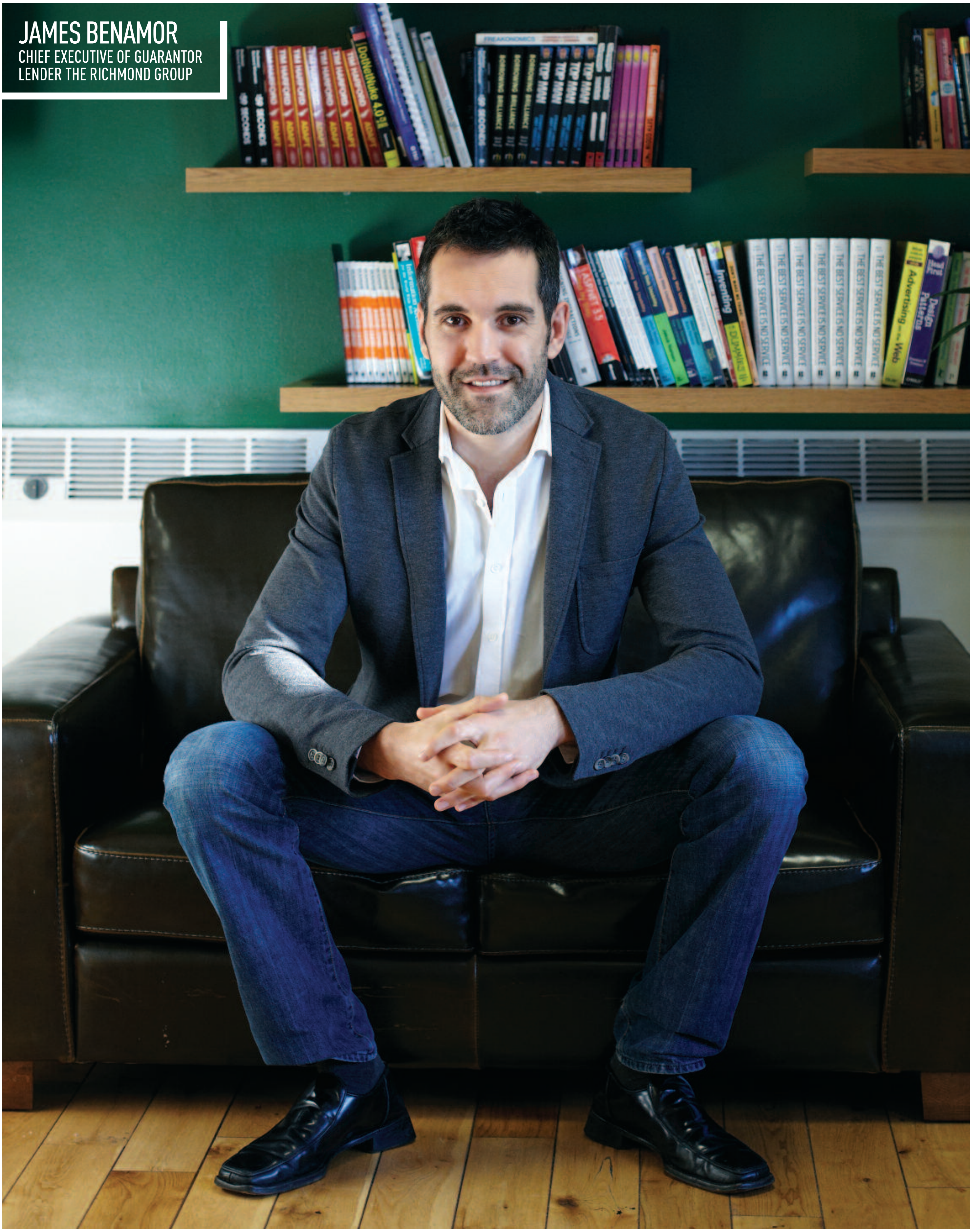
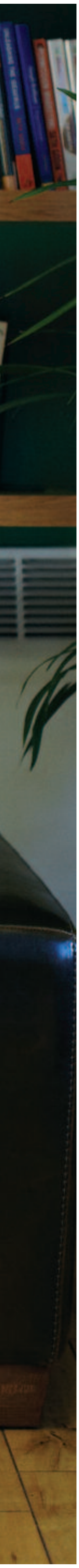
JAMES BENAMOR

CHIEF EXECUTIVE OF GUARANTOR LENDER THE RICHMOND GROUP





THE LOAN RANGER

James Benamor, chief executive of guarantor lender the Richmond Group, explains why consumers are embracing a return to more traditional approaches to lending

Story by: Ellie Duncan

The alternative lending sector is becoming a force to be reckoned with, and the Richmond Group is one of its most marketable protagonists.

