THE SUNDAY TIMES

We found the lender to let us buy a Ferrari

Wealthy individuals are moving to fill the funding gap left by high street banks, but there are calls for more regulation

Rachel Bridge

Published: 3 October 2010

A private lender brought new members to Thomas's car club and cash to buy this Ferrari (PR)

When the Ecurie 25 Supercar Club wanted to borrow £160,000 to add a Ferrari California to its sleek fleet, the banks brought its ambitions skidding to a halt last year.

So the company, which charges members up to £16,000 a year to drive its high-performance collection on the road and at trackdays, turned to the broker First Funding, which found a wealthy individual willing to put up the money.

The lender got a higher rate of interest than he would have received from keeping his money in the bank, Ecurie 25 got the car, and the concept of private lending found some new fans.

finance during a period when banks were unwilling to lend and it gave us more flexibility as the loan can be carried over on to other vehicles."

And there was a bonus for the firm, based in King's Cross, north London, which runs 25 supercars including Lamborghinis and Aston Martins. "The lender has introduced new members to the club," said Thomas.

As banks continue to be reluctant to lend to small businesses, a growing number of wealthy individuals are helping to fill the gap. Unlike traditional business angels, they are not investing in return for equity.

They are providing money as a loan, the incentive being a higher rate of interest than offered by savings accounts.

First Funding, an online network which matches private lenders with small firms looking to borrow, was started last year by William Flatau.

He said: "There is a growing movement among successful business people to act as private lenders to small firms because the banks are not performing. Large numbers of high net worth individuals have cash to spare, yet they are earning next to nothing in interest from the banks."

The growing use of private lenders has brought calls for a formal structure to be put in place with self-regulation to protect both lenders and borrowers. At present, most deals are done on an ad hoc basis.

Adam Tyler, chief executive of the National Association of Commercial Finance Brokers, is keen to see the expansion of private lending.

He pointed out that the lending arranged by his members for small and medium-sized enterprises (SMEs) from traditional sources such as banks and finance houses had fallen from £19 billion in 2007 to £7.5 billion this year.

However, he said proper regulation was needed. "There is a range of people, from professional footballers to successful business people, who have got money they would like to put into the commercial market.

"But at the moment it is an unregulated market and a new area. It needs to be formalised because at the moment somebody could lend the money and then five or six months later say they need it back. It is not as formal an agreement as it would be if you were doing it through a proper lending institution."

Mark Prisk, the business secretary, met business chiefs and finance experts last week to explore alternatives to traditional bank lending. The government is working on a green paper, Financing a Private Sector Recovery.

"Small businesses will be critical to the economic recovery and helping them access a range of finance options is essential for those looking to grow," Prisk said.

Last weekend it was revealed that a consortium of City financiers is to open a bank that will lend exclusively to small firms. The British Enterprise Bank, which hopes to start trading early next year, will take deposits from the public and lend only to SMEs.

Small business organisations welcomed the emergence of private lending. Stephen Alambritis, of the Federation of Small Businesses, said: "One of the banks' biggest concerns is losing market share and every bit of competition they face will hopefully have an effect on them behaving themselves."

Small firms generally prefer loans to giving up equity in their business because the latter involves relinquishing some control, he added.

However, Henry Ejdelbaum, managing director of ASC Finance for Business, a broker for SME funding, said that private lending was not a long-term solution because it had emerged purely because of the low interest rates on savings and would disappear when higher interest rates return.

“It is a quick fix but when the banks return to normal there will be no need for private lending,” Ejdelbaum said.

Flatau at First Funding argued that private lenders should be encouraged to stay in the market by giving them tax incentives, and pointed out that equity investors in initiatives such as the Enterprise Investment Scheme already get special treatment.

“If the government is committed to helping small businesses, it should look at offering tax incentives to private lenders as a creative way to allow the economy to grow, rather than whining at the banks,” he said.