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Businesses turn to asset-based lenders

By Edward Gately
Tribune

Lenders that deal in asset-based lending and factoring are seeing a spike in volume from small businesses that were turned away by banks.

The Commercial Finance Association is having its annual convention this week in northeast Phoenix, and members said when economic times are uncertain, their business is booming.

"I've gotten clients who have actually come pretty darn near going bankrupt," said Robyn Barrett, managing member of Factors Southwest in Scottsdale. "The bank won't work with them and we're basically their only option."

Barrett's firm provides small-business funding. Factoring is a form of commercial finance in which a business sells its accounts receivable, in the form of invoices, at a discount. The business is no longer dependent on the conversion of accounts receivable to cash from the actual payment of their customers.

The business benefits from the acceleration of cash flow by obtaining cash from the factor equal to the face value of the sold accounts receivable, less a factor's fee.

"If things turn around, they can return to the bank for lending, and the bank keeps the depository relationship," Barrett said. "What we do is really help the economy."

Asset-based lenders and factors traditionally do more business during economic hard times, said Jim Adamany, president of First Community Financial in Phoenix.

"We are dealing with a borrower who's not as strong as a typical borrower who goes to a bank," he said. "We're more expensive, but we hire more people, we have a much larger staff per dollar loan than a bank does. We'll give you more money, but we'll pay closer attention to how you deal with this money, you and your business, and it's going to be more expensive."

Mark Hafner, president and CEO of California-based Celtic Capital Corp., said he and other similar lenders can help businesses when they are undercapitalized or have grown too fast. His company helps business owners leverage their companies' assets, including accounts receivable, inventory and equipment, to secure financing.

"We've seen more of an increase in requests probably since early summer than in the prior 18 months," he said. "Does it mean the economy is doing bad ... no. It means companies are having challenges, more banks are tightening up their lending practices, so it's creating more opportunities for us."



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