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FAST LOANS – METHOD OF RAISING LIQUIDITY OR REASON RISING DEBT

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Summary:

This article describes the essence of fast, instant cash loans which can raise liquidity or be the cause of growing indebtedness. The purpose of this article is to show the advantages and disadvantages of fast loans and attempt to compare different loan options available to the client on the Polish market. In this paper an analysis of the costs, repayment terms and specificities loan offers, which showed that fast loans perfect solution for those conscious consequences borrowings.

Key words: instant loan, loan, indebtedness.

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INTRODUCTION

Borrowing money is a commonly known phenomenon. We use loans and various types of financial products that can bring us additional financial benefits. We borrow, because we need to meet our basic needs or to invest in a better future. Lately quite popular has become a form of loan called „instant loan”. The dynamic development of non-banking sector affects the expansion of many

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organizations which offer borrowing money with no complicated credit checks and creates greater difficulties in the process of evaluation and selection of the best offers of loans or credit. A growing amount of companies which offer money without formalities, intensive advertising campaigns and interest on the part of households that have limited access to credit products which offer bank branches, significantly increase and speed up the loan market. Moreover, a development of the telecommunications services market and the progress of computerization is also important. The Internet offers us a lot of financial products, including instant loans. This forces us to make a quick decision or borrowing money without leaving your house, and being available for everyone without checking in the Credit Information Bureau. Often seems to be the ideal solution and we refuse the loans from banks, which in fact are much cheaper, but harder to get. However, we all should spend a bit of time to evaluate and to choose the best option/solution.

1. FAST LOANS – DEFINITION, SECTOR, PROVIDERS

In the applicable law we will not find the definition of short-term loan colloquially known as „fast loans”. It is assumed that instant loan refers to the loan agreement, in which the repayment occurs in a short term, usually within 30 days from the date of signing the contract. According to the Consumer Federation’s patterns, repayment of the loan agreements may take up to 45 days depending on a decision of the applicant for a loan. It is worth mentioning that loans, which were originally agreed for up to 30 days, but as a result of the agreement provided for the consumer application the time of repayment was extended, with an extra charge, we can still name „instant loan” [*Fast loans – selected on the basis of standard contracts...*, access date: 18.08.2014]. According to Anna Szelałowska fast loans is a specific type of loan granted for a short period of time, usually for not more than a month (usually 7–30 days), for the amount not greater than 500 PLN [Szelałowska 2007: 211].

Instant loans may be signed directly in the business premises, as well as through modern technology – Internet or over the phone. The possibility of obtaining money in a very short period of time and convenience by sending the form (application) electronically or by telephone determines the attractiveness of this type of product. In addition the companies and organizations which provide instant short term loans do not require a lot from borrowers. All the formalities of obtaining loans are limited to a minimum. There is no credit check or BIK verification, which instant loans are available to everyone. The verification procedure is limited to verify if a customer is over 18 and to check his personal data. However, very often, customers who decide to take fast loans do not realize that they will have to pay much more than they have borrowed – interest rates in this type of loans is much higher, than traditional loans offered by banks

on High Streets. Fast loans should be considered by potential customers as something extraordinary, because despite the fact that, they fill in the market gap, allowing the access to money to people who cannot take the loan, it is unfortunately based on very high-interest, often referred to a usury, and use their customers' lack of knowledge. Organizations authorized to provide fast loans are not strictly defined. These activities can therefore be carried out by co-operative saving organizations, credit unions, banks or building societies. However, experience shows, that fast loans are mainly offered for by non-bank organizations [Szpringer 2009: 58]. The products provided by banks or credit unions are more likely to be credit cards and limits on your account that can successfully replace, the universal short-term loan.

2. UNPAID FAST LOAN CONSEQUENCES

Fast loans is undeniably fast and convenient way of getting money. Unfortunately, problems associated with it appear when money is not paid off on time. Consumers often forced by a difficult circumstances, decide to take fast loans that provide them a minimum of formality. Unfortunately, the sudden need may obscure the rational perception of reality and assess the situation, in this case the cause biased assessment of the loan agreement. It might seem that an innocent loan can help us in a difficult situation, however we often do not recognize the risks, they pose together for the people, namely the danger of destruction of a successful life situation and expanding areas of social exclusion [Szpringer 2009: 58].

