**Risks of going directly to a Private Lender**

More and more builders are turning to Private Lenders to fund their projects, businesses and other ventures due to the ease of accessing money. Inexperienced builders / developers may look to go directly to a Funder instead of using an experienced Finance Brokerage as the intermediary to save the broker's fee; this decision usually costs the builder significantly more as well as the risks associated with going directly.

These are common issues faced by builders not using an experienced finance broker and by going directly to a private funder:

1. Higher interest rates and unfavourable loan terms.
   - Private lenders charge higher interest rates
   - A builder may not be able to negotiate favourable terms, leading to excessive fees, exit penalties or unsuitable repayment structures.
2. Unclear Loan Agreements
   - Private Lenders usually operate outside APRA's oversight, leading to significantly lower protections.
   - Poorly structured contracts may contain hidden fees, misleading clauses or aggressive enforcement terms without a specialised finance broker negotiating these terms or at the very least making you aware of them.
3. Short loan terms & Refinance risks
   - Private lending often involves short-term loans (e.g. 6-24 months), requiring the builder to refinance and placing pressure on the project or business.
   - A builder may not plan for the refinancing strategy, leaving the builder in financial distress if they can't secure alternative lending.
4. Unverified or unsuitable lenders
   - A builder may lack knowledge of reputable private lenders and may become victims of unscrupulous or predentary lenders.
   - Some private lenders have aggressive debt collection practices, leading to potential legal issues or blemished reputations / credit histories.
5. Insufficient due diligence
   - Inadequate assessment of builder's financial position, project viability or exit strategy.
   - Failure to conduct proper risk analysis, leading to funding shortfalls or project delays.
6. Personal Guarantees & asset risks
   - Many Private Lenders require significantly higher personal guarantees or more property security than the transaction may require.

- Builders may unknowingly put their personal assets at risk due to poorly advised loan structures or recognising risk mitigation opportunities.

7. Cashflow Pressure & Construction delays
    - Unfavourable drawdown conditions may restrict cashflow which may delay projects and putting their viability at risk.
    - Some lenders impose strict progress payment conditions that don't align with actual project needs.
8. Regulatory and compliance issues
    - If the builder lacks understanding NCCP (National Consumer Credit Protection) regulations, they may arrange non-compliant loans.
    - Builders may end up with finance structures that breach consumer or commercial lending laws.
9. Limited Exit Strategies
    - An inexperienced builder may not plan for a viable exit (e.g. upon project completion, refinance or partial / full sale)
    - Builders may struggle to transition to mainstream finance, increasing long-term costs.
10. Reputational & Legal risks
    - If a builder defaults or experiences financial distress due to poor loan structuring, it can damage their reputation with suppliers and clients.
    - Legal disputes over loan terms or enforcement actions can further detriment business operations.

How to mitigate these risks:

- Work with an experienced mortgage brokerage, like Chocolate Money which has specialised in funding the building industry for more than 20 years!

Contact Chocolate Money on 1300 137 539 or www.chocolatemoney.com.au

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