James Benamor started up the group in 1999, having left school at just 15 to get a job in a call centre in Bournemouth. He admitted when he appeared in an episode of Channel 4's *The Secret Millionaire* a few years ago that he was something of a troublemaker during his teenage years.

Today, he says that he had always harboured an interest in creating his own business. When it came to setting up his loans brokerage firm, Benamor began operating the business from his mother's kitchen with a couple of friends. Funding was hard to come by without any credit history to his name. It was this struggle to secure capital that prompted him to consider how those left out in the cold by the mainstream lenders could be better served by the finance industry.

A desire for financial inclusion is what drove Benamor, who is now worth a reported £77m, to establish guarantor lender the Richmond Group.

But one of his early start-ups, loan broker Advantage Loans, which ceased trading in 2008, was certainly a lesson learnt. After receiving complaints from customers who believed they had been misled over being guaranteed a loan by the brokerage, the Office of Fair Trading imposed requirements on the firm. However all customers were refunded in full and Advantage Loans complied with the requirements.

Benamor insists that the experience was "helpful", and shaped the business we see today. In 2005 he launched FLM Loans, which rebranded as Amigo Loans last year. Its criteria for lending, as the name suggests, is that the borrower has a guarantor who promises to pay in the event that they can't. The idea is that those who have a patchy credit history can try to rebuild their credit score. So far, Amigo Loans has lent £300m to more than 100,000 customers.

> "WE JUST FEEL THAT LENDING DECISIONS ARE BETTER MADE SOCIALLY THAN THEY ARE BY COMPUTERS"

Benamor firmly disassociates his business from the payday lending sector. Instead, he considers Amigo to be one of a number of alternative lenders that are challenging the high street banks for market share, alongside peer-to-peer lenders Zopa, Ratesetter and Funding Circle, and personal asset lender borro.

Standing in Amigo Loans' very own 'rbucks' café in its office in Bournemouth, it is clear that the company's youthful workforce embodies the alternative label that the company has been given; from their apparent easy manner on the phone with customers, to informal meetings that take place in its café complete with hammocks.

"THE GROWTH OF ALTERNATIVE LENDING IS THE GROWTH OF OLD-FASHIONED LENDING"

Ellie Duncan: How does the Amigo Loans guarantor model work?

James Benamor: Irrespective of their credit score – so it doesn't matter if someone's a millionaire or on paper they look brilliant – we will never lend to an individual unless they have someone who trusts them because our point of view is that if you don't have a friend or family member who trusts you, we probably shouldn't. We just feel that decisions are better made socially than they are by computers.

It's very simple; customers decide how much they want to borrow, pick a period [of time], fill in their details and then their guarantor does the same thing. The important part of the process is that we go through an entire telephone interview with each of them separately, which lasts about half an hour.

We try to recreate what a bank manager would have done to make sure they understand the terms and how the payments are going to work. Then we ask them for all of their income and expenditure and we make sure that they can afford it. The guarantor has to be a homeowner because that shows stability. We try to be as understanding as possible with borrowers about their history because we don't believe that people's history necessarily defines how they're going to behave in the future.

ED: What happens if a borrower misses a payment?

JB: We built the product exactly how we would want it to work if we were the guarantor. What guarantors tell us is that they want to be kept informed. If payment is a day late, they will get a text message or an email [from Amigo].

If the borrower tells us beforehand then we can work out a plan. But if not, you can only be a guarantor if you agree to pay if the borrower doesn't.

ED: Why do you think this model works?

JB: When it's a social relationship people are much less likely to walk away from a debt than if it was to a bank. I can't say that every person in the world who's ever guaranteed a loan has always been treated fairly by the borrower, but for us this product is suitable where people would have already considered lending the money to their friend or family member themselves. Almost all guarantors are family members.

The market for friends lending to each other is about £9 billion a year. So we're only taking a very small amount of that market.

Effectively, when someone guarantees a loan instead of lending the money themselves they are protected because we put a structure in place of collecting from the borrower's debit card. The borrower is liable for the payment and ultimately for the loan.

With a guarantor loan, in our experience you are three times more likely to get the money back than if you're just lending money to your friend.

ED: Why are consumers turning their backs on mainstream lenders?

JB: The supply of bank funding has definitely dropped, so banks are shutting out millions of people that they would have lent to previously. But at the same time, banks and other finance companies have earned a bad name for themselves by upsetting customers over and over again.

Whether it's PPI mis-selling or [rigging] Libor (the London Interbank Offered Rate), or any of those things that have heaped shame on banks and finance companies, it all comes down to the same thing: it's a lack of treating their customers like real people and understanding their needs. What customers are increasingly looking for is simple products that they can understand.