The analysis of offers from several loan companies provide us information on the best terms which are waiting for „a man from the street”. Based on the five best loan offers, we can see that there are some products completely free and available to everyone. Vivus and InCredit offer loans for every budget, which is at no extra cost, so you pay off what you have borrowed.

What may arise problems customers? Of course it is a matter of delayed repayment of the loan, which is associated with additional, often very high costs of extension and enforcement of non-performing loans. In case of extension your loan building societies do not add any extra money, however they require a fee in advance, before the repayment date on the contract. In case of non-repayments they will not extend instant loan „automatically”, but will start sending notifications which will cost (up to 6 at 35 PLN each). In addition to this they will charge penalty interest, as a rule, possible the highest. In case of not extending the loan or lack of information from the customer about willingness to extend the repayment period the recovery procedure takes place. Costs of prompts postal or other, depending on the information contained in the contract, very often exceed the amount of the loan, so it is an important part of the agreement, which needs special attention from the very beginning.

Table 1. Fast loans available on the market (1000 PLN, 30 days) – five best offers

Company	Amount (in PLN)	Period (in days)	Cost (in PLN)	Total cost	RRSO
 VIVUS.PL	1000	30	0	1000	0%
 via sms.pl szybka pożyczka	1000	30	145	1145	419%
 IN CREDIT	1000	30	0	1000	0%
 MiniCredit Nie żyj bez pieniędzy	1000	30	195	1195	774%
 PROVIDENT	1000	30 (weeks)*	279,77	1279,77	123,8%

* Provident offers their customers a loan for 30 weeks, what is unusual among fast loans.

Source: based on my own research from questionnaires when applying for a loan.

Proceedings taken against unscrupulous borrowers depends on the policy followed by building societies. In most cases, the company aims to agreement with the client, because they want their money back, but extension of the repayment will bring additional benefits. Borrower must prepared for an extra cost in this case. The fee depends on the amount and the length of fast loans [*Outstanding loan or fast loan...*, access date: 18.08.2014].

Table 2. Cost of changing/extending date to repay the loan

Company	7 days (in PLN)	14 days (in PLN)	30 days (in PLN)
 VIVUS.PL	98	126	190
 via sms.pl szybka pożyczka	78	135	230
 IN CREDIT	N/A	N/A	N/A
 MiniCredit Nie żyj bez pieniędzy	80 (5 days)	165 (14 days)	270
 PROVIDENT	loans for up to 60 weeks		

Source: based on my own research from contracts from particular loan companies.

The tab. 2 shows the costs of extending the repayment period from 5 loan companies, providing „fast loans”. This case considers a loan of the amount of 1000 PLN and 30 days as a repayment period.

Analyzing contracts from particular loan companies we can see that there might be some extra cost for a customer if there is need to extend the repayment period. In the case of extending a loan for 7 days, we can see that the best offer provides an organization called ViaSms, however if the period is longer Vivus takes first place. The most expensive organization (if extending the repayment period) is MiniCredit. Provident does not provide data because the loans they provide are usually for longer than 60 weeks.

In a case when customer does not extend/change the repayment period an additional cost may occur, which is added to the final amount of loan. In the first few days after the deadline of repaying the loan has passed a customer will receive a reminding letter/email or SMS. This action can be repeated charging customer each time. In case of delays with a repayment we need to consider penalty interest. In most cases it is four times higher than a NBP lombard loan. No response from a customer means further actions (for example the following operations).

