

Client: ThinCats
Source: The Sunday Times (Money)
Date: 16 October 2011
Page: 3
Reach: 984223
Size: 756cm2
Value: 36771.84

Become a lender and earn 15%

Loan sites connect savers with firms seeking finance, but there are risks. By James Charles

SAVERS can earn returns of up to 15% by stepping into the void left by banks since the credit crunch and providing loans to small businesses.

A new breed of website matches savers with businesses seeking credit. Savers use their deposits as loans, with the interest providing an inflation-beating return.

Three of the country's leading businessmen – Ed Wray of Betfair, Charles Dunstone at Carphone Warehouse and Sami Lababidi of Playfish – have backed the model, recently investing an undisclosed amount in Funding Circle, an online marketplace for loans.

It comes as the chancellor prepares to set out plans to boost the availability of credit to small businesses, defined as those with a turnover of less than £24m, in his autumn statement next month.

The amount that banks lend to small business has fallen by a third since the credit crunch. They lent £573m to businesses with turnover of less than £1m last June, compared with £867m in the same month in 2009, according to the latest fig-

ures from the British Bankers Association, the trade body.

A recent survey by the Federation of Small Businesses found that a third of small firms that applied for loans were rejected.

Websites such as Funding Circle can fill the gap, but there

are risks. More than 22,000 businesses collapsed in 2010 and a further 23,600 are expected to go into administration this year, according to the Centre for Economics and Business Research. Defaults could rise further if the economy worsens in the coming months.

Gervais Williams, the ex-star fund manager who previously ran small company funds for Gartmore, owned by Henderson, said: "Small businesses in speculative sectors such as housing, consumer goods and commodities are more of a risk but there are also great opportunities for businesses to do well, even in a recession."

Lending websites are also unregulated and savings used as loans are not covered by the Financial Services Compensation Scheme, which guarantees conventional deposits up to £85,000 in the event that a bank

or building society goes bust.

Patrick Connolly at AWD Chase de Vere, a financial adviser, said: "Lending money through these schemes isn't directly comparable to a bank or building society accounts because there is the risk that

those you are lending to could default and not pay you back."

Funding Circle

More than 7,000 savers have invested money in Funding Circle since it was launched in August last year. It has lent more than £12m to 330 businesses in amounts ranging from £5,000 to £100,000.

Recent borrowers include Austin & Co, an independent department store in Northern Ireland and Wallace Sacks, which sells linen online.

Investors have secured returns of up to 15% in the past, although achieving higher returns means lending to riskier businesses.

The site puts businesses into four classes of risk: A+, A, B and C – with A+ the least likely to default.

The average return is 8.4% and the site charges investors a

fee of 1% of the amount lent, which is clawed back as the loan is repaid.

The site recommends splitting your deposits between at least 20 companies to reduce the risk of a default.

Firms seeking funds are vetted, with only 15% of applications accepted. Funding Circle is a member of the Cifas fraud prevention service, and carries out checks using Experian, the credit reference agency.

Businesses have to provide two years of accounts and nine out of ten loans are personally guaranteed by directors. It typically takes 10 days to secure a loan through the site.

Investors are also free to do their own checks, with credit scores, financial summaries and contact information provided by those looking for loans. There are bids to provide loans and the most competitive offers are combined to provide firms with the required cash.

Savers can lend either by choosing from a list of companies on the website or selecting the "autobid" option, which will pick firms automatically based on your risk preference.

The site has a default rate of

Client: ThinCats
Source: The Sunday Times (Money)
Date: 16 October 2011
Page: 3
Reach: 984223
Size: 756cm2
Value: 36771.84



0.4%, with two borrowers going into administration over the past year, defaulting on loans

worth £45,511. Another four loans are currently late.

Investors who need to access their cash can also choose to sell their loan to other lenders, paying a 0.25% fee.

ThinCats

ThinCats is similar to Funding Circle but has only 180 savers. Since its launch in January it has given 13 loans to businesses including John Carr Motorcycles, a retailer, and Armstrong Brands, a clothing firm.

It meets all businesses seeking to borrow in a process that can take up to two months. It also insists that all loans are secured against assets. The average return is 10.46% and so far there have been no defaults.

However, it expects returns to fall in the coming year as the website attracts more investors, bringing it in line with similar sites.

Investors must put in a minimum of £1,000, bidding to

offer loans in the same way as Funding Circle. ThinCats, though, does not charge lenders a fee.

Almost a third of those registered with ThinCats lend money via their self-invested personal pension.

Danny Cox at Hargreaves Lansdown, the adviser, said: "While the principle of these sites is reasonable, the industry is still in its infancy and we don't know what will happen if things go wrong."

Zopa

Savers uncomfortable lending to businesses could still get a decent return lending to individuals. Zopa has provided £160m-worth of unsecured loans to consumers since it was launched in 2005 and accounts for more than 2% of such new lending.

Zopa said lenders have earned an average return of 6.8% over the past year, after bad debts and charges. Like other peer-to-peer sites,

lenders can choose the risk profile of borrowers, putting them into classes A*, A, B, C or Young (aged 20-25). It said it turns away half those who apply.

Lenders can choose the amount they are willing to lend up to £25,000 and for how long, with a fixed 1% fee.

If you lend £500 or more the investment is spread across at least 50 borrowers. Zopa said its default rate is 0.9% against an average 5% to 7% for high street banks.



Backer: Charles Dunstone of Carphone Warehouse

Returns from lending your savings

Funding Circle



ThinCats



Zopa



Client: ThinCats
Source: The Sunday Times (Money)
Date: 16 October 2011
Page: 3
Reach: 984223
Size: 756cm2
Value: 36771.84



John Hiew, 47, a managing director from Oakhill, Somerset, with wife Lorraine, 43, and son Christopher, 21, joined Funding Circle last December. He has secured an average return of 9.4% on the £3,600 he has lent to businesses. Daughter Sarah, 23, has also invested in the website