



**IS IT NECESSARY TO GET
LEGAL ADVICE BEFORE
ENTERING INTO ANY FORM
OF LOAN AGREEMENTS?**

While planning on the topic for this week, a comment by one of my LinkedIn friends, provided me with the topic for this week's article.

My friend, just like me, believes that before entering into a loan agreement, a borrower should engage a lawyer, to see the terms of the agreement even though that makes the cost go up.

I concur with with this advice, and as an example would like to share a Case Study that had happened early 2023.

I was out for lunch with our company advocate and a Banker friend. Our advocate got a call and looked grim while talking on the phone. He then asked us if it's okay for one of his clients to join us for a while as that particular client had a serious problem.

We agreed. The client showed up in about 10 minutes.



THE NATURE OF THE CASE

The Client had an order that required him to borrow about **\$ 700,000 within 20 days**, which by any means is not conducive for a Financial Institution to work out their processing and grant the loan.

He was introduced to a **'Funder'** by one of his friends. The funder assessing the situation and understanding that the Client owned a very successful factory, agreed to fund the required **\$700,000 at an interest of 6% per month**.

As the order would be fulfilled within 2 months and the average profit margin was around **36%** the client agreed to the **12%** interest charge that was offered.

He was also assured that there would be **No Other Fees** incurred in the deal except his private guarantee as the major shareholder.

THE PROBLEM

The Client had to wait almost a week and didn't get any reply from the funder. Finally the funder came back saying that there was a waitlist of cases and their funds were running low. He further said that they had to finish the deal in the next 2 days and that the client would need to pay for legal fees and other processing charges if he wanted the funds fast.

The client was a little taken aback. But being desperate, **he agreed to the said fees that came to almost \$15,000**. Furthermore, when he looked at the agreement it stated the interest or rather **ROI on Investment was at 10% and not the agreed 6%**.





On enquiring, the Funder replied that it was the usual rate and that it would be adjusted later. He even gave a verbal undertaking that if the client signed at then, he would receive the funds in 24 hours.

The client having no other choice signed the agreement that came with a whole lot of attachments. As agreed within 24 hours the \$700,000 was deposited into his account.

THE AFTER EFFECT

The Client got a call from the Funder's Accountant stating that he had a **\$70,000 payment due on the 22nd day of signing the agreement.** When he asked how was that possible, he was asked to refer to the repayment clause.

When he checked it was due every **21 days (3 Weeks) and not the agreed full month (30 Days).** When the client asked to talk to the Funder, he was told that the funder was overseas for the next 3 months and he had to follow the agreement signed as it bore his personal guarantee.

This is when he came to see my lawyer friend to see what could have been done. Now it's just my opinion, shouldn't he have seen his lawyer before signing the agreement?

What would you have done, if you were in the client's situation?

