

Non-Bank Commercial Finance Solutions



Financial and Technical Assistance for Small Business Sponsored by:



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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

Traditional Bank Financing vs. Non-Bank Financing

Bankers realize they cannot lend to every business customer and more are working closely with non-bank financing companies to help their customer obtain working capital to grow

Bank

- ◆ Collateral requirements
- ◆ Personal and business credit report – need a high credit score
- ◆ Tenure in business
- ◆ Strong financial condition
- ◆ Credit lines limited by collateral and credit policy
- ◆ No international owners and/or customers

Non-Bank

- ◆ Start-ups (no tenure requisites), less than optimal credit B2B - Ok
- ◆ Negative net worth and negative profits – Ok
- ◆ Many financing options including International
- ◆ Quick decision turnaround
- ◆ Immediate cash flow influx
- ◆ Credit and collection services included

Non-Bank Commercial Financing Facilities

No one size fits all for borrowers and lenders; depends on financing needs

Asset-Based Lending

Leverage short or long-term assets in the business to expand borrowing base to increase cash flow. Credit lines \$1 million+

Factoring A/R

Purchase of accounts receivable to provide immediate cash flow with advance rates generally ranging from 70% to 90%. Credit lines \$50,000+

Purchase Order Finance

Company has a purchase order that exceeds its ability to be funded by the bank credit line or has no bank line. Irrevocable letter of credit is issued by the finance company to vendor for 100% of the product cost. Credit lines \$100,000+

Trade Credit Finance

Company has utilized most, if not all, of its bank credit line and needs additional inventory for growth. Finance company purchases the inventory on behalf of the company and provides payment terms from 7- 90 days. Credit lines \$50,000+

Small Ticket Leasing

Many types of new and used equipment; sale lease back options usually available. Typical terms 60 months. Deals range \$10,000-\$500,000

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 2nd 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 bank's security for the purchase of the inventory and the associated A/R
- ◆ When lending is declined
 - **A/R Factoring** – Funding accounts receivable generating immediate cash flow
 - **ABL Facility** – Fund against A/R, inventory, machinery, equipment and sometimes real estate. Must have a perpetual inventory system
 - ◆ **Purchase Order Finance** – Provide letter of credit for 100% of product cost

Situations Where Commercial Finance May Fit

Import/Export financing, carve outs

- ◆ 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 bank's 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

Thank You for Your Time
Q&A