Table 3. Additional cost if payments are not made on time (in PLN)

Company	I Demand note	II Demand note	III Demand note	IV Demand note	V Demand note	Interest
 VIVUS.P	35 (30 days)	45 (60 days)	55 (90 days)	–	–	four times higher than a NBP Lombard loan
 via sms.pl szybka pożyczka	10 (7 days)	10 (14 days)	40 (30 days)	–	–	0,5% for every day of delay from the borrowed amount + collection operations
 IN CREDIT	15 (7 days)	15 (14 days)	25 (30 days)	–	–	four times higher than a NBP Lombard loan
 MiniCredit Nie żyj bez pieniędzy	18,45 (7 days)	18,45 (14 days)	18,45 (21 days)	18,45 (28 days)	18,45 (35 days)	four times higher than a NBP Lombard loan
 PROVIDENT	N/A					four times higher than a NBP Lombard loan

Source: based on my own research from contracts from particular loan companies.

Calls and reminder letters add up and can increase your loans few times. Costs of reminder letters can be high, considering the frequency of sending them to a customer (frequency shown in brackets in tab. 3). The cheapest option offers Vivus, which (only) after 30 days of delay sends out a reminder (cost 35 PLN), where ViaSms would charge you 60 PLN, InCredit 55 PLN and MiniCredit 93 PLN.

The following actions take place when a customer does not respond at all. The organization involves collection agencies, depends on the organization but these are usually independent companies from outside. The following actions can be divided into two: resolved by arbitration or ending up in the court [*Fast loans – selected on the basis of standard contracts...*, access date: 18.08.2014].

If the problem being resolved by arbitration a debt collector contacts its customer and suggests spitting the debt into several instalments, what might be easier to pay off the loan. A customer with debts should be willing to pay it. A customer is also informed about the additional cost of a debt collector being involved. If a customer follows the rules the case ends up after the debts have been paid off. If a customer still cause problems then the case is going to the court. Its aim is to obtain enforcement title to act further. The next step is to write a proposal for applying for a provisional act to allow to accomplish the enforcement title. The last step is to hand the case to the head office of collection agencies which can start repaying our debts directly from your salary or they can confiscate your savings from your account if you have got any. At last a debt collector can repossess your property [*The consequences of non-payment fast loans...*, access date: 14.08.2014].

3. ADVANTAGES AND DISADVANTAGES OF INSTANT LOANS

The increase of fast and short loans is affected by its accessibility, but on the other hand because of difficulties from taking a loan from a big banks. A fast loan can get anyone, who is over 18 and who is not in full time employment, unreliable customers, including blacklisted clients or people with no credit history. When signing a contract for a fast loan, there is no time to check your credit history or your income. All you need to have is a form of ID and your signature [*Advantages and disadvantages of fast loans...*, access date: 13.08.2014]. It is worth to remember that this type of loans have pluses and minuses. Although these loans are not the cheapest on the market but are very popular. The main advantages are [*Fast loans – advantages...*, access date: 13.08.2014]:

- Available to anyone. Including clients who cannot borrow money from the banks because they do not earn enough (including unemployed people);

- Fast loan is also available to customers who had problems in the past to pay off the loans and they cannot provide a credit history at the moment; It is a quick option for those with temporary financial problems. Money from the loan can help to pay current outcomes;

- Helps to get a certain amount of money really quick. A customer does not waste it is time to provide some documents. Usually one form of ID is enough secondly money available in minutes on your account- takes no more than 15 minutes;

- Fast loan gives you a chance to choose terms and conditions and to adjust to a customer's expectations. Depending on the circumstances we can split it into few instalments or pay off in one go;

- Fast loans are available from 200 PLN;

- Organizations providing fast loans are trying to reduce the amount of documents needed when taking a loan to a minimum.

Despite the advantages, fast loans have also minuses:

- Very high fees for late payment;

- High fees for extending the loan;

- The highest possible percentage on the market (four times higher than a NBP Lombard loan);

- Additional costs: commission, that increase the loan;

- ID with your current address in Poland;

- Possibility of debt spiral to occur.

Fast loans can have advantages and disadvantages. Give us the opportunity to meet current commitments and emerge from the crisis, but they can also lead to a spiral of debt, so it should be handled very carefully and rationally.