It's the fault of our industry for selling people things they didn't need, and for finding ways of making money from customers today at the expense of the relationship they have with them tomorrow.

ED: What is it about alternative lenders that appeals to borrowers?

JB: The growth of alternative lending is the growth of

CV

1996-1997:
Call centre agent in Bournemouth

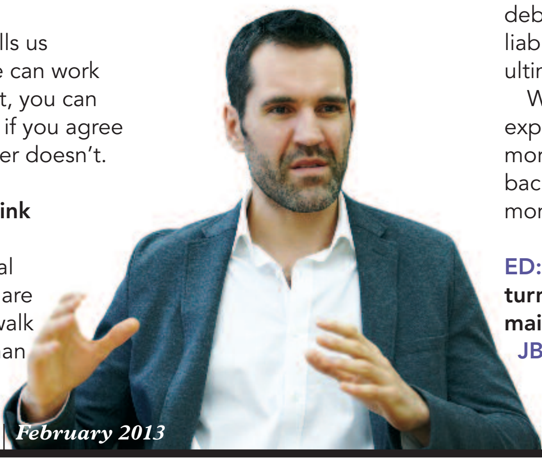
1997:
Set up two businesses, which subsequently failed

1999:
Started Richmond Group and its first business CGS, a loan broker

2004:
Richmond Group invests in 10 companies over the next 10 years

2005:
Established FLM Loans, an online guarantor lender

2012:
FLM rebranded Amigo Loans



VITAL STATISTICS

Favourite film:
The Empire Strikes Back

Last great book you read:
Getting Real by 37signals

Ideal dinner party guestlist:
My mother, David Attenborough, Bill Hicks, Dean Martin, Stephen Fry

Most impressive person you've ever met: Anne and Terry Panks who I met while filming [Channel 4's] *The Secret Millionaire*. For over 30 years they've opened their home to more than 800 young men who had nowhere to go.

old-fashioned lending which, once upon a time, was called lending.

Peer-to-peer [lending] is built around a very old-fashioned concept where people with some money lend to other people. That's how a bank would have worked in the old days; a couple of hundred lenders and a couple of hundred borrowers, and a bank manager in the middle making decisions.

ED: Has the payday lending sector plugged a funding gap left by the banks?
JB: There's been a funding gap and there's also been an education gap. So people haven't understood the products that are available to them, and in some cases haven't understood how much they're paying or whether they can afford the product.

Payday is an example of competition, but the wrong kind of competition. Rather than companies competing to serve customers better – unfortunately because regulation hasn't been enforced as strongly as it should have been – I think companies have been competing almost to under-serve customers.

It's not a market we're in and it's not a market we want to be in directly. I think that customers are better served by having access to a term loan, not being forced to pay the money off at the end of the month and not paying thousands of percent in interest.

ED: Is this the end of free banking?
JB: I personally pay for a bank account with a small bank, and I do that because I want a cheque book, a card that works and a person I can speak to on the phone. I think there is room in the market for a bank that offers a really simple service. I think that in time a lot of people would learn to prefer that.

It's difficult to educate people to go from something that's free to something that costs money. But consumers need to understand that there is no such thing as a free service; you are always being charged somehow. In time, companies that are more honest about how they charge people will be more successful.

ED: Do you want to see the alternative lending sector regulated?
JB: Five years ago, regulation was about technical details. More recently, regulators have moved to concept regulation, such as treating customers fairly. It's basically to make sure that customers are well served by products. I think that's exactly what lenders and financial services companies need to keep in their heads, that they will be more successful if they have happy customers who enjoy using their products and are financially better off as a result of using your product.

We're in financial services. People who use our services should leave, in the long run, financially healthier.

ED: Do you have any concerns about the implementation of regulation?
JB: My biggest concern is that there are so many examples now of the regulator putting out some very serious regulation around affordability or fair treatment during the collection of arrears, but there are very few examples of implementation of that regulation.

If we see regulation being brought in and not clearly acted on for three or four years, investors will not want to come into this market because investors need certainty. If they are only getting single or low double-digit returns then they need to have very low risk rates. Investors don't feel confident about the market and so we're seeing less competition than we should.

ED: Is there a risk that regulation will stifle competition?
JB: If the regulator wants to make the market work for consumers then it needs to give more examples of companies that the regulator feels are implementing treating customers fairly, as well as examples of action against companies that they feel aren't. I think that would massively encourage investment and competition, and improve products for customers.

Customers deserve a thriving, competitive marketplace. A market without competition is a monopoly, and is no good for anyone.

Alternative Lending is one of the conference streams at *Credit Today*'s Credit Summit next month. See creditsummit.co.uk