Strong economic headwinds allow alternate finance to test its mettle

In a severely depressed market, banks are retreating, traditional lending has all but dried up, and the South African Reserve Bank (Sarb) is cautioning against extraordinary shocks. Alternate finance may hold the key to keep the economy ticking over. Developed in the wake of the 2008/2009 meltdown, this is the first downturn the sector has had a real chance to prove itself.

Gary Palmer, CEO, Paragon Lending Solutions

In its *Financial Stability Review*, the Sarb has come out saying that our financial system is headed for "extraordinary shocks" as consumers battle to manage their debt.

With debt service costs now accounting for 13% of government expenditure and 16.4% of revenue in the 2020/21 budget. The Sarb has also said that National Treasury has projected the debt service burden will rise to 15% of expenditure by 2023.

Traditional lenders have significantly slowed lending and are focusing on their lending clients. Banks in particular are now looking inwards and have their hands full focusing on restructuring and Covid-19 loans as they are concerned about bad debts, says Gary Palmer, CEO of Paragon Lending Solutions.

The gears of the economy must be kept moving

"It's now critical for us to get the economy moving again. With budget deficits likely to exceed 10% of our GDP this year, it's up to the financial services sector to make it easier for our investors and developers to close deals. However, with banks and other traditional lenders reticent about taking on further transactions in this market, it is left to alternate lenders, such as ourselves, to lead the way," Palmer says.

Looking a little further down the line, he says the banks are deeply concerned about the levels of bad debt that they are exposed to.

“Banks can see the writing on the wall. Bad debts are going to spike; profits are going to buckle under the pressure; interest rates have dropped significantly; and we all know that when interest rates drop the endowment effect will mean that banks earn less money and their share prices will take a knock. Past experience tells us that the banks will get stricter and stricter and be reticent about deals for the next while. What won’t change is that there will still be good deals out there.”

It’s during this time that non- bank lenders will be able to look at more innovative lending options. “There is no reason why established entrepreneurs shouldn’t be looking at taking advantage of market opportunities just because traditional lenders have retreated into their shell," Palmer explains.