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OPINIONS

During the credit crisis of the past 18 months, have you picked up clients from industries that have not historically employed factoring to finance their operations?

Tracy Eden, national marketing director, Commercial Finance Group, Atlanta, GA
We're not seeing clients from new industries as much as we are businesses that previously wouldn't have considered asset-based lending, but are now, due to difficulty in obtaining traditional bank financing. Companies are coming to us with financial challenges as a result of pre-existing debt structure—they're trying to find ways to deleverage their finances.

There's no question that the interest among all types of industries in asset-based lending has skyrocketed. Through the end of last July, I looked at more deals—nearly 800—than I did in all of 2008.

There's a huge demand out there for financial restructuring due to financing mistakes that were made before the credit crisis hit. Companies see that, with asset-based lending, there are fewer hurdles they have to jump over, especially in today's tight credit environment.

A recent survey conducted among business owners and executives by Forbes Insights and CIT was interesting. Only 11 percent of respondents said they had sought new lines of credit or small business financing over the past year in an effort to help improve their cash flow.

While this seems to contradict my observations, what it tells me is that many business owners have heard so much about the supposed credit crunch that they figure it's not even worth trying to get financing. These are the types of companies that I think represent opportunity for asset-based lenders, regardless of their industry.

Val Goldstein, executive vice president, Coface Credit Management North America, Inc., New York, NY
Coface started factoring in the U.S. and Canada with the intention of marketing to nontraditional customers. We've been successful in this regard.

Our target market has been fast-growing companies. Banks, even when they are willing to extend credit, can't keep up with them. But we can.

For example, one of our clients is a solar energy company. Large cash outlays for materials, changing energy prices, variable government subsidies and tax credits make cash flow volatile. Banks can't cope in that kind of environment. However, we've been able to stay with the client, smoothing out the financial peaks and valleys along the way.

Private-label food manufacturers are another good example. Most of their customers are large supermarket chains that drag out their payments. Their suppliers, anticipating slower payment, are charging more. Our clients have broken that cycle by paying suppliers promptly in return for lower prices which translate to higher profits.

A manufacturer of plastic packaging materials is using factoring to optimize the throughput of his factory. His bank wanted him to use inventory as collateral. But, instead of sitting in a warehouse, his product belongs on retail shelves. Factoring has enabled him to execute, deliver, collect and move on to the next deal.

Our nontraditional clients also include service companies.

We have a client that reconfigures the sales floors of big box stores. When they secured contracts with three of the nation's largest retailers, their bank was too slow and too small. We helped our client raise the up-front costs like payroll, travel and hotel expenses.

Highly variable payroll and payments based on completed work were the reasons a software development company turned to us for financing. Waiting for payment from previous jobs impeded their ability to bid for new jobs. Factoring enabled the company to grow.

The non-traditional markets offer plenty of opportunity and Coface is wellpositioned to succeed in this market. Because of our 60-plus year history of helping companies manage and protect their accounts receivable, we have one of the world's largest credit databases with up-to-date information on millions of companies which we use to help our customers trade safely.

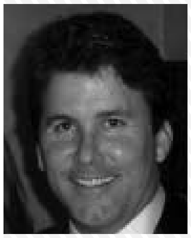
Harvey L. Kaminski, president/CEO, Prestige Capital Corporation, Fort Lee, NJ

The old adage that difficult economic times create unusual opportunities seems to patently apply to the factoring industry. We are all cognizant that banks sharply curtailed their lending as a reaction to the economic downturn. This development allowed many factors with strong banking relationships, including Prestige Capital Corporation, to review and consider many more transactions than they had previously done. The problem, however, was that many of these transactions were not of sufficient quality or for other reasons not "factorable". The key for us was to vet out the quality transactions. In so doing, we looked to certain industries and sectors as likely candidates for factoring in a down economy.

One of the sectors we have targeted has been municipal receivables. With many states facing deficits resulting from shrinking revenues, they have been constrained to modify payment terms to their suppliers. Vendors who historically have been paid in 30–45 days are now waiting to be paid within 90 days. This development has generated a market for factors to explore and, in many cases, a market for banks to exit. We like this sector since there is not a real issue of the municipalities' inability to pay, but rather the timing. In that context, caution still had to be exercised and research was required to determine which states were in such dire straits that payment within a reasonable time was not probable. This led us to conclude that factoring receivables due from the great state of California was too risky for our portfolio. However, many other states and local municipalities qualified under our standards.

Another industry we have targeted during the past 18 months is the automotive sector. Very few industries were hit as hard as the carmakers in Detroit. This created tremendous angst for the banks who were properly worried about accounts receivable that they were financing from the "Big Three" (i.e. GM, Ford and Chrysler). As insolvency proceedings loomed for these icons, we were besieged by requests to factor receivables due from the auto giants and from other large suppliers to that industry. Our initial due diligence indicated that Ford was not in any imminent danger of insolvency and not a serious credit risk. We, therefore, started purchasing accounts due from Ford and made it known that we were willing to take on new customers doing business in the auto industry. This strategy became very important after the successful reorganizations and government bailouts of GM and Chrysler, respectively. At that point, we felt that receivables due from any of the three automakers no longer posed a credit risk in the short term and we were already positioned to factor suppliers to the Big Three.

It's been a wild ride during the last year and a half. However, lenders and in particular factors, who have had a strong sense of entrepreneurial spirit and fortitude combined with sound due diligence practices, have been able to generate special opportunities. Creative solutions are critical if we are to continue to grow and remain vibrant in the finance industry.



Tracy Eden is the national marketing director for Commercial Finance Group (CFG), which has offices throughout the U.S. CFG provides creative financing solutions to small and medium-sized businesses that may not qualify for traditional financing. Further information on the company and their services offered can be found at www.CFGroup.net. Eden's direct email is tdeden@cfgroup.net.

Val Goldstein founded and heads the trade receivable finance and factoring business line for Coface in the United States and Canada. Prior to joining Coface, he served in executive management positions in structured receivable finance and corporate development at Structured Risk Advisors, CNA Guaranty and Credit, Enhance Financial Services Group, and AIG.

Harvey Kaminski co-founded Prestige Capital Corporation in 1985. Since then, he has supervised the company's growth as a nationwide factor doing business in most major industries. Kaminski is an attorney and, until 1982, practiced law in the private sector, specializing in bankruptcy and commercial law. Then he became vice president and counsel to Armco Commercial.