4. COMPARING LOAN MARKET WITH MICROCREDITS

The alternative and competitive way next to fast loans are micro credits, which recently have become very popular all over the world. What does micro credit actually mean?

Microcredit – a loan for a small amount of money, mainly for poor people, mostly for homeless. For people with no credit history, who do not meet a lot of money to start their own business. In developing countries this could be the only way to start a new life. The idea of giving micro credits to people has become popular because of Muhammad Yunus, who founded Grameen Bank in Bangladesh, specializing in micro credits. Yunus in 2006 has been awarded with a Nobel Peace Prize for pioneering the concepts of microcredit and microfinance.

Comparing fast loan with a microcredit has shown very interesting points. A potential client needs to decide between a loan or a credit to start his own

business. Owners of small businesses are looking to a positive future, also planning to extend their market. Situation of many businesses does not allow them to cover the cost from their own budget. An interesting alternative for them of getting money is a social loan – available in our country.

Table 4. Comparing microcredit with fast loans

Standard	Fast loan	Microcredit
Ability of credit	Credit history not always checked, compensated with high rate and additional costs	Lack of credit history. Microcredit is mainly for people being blacklisted
Full time employment	Approved in a few cases – Fast loans skip the long procedures	Unemployed
Deposit	N/A	N/A
Directed to	All who need fast loan with a minimum of requirement	Poor people with low income (In developing countries 95% of all clients applying for a microcredit are women)
Time scale	Usually up to 30 days. Provident borrows for longer terms	Longer loan (In Poland maximum 2 years)
Amount of money being borrowed	Starting from 250 to 3.000 PLN, Provident provides special offer for returning customers – the highest loan can be up to 10.000 PLN	In Poland maximum amount – around 20.000 zł

Source: own research based on data from an interview with Muhammad Yunus, http://www.tokfm.pl/Tokfm/1,103086,14838408,Muhammad_Yunus__Stworzmy_banki_pomagajace_biednym_.html.

Let’s look up closer at the loan offering from an organization well known among fast loans – Provident. Despite the fact that Provident does not offer a free loan, there is a possibility of a long term loan. Most of organizations offer us money for up to 30 days. However, Provident offer is more attractive and can be available for up to 90 days. The second option will be microcredit granted by the Initiative Micro Loan Fund for business development for new entrepreneurs.

The analysis from particular contracts when signing for a microcredit or a fast loan show us a lot of difference between those two loans. The main one is a target group. The Provident example is targeted to all. Anybody can apply for it. However the microcredit is only for poor people, wanting to start their own business. Fees, rates, grace period are very encouraging, the only thing that might put you off is providing all the documentation, where in fast loans this is really easy and simple.

Table 5. Microcredit and fast loan – comparison

Standard	PROVIDENT – fast loan	Micro initiative microcredit
Amount	10.000 PLN	10.000 PLN
Length of loan	90 weeks	90 weeks
Rate	about 30 %	1,60 NBP rediscount rate, but not less than 4% (currently 2,75% * 1,60) = 4,4% yearly
Fees	Fee for opening the folder insurance	(one off) 1% from the amount of your loan
Grace period	N/A	possible 3 month of grace period
Amount to pay back	15.121,09	10.762,00 + 100 (commission) = 10.762,00
Aim of your loan	ANY	Opening own business
Place of loan	Any place in Poland	In some branches where they work with an association with European Fund for Rural Development Polish
Availability of loan	Same day	1 day
Who can apply?	To all	To people planning to open their own business
Fees for delays in paying back the loan	Percentage four times higher than a NBP Lombard loan + fees from collection operations	Percentage four times higher than a NBP Lombard loan + penalty interest + other fees (court fees, from collection operations: calls, reminder letters)
Requirements:	<ul style="list-style-type: none"> ▪ Identity Card ▪ Application 	<ul style="list-style-type: none"> ▪ Proof of having your own business (CEIDG) ▪ Proof of REGON ▪ Identity Card <p>When applying for higher amounts we can also ask about:</p> <ul style="list-style-type: none"> ▪ a letter from office of Revenue showing payments for tax ▪ a letter from ZUS showing a clear account <p>If you are thinking of opening your own business for a start, you will need:</p> <ul style="list-style-type: none"> ▪ a business plan

Source: own research based on data from contracts and policies(Provident and Micro Initiative).

