

Alternative Sources for Business Credit are Alive and Well

By Keith Kirkland



All too often these days, we hear from equity sponsors that a portfolio company has lost its funding, which results in a scramble to find an alternative lending source. Because of dropping real estate values and the resulting mortgage crisis, many banks are facing liquidity issues and enduring penetrating scrutiny which has significantly impacted their ability to extend credit. Although consumer credit is most widely discussed in today's

media, it is credit for businesses that is so crucial in the effort to keep our economy moving. The innovative, entrepreneurial-focused business owners are employing most Americans today, yet the media appears to be primarily focused on major corporations and the availability of consumer-oriented credit. The result is that the small to mid-sized business community is often times unaware of lenders that are on the front lines every day, providing needed capital to growing businesses.

There are many banks that still actively support businesses, although the frenzy of negative stories would have you believe otherwise. However, because most banks have an 80% or more concentration in real estate loans, their ability to provide other types of financing is severely impacted regardless of their desire to provide business loans. The result is that not only are businesses being declined credit from traditional sources, but many businesses that do have an existing credit line are being forced to find another lender. This scenario can create a very significant hurdle for an equity firm's portfolio company.

For decades, asset-based lenders have been funding the growth of America's small to mid-sized businesses, and continue to do so today. It is worth noting that just because a business is declined credit from traditional sources; it does not mean that the business is not creditworthy. Although credit standards are

tightening, and rightfully so, asset-based lenders (also known as ABLs) are able to work with companies that don't meet all of the typical bank criteria because they loan money based on the value of the company's assets, primarily accounts receivable and inventory. The lender values and monitors this collateral, which ultimately determines the amount of money that is available each day to the borrower.

It is true that certain asset-based lenders and other finance companies are struggling, too. In many cases it is due to the fact that these lenders rely on bank financing for liquidity, and the scale-back on business lending has impacted their ability to obtain financing. But what is not reported is that there are many structured finance companies that are well-capitalized and well-funded and are actively supporting businesses all across the country. These are the lenders that are not stingy with credit. They are not bogged down with declining real estate portfolios and can focus on helping companies to achieve growth and success.

In all cycles of the economy, asset-based lenders have proven effective in providing needed capital to the business community, and many are still offering multi-year transactions which offer additional comfort to equity sponsors looking for ways to fund portfolio companies without diluting the capital structure. And the most experienced of these lenders can structure a transaction within weeks, which is extremely helpful when the exiting lender gives little or no notice of their desire to discontinue funding. Look to the ABL professionals to help you and your portfolio companies during these critical times.

About the Author

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