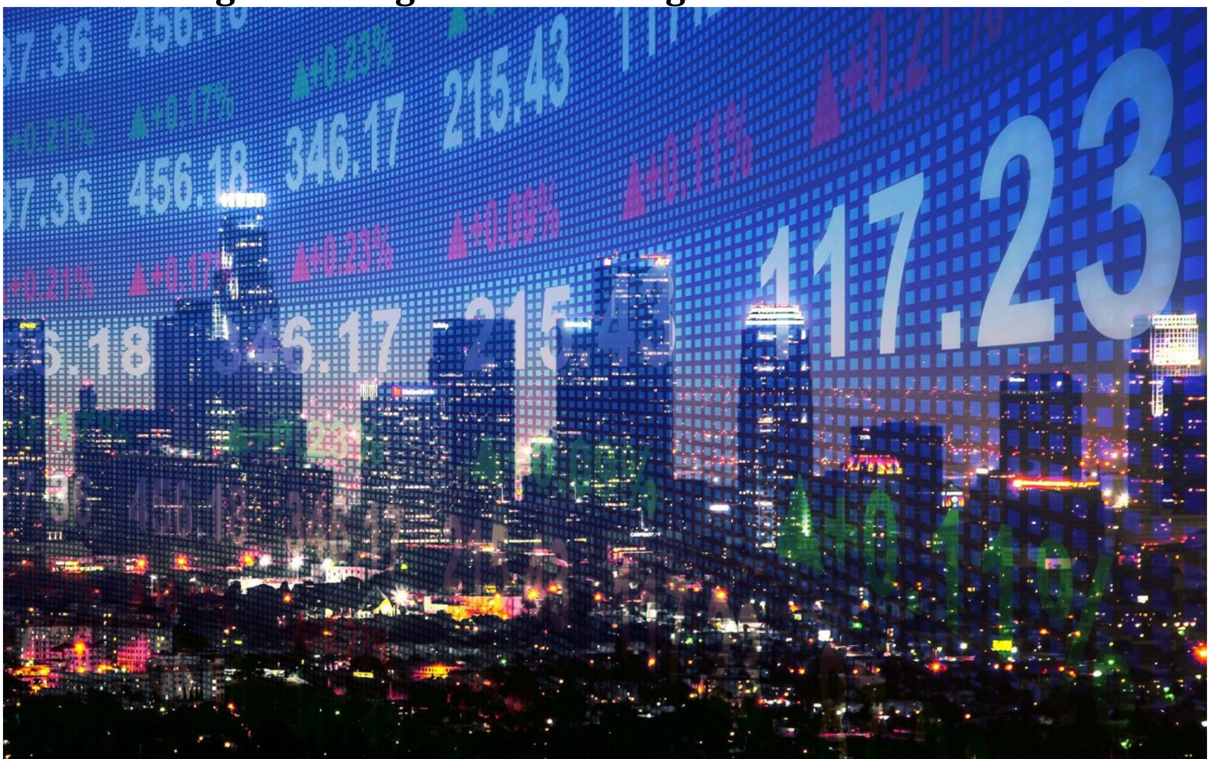
Bank lending becoming more scarce again



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The alternative lending market was born out of the global financial crisis. The heavy regulatory changes imposed on banks as a result meant that alternative lenders were able to seize the opportunity to fill the ever-widening funding gap in the aftermath.

Yet again, since the COVID-19 crisis hit, the case for alternative finance options has become more and more compelling. The banks' credit criteria continue to get even tighter with increased regulations and capital adequacy ratios restricting their lending capabilities.

Despite this, they do have liquidity, unlike in 2008, but there doesn't seem to be much appetite to go with it and we are seeing an almost 'lockdown on lending' during the pandemic. Most are currently very inwardly focused with all attention on serving their existing loan book.

On top of that, many leading banks are in the throes of major restructuring. HSBC recently announced its intention to cut 15% of its global workforce. And if further exacerbation was needed, the banks' obligation to administer the CBILS (coronavirus business interruption loan scheme) is likely a huge distraction that will be sucking up resource.

However, in response to what has become a chronic problem in the traditional lending market, this time around the alternative lenders have already become established and built an impressive market share since 2008. Their appeal is often a specialist focus in niche markets and a more flexible approach. Property loans for example, are by their very nature diverse and risk factors such as uncertain exit dates and values make the banks' blanket approach weaker.

A different attitude

Liquidity dried up post financial crisis

Therefore, since the COVID-19 crisis hit, alternative lenders have been seizing the opportunity once again. At ASK Partners we have completed seven transactions totalling £100m since lockdown was imposed. This is not a reflection of our risk appetite, merely our ability to react to market demand.

We have flexibility in our capital base and funding models which puts us in a better position than banks with restrictive criteria and a metric-driven approach. In fact, we have not seen a fall in investor-appetite during this period. This is again an area where the banks are struggling to deliver. As yields on cash, or near cash, drop to zero, coupled with high volatility in the stock market, investors are increasingly looking to debt markets to put their cash to work.

Ultimately, traditional banks are struggling to keep up. As has been seen before, in a major crisis, the big banks tend to freeze and become inwardly focused and retract from the market putting a stall on lending. As a result, their better people will inevitably migrate to other houses where there is more of a ‘can do’ attitude and less red tape, allowing them to continue to serve their clients. Yet another bonus for the smaller lenders.

This is undoubtedly a huge potential turning point for the alternative lending market and a true test of its ability to react to a challenging and ever-changing environment, with a key role to play in the economic recovery too. In a niche sector such as real estate with unique dynamics at play there is significant value add for developers in working with specialists. Likewise, for investors the appeal of secured lending against real estate assets with excellent risk-adjusted returns is hard to beat.

The COVID crisis has made everybody reflect on the way they live, work, shop and also where they put their money. This is certainly the chance for alternative lenders to be the catalyst for recovery once again.