# Private Lending

Many firms need to acquire business funding for expansionary projects. These firms need capital for their company projects, and happily seek either loans or investments to fund them towards completion. Hedge funds which actively loan or invest in firms to complete these needs are known as project financing hedge funds.

Hedge funds often leverage project financing positions, borrowing from banks or institutional lenders and lending the same capital to other firms. Large funds offer substantial collateral to back their loan and acquire very low interest rates on their debts. They raise those rates substantially when offering this capital to groups seeking project financing. This allows funds to earn large returns from money provided by investors and narrower additional spreads provided by lenders. Leverage based lending is a slightly riskier game. If the fund's investment fails or becomes insolvent the fund still owes money to the lending party.

Hedge funds which do not specialize in private or public lending may engage in loaning excess capital. Lending unused funds reduces cash drag, or the loss of potential earnings which have not been invested. Liquid pools of cash do not earn a return, slowing down the average performance of the fund. They also have no risk of loss, but the benefit is offset by very low return. If the fund has too much excess cash, they loan this money to firms, banks, and other hedge funds. They acquire a risk of loss, but also acquire a potentially fixed percentage of return. An alternative may be bonds, especially government issued. These bonds have very little risk of defaulting, since central banks can simply print more currency to repay their debts.

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