Microcredits are becoming more and more popular in many countries, they help to start a new life and also they are to encourage you to work hard, to start your own business. What to choose then? Microcredit or a fast loan? This depends only from a customer perception. Fast loans we can spend on whatever

we would like, without proving it. Fast loans are available for a short time so high rates are not too scary, moreover, it helps us to finalize our plans, which we could not make without the money. Microcredit is used in turn to economic objectives, to obtain, it is necessary to carry out or to start a new business. Customers borrowing microcredits mainly Those entrepreneurs who for various reasons were excluded by the banking system.

5. OUT OF CONTROL OR UNDER CONTROL

Quite often we can ask ourselves this question: how high is the cost of a loan quickly accepted by the Ministry of finance or similar financial institutions? Whether the loan non-bank institutions is fully legal? Loan organizations do not have any limits?

Ministry of Financial is trying to regulate the loan market, what means to limit short period and high rate loans by the loan companies. Changes by the Ministry of Finance would aim to decrease the high costs paying by some clients, but from the other side it would introduce some involvement in the market and functionality some loan companies. Currently there is a limit on the rates with short period, however the customers can easily manipulate the rest of the loan money. At the moment some loan companies have their policies and rules constructed in a way to make many from their clients, who are not able to pay off their loans in a short period (within one week). This is the profit, which an organization make. To extend your loan is associated with high cost percentage, which can go up several dozen. This is the cost from rates and prompts. Introducing new ideas would cause that commission for delaying repayments would go down [*Fast loans not disappear by antylichwa...*, access date: 26.08.2014].

Furthermore the legislation, in which they talk about controlling the financial market and the banking law. On the chairman of the ministers' website, has been explained that the main aim is to increase safety of consumers borrowing money from some organizations. Agreeably with info from Prime Minister's Office there will be some rules, which will allow Financial Supervision Commission demand some information from non-banking organizations. In addition, the legislation is considering the regulations of how to increase penalty for running a loan business without a permission, They also planning to introduce the maximum fee for any delays and for internets. Also there might be some limitation with consumer credit. All regulation in this legislation will have to be met to run a loan organization [*A draft law on the protection of customers loan companies...*, access date: 12.08.2014].

Institutions that provide quick loans are often referred to as non-bank institutions, because they offer services similar to those which are the core

activities of the banks. These concepts, however, easily confused, although the difference between the two is substantial.

When it comes to loan companies, then they manage their own capital and does not deposit the money clients, and hence, do not charge them any investment risk. Lending business is limited only to borrow money.

Non-banking organizations and provide a whole range of financial services, acting at the same time on completely different principles and that is why there are controversy surrounding their operation on the Polish market. Their activities, unlike banks, is not regulated by the Commission of Financial Supervision. In other words, they are not obliged to complete a series of formalities including, inter alia, the submission of reports or entrusted to the guarantee capital. Regulation of such entities should therefore be based on other laws than the Law Bank

CONCLUSION

Analysis of the different loan options available on the Polish market shows us the strengths and weaknesses of fast loans that tempt availability and quick disbursement of cash. They are available to anyone, regardless of financial situation should therefore be treated in a special way, are intended for people conscious consequences of incurring liabilities. Without a doubt, fill a niche bank, which is formed of financially excluded people, but as a result of late payment of unwary clients can lead to a crisis, and even financial trap from which it is difficult to get out. Interest, prompts and recovery proceedings can make a harmless-looking sum of 1,000 PLN growing at an alarming rate. The only solution is wise to borrow and analysis of financial capacity or signed contracts. It should carefully choose which loan company indebt ourselves and to get to know all the additional costs, terms and fortification of the loan. Fast loans are a good option. They allow for a quick influx of cash with minimal formality, can increase liquidity, but only with rational and careful use.

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