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Credit crunched: Asset-based loans bring tougher standards

Lenders bullish on business with a "promising future"

Tampa Bay Business Journal - by [Margie Manning](#) Senior Staff Writer

The credit crunch is making waves among some asset-based lenders in Tampa Bay. The changed climate has some working overtime to access opportunities, and other lenders shutting their doors.

Both Lilies Lanway, senior VP of Accord Financial in St. Petersburg, and Jeff Mitchell, who heads the Tampa office of Southeastern Commercial Finance LLC, said deal volume at their firms is growing as banks pull back on making loans.

Both companies specialize in asset-based loans, which are loans secured by accounts receivables, inventory or other assets.

"The climate is very good for asset-based lending. Banks are tightening credit and in many cases only lending to existing customers," said Brian Smith, managing partner of LCG Capital Group LLC, a Tampa company that works with both borrowers and lenders. "However, what's largely been a surprise to a lot of us in the industry is a lot of asset-based lenders out there are having a tough time accessing capital to put on the street."

Among the alternative lenders that are getting out of the business is Textron Inc. (NYSE: TXT), a conglomerate based in Providence, R.I. Textron said Oct. 16 that it would cut the size of Textron Financial Corp., exiting both asset-based lending and structured capital segments.

In a filing with the Securities and Exchange Commission, Textron said it was downsizing to reduce capital requirements, citing "volatility and disruption in the capital markets [that] have reached unprecedented levels."

'Bullish about lending'

Accord Financial (TSX: ACD) of Toronto has been in business for 35 years and has built up reserves that have helped it weather the economic storms, Lanway said.

"We're lending and we're bullish about lending to small businesses with a promising future," said Lanway. "But we don't do anything that compromises our underwriting requirements. We stay focused on what prudent lending should be."

Accord shies away from lending to construction firms; its bread-and-butter customers are businesses such as wholesalers, service and manufacturing firms. At Southeastern Commercial Finance, nurse staffing companies and service providers such as logistics companies are among those getting funding, Mitchell said.

The collateral used for a loan makes a difference, said William Paul, a partner in the Tampa office of the Ruden McCloskey law firm. He has seen a drop in deals where equipment and inventory are used to secure loans, because the resale market for those assets is not strong. Receivable financing has not been significantly impacted, he said.

"You can look at debts and accounts and assess them more easily than other types of assets," Paul said.

Financing for growth

An October survey of senior loan officers conducted by the Federal Reserve showed roughly 85 percent of domestic banks reported tighter standards for commercial and industrial loans to large and middle-market firms since July, and nearly 75 percent of those responding said they had tighter standards for such loans for small firms.

That explains why interest in asset-based loans is way up.

"The universe of prospective borrowers for asset-based lenders is twice what it was in the past," Smith said.

But borrowers also have to meet tougher standards. "A year ago, you would have had four asset-based lenders chasing you to give you great terms. Now only one or two will even take your call," Smith said.

For a business just getting started, asset-based loans can provide resources that are otherwise unavailable, said Barney Bailey, president and CEO of Entertainment Supply & Technologies LLC, a Tampa firm that sells cinema equipment to theaters around the world. Bailey had worked for the predecessor company, National Cinema Supply, for 30 years before he bought the company earlier this year and turned to asset-based lenders for credit.

"It's a way to get started, but you will pay an additional price," Bailey said. Not only are the rates higher than on conventional loans, but "at times, there's a lot of daily or weekly reporting that doesn't go with standard lending," he said.

Borrowers that make the most sense are those looking for financing to support growth, Mitchell said.

“Even in this economy, there are companies that have demands for their products or services, and need more working capital,” Mitchell said. “If a bank is limited in what they can do, asset-based lending is a great alternative.”

Shifting directions

Several local asset-based lending experts have recently switched gears.

- Lunelle Siegel, formerly southeastern regional manager of Greenfield Commercial Credit, left Greenfield in early November to launch Corporate Funding. The Tampa company works with banks that are trying to exit loans, including asset-based loans, and also works with business owners who have to find another source of capital.
- **Diane Homa, principal of [Fountainhead Funding](#) in St. Petersburg, is concentrating on consumer contract financing. She is working with secondary finance companies that will extend loans to people with less-than-perfect credit who want to pay over time for services they purchase from companies such as medical spas or seminar providers.**
- David Wolf, CEO of Hennessey Capital Southeast, isn't involved in lending at all right now. He's running a trucking company, Benco Transportation, which he bought out of bankruptcy from a client who had an asset-based loan with Hennessey. Wolf said he's referring asset-based transactions to Hennessey Capital LLC in Michigan.

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