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The commercial lending industry is expected to be very active for 2013

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Small businesses continued to have difficulty obtaining conventional bank loans during 2012. The lingering downturn in the economy along with the more stringent underwriting standards that were imposed on the banks by the bank regulators has forced many small businesses to look at the alternative lending market to locate a lender who can satisfy their working capital needs. Asset based lenders; factoring companies; equipment lenders; finance companies; and private lenders all experienced an increase in commercial loan requests and a subsequent increase in loan volume during 2012. That trend should continue during 2013.

Commercial banks continue to maintain a surplus of cash on their balance sheets as their inertia to originate new commercial loans to small businesses continues. In fact; studies that have been conducted demonstrate that only one out of every five small businesses that achieve sales of \$1 million to \$5 million annually qualifies for a conventional bank loan. The Wall Street Journal recently reported that SNL Securities just finished conducting a study that showed that the bank's overall Loan to Deposit Ratio has decreased from 95% in 2007 to 72% last year providing further evidence that banks are "sitting" on hordes of cash as their appetite to make small business loans has diminished. Banks are no longer "loaned up" as outstanding commercial loans on the bank's balance sheets have decreased by 5.3% during that time period.

In order to access readily available capital for their operations, small businesses who do not qualify for bank financing will have to continue to scour the alternative lending market to locate a suitable lender. Since alternative lenders can quickly close loans that banks typically shun, the cost of the capital is more expensive to the small business. On average, alternative lenders typically charge a range of 2% higher on the lower end of the scale to 15% higher on the highest end of the scale than the banks for those borrowers who are considered the most risky. The increased cost of capital that these alternative lenders charge is based on several factors and clearly has a risk premium attached to it. Alternative lenders are not as concerned about

cash flow as the banks are and alternative lenders are very focused on the underlying collateral of the business that they are lending to and can make a loan to a business that does not demonstrate a standard debt service coverage ratio of 1.25x.

Despite paying higher rates for the debt capital that is being offered to small businesses by these alternative lenders, it is still critical that the small businesses who are unable to close on a conventional bank loan find a reasonable alternative lender who can fund both their short and long term capital requirements. In many cases, a small business can pass on some of the additional cost of capital to their customers. In addition, the business can also establish much needed credit and track record with a reputable lender that could allow them to rotate into a conventional bank loan more quickly as opposed to obtaining no commercial credit at all. Most alternative lenders are short term financiers by nature. These lenders fully expect their "blue chip" customers who are prospering to find a commercial bank who will lend that business the money to pay off the alternative lender. Alternative lenders provide a much needed "bridge" for those small businesses for a short period of time that in many cases will allow a business to grow and succeed and become "seasoned" enough to tap into the debt capital market that commercial banks are offering at a lower cost of money.

As commercial banks continue to stockpile cash on their balance sheets and choose to invest in Treasuries as opposed to commercial loans to small businesses, the small business community will need to continue to search for alternative lenders that are actively making commercial loans in that market segment. The marketplace of alternative lenders continues to grow thus providing these small businesses with numerous viable options that they can utilize to satisfy their business operations working capital needs.

Worth Avenue Capital, LLC closed several transactions during 2012 for many small businesses who were unable to obtain a conventional bank loan. WAC expects to be very active during 2013 in handling the debt capital needs of the small business community and we should be able to increase the number of closed transactions for small businesses this year.

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