

# Non-Bank Commercial Finance Solutions



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# Presenter Profile

**Michael Banasiak**

**Owner / Managing Director, Liquid Capital Express**

*Offers more than 25 years experience in the information and financial services business*



- ❑ Manages and owns Liquid Capital Express, a non-bank commercial financing company that helps small-to-medium businesses obtain funding when bank financing is not available
- ❑ Founded PredictiveMetrics, Inc., a commercial credit scoring and decision analytics company that profitably sold to SunGard, a \$5 billion software company
- ❑ Forefather of commercial credit scoring; successfully built Dun & Bradstreet's (D&B) first commercial credit scoring and financial stress models currently used by over 10,000 companies
- ❑ Holds a master's degree in economics (ABT), completed the three-course doctorate sequence in econometrics from New York University and have a bachelor's degree in economics from Rutgers University

# Topic: Helping your customers with non-bank commercial finance solutions

*Every business client's financing situation is unique and occasionally requires 3<sup>rd</sup> party financing*

- Types of Commercial Finance facilities
- International options
- What situations merit their use
- How it helps to improve your business customer relationships

# Who is Liquid Capital Express?

*A non-bank commercial financing company that helps businesses, your customers improve cash flow to grow eventually becoming more bankable*

- ❑ Located in Brielle, NJ and there are more than 80 Liquid Capital offices across the United States, Canada, Mexico, Hong Kong, China and Australia
- ❑ Works with banks to retain and grow their business customer relationships
- ❑ Provide a complete package of receivable management services including credit checks, professional collections and an online reporting tool that strengthens customer relationships
- ❑ Consultative, customer oriented approach
- ❑ Helps businesses improve cash flow to
  - Improve their credit score
  - Improve ability to seek new business
  - Improve relationship with suppliers
- ❑ Direct funding source
- ❑ Offers several international and domestic financing solutions



**Become More Bankable**

# What is Non-Bank Commercial Financing?

*Refers to second-tier lenders that provide a variety of international and domestic financing options to businesses when traditional bank lending is not available*

- ❑ Do not compete with banks – no deposits and no traditional credit lines
- ❑ Rates are higher than bank lines (risk based), but less than private equity
- ❑ The facilities are generally asset based relying on accounts receivable, inventory and sometimes machinery and equipment as collateral
- ❑ Credit insurance often is used as a form of collateral
- ❑ Typically does not rely on traditional credit metrics, such as tenure, credit scores and financial ratios for credit qualification – allowing start-ups, companies with low credit scores, negative net worth and losses are often acceptable risks
- ❑ Many trustworthy, reliable sources for commercial financing
- ❑ Quick decision turnaround (often 1 to 3 days)
- ❑ Credit and collection services are included – save time, money and resources

# Types of Commercial Financing Facilities

*There is no one size fits all for borrowers and lenders; depends on the financing needs of your customer*

Private Equity  
Lender

Takes more risk, expects higher returns and will ask for a structure that allows them to convert to equity if loan conditions are not met

Merchant Cash  
Advance

Lump sum payment in exchange for a share of future sales primarily from credit cards - Best suited for B2C companies and payback periods typically range from 3-12 months

Non-Bank  
Financing  
Lender

Does not invest in equity or take equity from the business; generally offers more variety of financing options including international – ABL, A/R Factoring, Purchase Order, Trade Credit Finance

# Non-Bank Commercial Finance Products

*Most common form of second-tier financing – it's a quick way to obtain working capital without giving up equity, decision making rights and ideal for B2B companies*

- ❑ **ABL Facility** – Used to finance short term assets (accounts receivable and inventory) and long term assets (machinery, equipment, and sometimes real estate). Credit lines are \$1 million+
- ❑ **A/R Factoring** – Purchase of accounts receivable to provide immediate cash flow. Generally, advance rates range from 70% to 90%. Credit lines are \$50,000+
- ❑ **Purchase Order** – Company has a purchase order that exceeds its ability to be funded by the bank credit line. An irrevocable letter of credit is issued by the finance company to the vendor to pay 100% of the product cost. Credit lines are \$100,000+
- ❑ **Trade Credit Finance** – Company has utilized most, if not all, of its bank credit line and needs additional inventory for growth. Generally, the company is profitable and has positive net worth, but the bank credit line cannot be increased. The finance company will purchase the inventory on behalf of the company and provide payment terms from 7 days to 90 days. Finance company will take a 2<sup>nd</sup> UCC position not disturbing the bank's collateral. Credit lines are \$50,000+

# Situations Where Commercial Finance May Fit

*There are situations where bank financing may not be available or sufficient*

- ❑ Additional funding beyond bank line
  - **Trade Credit Finance** – Allows for additional capital to purchase goods for inventory, resale or consumption; finished or unfinished. Take 2<sup>nd</sup> UCC, so it's the bank's collateral. Must be good credit risk, product relies on credit insurance
  - **Purchase Order Finance** – Allows for the purchase of goods to fulfill a purchase order. Requires a carve out of security for the purchase of the inventory and the associated A/R
- ❑ Take-out of existing non-performing loan
  - **A/R Factoring** – Funding against accounts receivable often will take out a non-performing loan. Sometimes the bank will term out a portion of the existing facility
  - **ABL Facility** – May be outside covenant with bank. Fund against A/R, inventory, machinery, equipment and sometimes real estate. Must have a perpetual inventory system. Sometimes the bank will term out a portion of the existing facility
- ❑ Retain business customer relationship when lending is declined
  - **A/R Factoring**
  - **ABL Facility**
  - **Purchase Order Finance**



# Situations Where Commercial Finance May Fit

*Import/Export financing, carve outs and concentration risk*

- ❑ **Import Financing** – Allows for additional cash flow lending specifically to fund international purchases
  - **Purchase Order** – Offer letter of credit to international vendor to obtain goods. Requires a carve out of collateral associated with purchased goods
  - **Trade Credit Finance** – Purchase inventory from international vendor on behalf of customer
- ❑ **Export Financing** – Allows for additional cash flow lending beyond domestic bank line
  - **A/R Factoring** – Fund against international receivables often using credit insurance. Requires a carve of collateral associated with the purchased international receivables
- ❑ **Concentration Risk**
  - ❑ **A/R Factoring** – Can be used to minimize accounts receivable concentration risk by carving out receivables to a commercial finance company that do not meet the bank's concentration criteria. The bank lends traditionally against the non-concentrated receivables and other collateral and the commercial finance company funds against the concentrated receivables

# How Do Commercial Finance Companies Give Back?

*Commercial finance companies appreciate the opportunity to help your business banking customers grow and want to give back to you!*

- ❑ Commercial finance companies refer bankable deals to bank partners - **graduation**
- ❑ Provide charitable contributions to a charity of choice
- ❑ Contribute to a holiday party fund
- ❑ Sponsor events



# Advantages to You and Your Business Customers

*Many non-bank commercial financing companies are small business people themselves, put their money into every deal – Understand / Believe / Grow*

- ❑ Retain and ultimately grow your business banking relationships
- ❑ You are helping your customers get the financing they need to grow their business and graduate
- ❑ Allows businesses, your customers, the opportunity to expand, restructure, launch new products, manage seasonal demand, take advantage of close-outs...
- ❑ Non-bank commercial financing companies are local to you and your customer
- ❑ International financing options available
- ❑ Helps with additional financing beyond bank lines, non-performing loans and concentration risk

# Thank You For Your Time

## Questions & Answers