

Chase the AAA, said Ken Morrison, NSW chief executive of the Property Council of Australia.

coalition's economic platform.

The NSW Business Chamber backs retaining the AAA rating,

Several industry sources predict that if one state, such as NSW, dropped its credit rating then it

“However, implemented available to e

Short-term loans in demand

Jane Searle

Short-term lenders are reporting a surge in demand as the economy slows, though government handouts are causing a temporary slowdown in business.

Lenders such as Cash Stop, Fast Access Finance and City Finance plug the gap for clients who fail to meet the credit criteria of major banks, but the catch is high interest rates — sometimes in triple-digits.

They claim to be inversely linked to the economy, prospering as consumers are squeezed financially and mainstream financiers tighten credit criteria.

Queensland is Australia's epicentre of short-term lending, and shopfronts litter the Brisbane CBD and surrounding suburbs. A legislated 48 per cent interest rate cap has been introduced in Queensland and NSW, but many lenders have merely altered their business models.

Fast Access Finance has 29 branches in Queensland and legal director Rob Legat said it had experienced a 50 per cent surge in demand over the past two months. He attributed this to the deteriorating economy and the closure of several lenders after the cap was introduced last July.

Fast Access Finance used to provide short-term loans with annualised interest rates of 240 per cent, but has abandoned this practice. “We now buy diamonds at wholesale rates overseas and re-sell them to clients at retail rates, which they pay for in instalments over six months,” Mr Legat said.

“They can take it to a jeweller or we have a link with a company that can purchase the diamonds [to give clients access to cash].”

The lender keeps the margin on the diamond sales, which Mr Legat said was equivalent to more than the 48 per cent interest rate. He said it was uneconomical



Rob Legat says demand has risen 50 per cent in two months.

Photo: GLENN HUNT

to operate under the interest cap.

Major banks disagree. National Australia Bank has conducted a trial with short-term lender Money Fast since last May, and claims the breakeven cost for providing loans to clients with tarnished credit histories is 15.95 per cent.

NAB has provided \$1 million to Money Fast to lend amounts between \$1000 and \$5000 over one

Many lenders have altered their business models in response to rate caps.

year. NAB will work with the lender for at least another 18 months, though the business is independent in its own right — charging 26 per cent interest to make a profit.

Money Fast director Justin Hatfield said the stimulus package had slowed demand for credit in November and December, but that January and February were “record months”.

“The last six weeks have been

staggering and we've seen a lift in individuals whose ability to get credit might be hampered because they've made several credit inquiries, or can't get a credit extension as banks tighten their criteria,” Mr Hatfield said.

The business hoped to be profitable by June 2010. Money Fast positions itself as an ethical lender and rejects two-thirds of applicants who fail to meet its criteria. It plans to increase interest rates to the mid-30-per cent range over the medium term to ensure long-term sustainability.

City Finance company secretary John Brady said demand increased last year, and he expected an even better result in 2009. “More people are knocking on our door. After the announcement of the second government package this year, demand slowed, but we expect it to pick up again [after the package is executed],” he said.

City Finance has 100 branches nationally and charges between 182 per cent and 192 per cent on six-month loans outside NSW and Queensland.

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