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Arthur Faverio / Photo by Bob Giglione

Traditional lending not the only option

By: Bernadette Starzee August 13, 2014 Comments Off

Just as there's someone for everyone in romance, there's a lender for every company.

So says Neil Seiden, managing director of Asset Enhancement Solutions, a Port Washington company that matches companies that can't get a traditional bank loan with providers of alternative financing.

Bank regulations and scrutiny have increased since the recession, while the economic downtown also hurt many bottom lines. The end result, according to Seiden: Many companies are unable to obtain traditional financing, so

"we focus on arranging financing for companies that have both good and bad challenges."

Positive challenges may include growth that is so rapid that “the bank can’t get its arms around it,” Seiden said. “Or the company may want to acquire another company or assets or brands – something good.”

Negative challenges include losses, tax issues or operational difficulties.

“Most banks, because of all the regulations, are unable to lend to these folks, but the good news is there are other lenders that have an appetite to lend to them,” Seiden said. “Our motto is ‘beauty is in the eye of the beholder.’ What may not look good to one institution that’s regulated will look good to a non-regulated institution with more flexibility.”

Many alternative lenders have a niche and like to stay within it, he noted. For instance, small, growing companies with large purchase orders from creditworthy customers may qualify for purchase-order financing from a lender who specializes in this area. Other lenders concentrate on financing foreign receivables.

“As the world is getting more flat, more companies are doing business with overseas companies,” Seiden said. “A lot of lenders are uncomfortable providing loans against foreign receivables. But some are experts in it and have a network around the world.”

One option for distressed companies is factoring, or accounts-receivable financing. With this type of financing, the receivables are sold to a factor, which receives payment from the company’s customers, subtracts its fees and gives the company the rest. Seiden recently arranged such financing for a law firm in danger of going out of business.

But alternative financing usually doesn’t come cheap. As the risk is greater for the lender, the terms will be less favorable for the borrower. Long Island businesses that don’t fit into a bank’s “credit box” should therefore look first to financing programs in which traditional lenders get support from the government, said Roslyn Goldmacher, president/CEO of the Westbury-based Long Island Development Corp.

Many banks and other lenders offer the U.S. Small Business Administration’s popular 7a loan program, which provides general-purpose business loans typically up to $5 million; the government guarantees a large percentage of the loan, limiting the risk to the lender.

“Companies that have had challenges due to the economy or the weather and haven’t shown solid profitability over the last three years, or that want to take a big leap to the next level, may qualify for a 7a loan,” Goldmacher said.

Geosync Microwave Inc. had “a positive challenge” to getting financing. Orders for the six-year-old Hauppauge company’s satellite communication products for military and commercial applications were increasing rapidly – so rapidly that it was finding it difficult to lay out up-front cash.

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"When we get a project, we have to buy the material, build the unit, test the unit and ship it," noted Geosync Microwave President Arthur Faverio. "If we're lucky, we will get paid 30 days after we ship it. When you're getting new customers at a rapid pace, cash flow becomes critical."

Before founding Geosync, Faverio co-founded and spent more than 30 years at Miteq, a Hauppauge manufacturing company that had about 650 employees when he left. Compared to his early days with Miteq, Faverio has found the current lending climate more restrictive. Despite rapid growth and promise, Geosync "doesn't have enough of a track record to appeal to too many financial institutions," Faverio said. "The resources available to get operating cash are very limited in a beginning company."

In part because of its potential for economic development, Geosync was able to secure New York State Targeted Loan Fund financing through the LIDC. With this program, funded by the state and the U.S. Department of Commerce, the development corporation makes a business loan of up to $250,000 either on its own or as a supplement to a loan from another lender. In either case, LIDC takes a subordinate lien position behind the other lender or other creditors already in place.

LIDC has made about 15 such loans in 2014, to companies in manufacturing, municipal contracting, commercial fishing, software development and other industries, according to Goldmacher.

"It's an economic development program," she said. "We can be more liberal than a conventional lender, because we are looking to accomplish economic development objectives."

While a traditional lender will typically look for three years of profitability, Goldmacher added, companies in business for just a year can be considered in this program, whose goals include high-salary job creation and retention, revitalization of blighted areas and growth among targeted industries.

Several providers – including the SBA, the Long Island Small Business Assistance Corp., La Fuerza Unida, Accion International and the Town of Hempstead Revolving Loan Fund – offer microloans to Long Island businesses, with varying maximum amounts up to $50,000.

"Many conventional lenders don't want to do loans for $10,000 or $25,000, because it's just as much work as a $1 million loan," Goldmacher noted.

Jeanie Annecco took out a microloan through LISBAC last summer to expand her bakery business, Jeanie's Bakery, which originally opened in East Rockaway about eight years ago and added a second location in Wantagh last

August.

"I knew LISBAC would be able to help me and give me the best terms possible," said Annecco, who had gotten financing through LISBAC six years ago after getting turned down by a bank.

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Annecco applied the most recent loan to renovating the Wantagh space – formerly a karate studio – and to operating expenses.

For tech-sector and other companies that demonstrate considerable growth potential, several organizations host forums and other events to bring company owners together with various investors, said Eric Altstadter, a partner in the Syosset office of accounting firm EisnerAmper and a Long Island committee member of one such group, the Association of Corporate Growth New York.

Others include the Long Island Capital Alliance and Long Island Angel Network.

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