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Neil Seiden / Photo by Bob Giglione

Major banks expanding asset-based lending

By: Claude Solnik August 18, 2014 0

Banks are expanding asset-based lending operations – and establishing new ones – as they target new customers that have long been in the sights of specialized finance companies.

After 25 years spent exclusively serving larger corporations, Citibank has expanded its asset-based lending to midsized companies. Short Hills, N.J.-based Investors Bancorp, which operates six Long Island branches, and Manhattan-based Signature Bank, which operates seven Island branches, both launched new asset-based lending operations late last year, while other national lenders – including San Francisco-based Wells Fargo and North Carolina-based Bank of America – are busier than ever with asset-based lending.

Asset-based lending by 35 of the biggest such lenders rose about 9 percent, to more than $200 million, in 2013, up from $183.5 million in 2012, according to the Commercial Finance Association, a Manhattan-based trade group. About 24 percent of the association's members are banks, while 76 percent are not financial institutions, but "there are many more bank-based, asset-based lenders than there used to be," according to Neil Seiden, managing director of Port Washington financial adviser Asset Enhancement Solutions.

"A good part of it has to do, I believe, with the recession," Seiden said, noting asset-based lending gives banks a tool that can be particularly useful during difficult times.

In this type of lending, companies pledge assets against loans, including accounts receivable, inventory, machinery and even real estate. Banks monitor the value of these assets more closely than with a typical loan, making sure the collateral's value remains and allowing the banks "to do a deal they typically wouldn't do," Seiden said.

Investors Bank CEO Kevin Cummings agreed this helps "to broaden Investors' banking capabilities," while Signature CEO Joseph DePaolo said asset-based lending "strengthens our product offerings" to private business.

Asset-based lending also provides a nice profit boost over other forms of lending, since these loans typically carry higher interest rates than traditional loans.

"We think from a credit perspective, it's fundamentally sound," said David Viggiano, Investors Bank's senior vice president and head of asset-based lending. "The yields are marginally higher than typical commercial and industrial lending."

But they also can be more costly for borrowers, who must provide a steady stream of updated financial information.

"There's more monitoring and reporting to the lender," Seiden said. "But the additional reporting gives the lender comfort and allows them to extend more credit to the company."

To that end, asset-based lending requires a certain expertise, which allows lenders to value and track changes in asset values.

"We do a lot of testing and monitoring," Viggiano noted.

But "generally, assets have proven to be good forms of collateral," Viggiano added, and while banks make these loans to a wide range of clients, Investors Bank extends many based on inventory and receivables – particularly to manufacturers, service providers and information technology companies.

Investors Bank Senior Vice President Joseph Costanza referenced a Long Island manufacturer that replaced a $13.5-million traditional credit facility with a $19.5-million asset-based loan from another financial institution.

Seiden said he’s seen several clients shift from traditional loans to those based on assets. Banks typically charge more than for conventional lending, he noted, but typically “less than a non-bank lender.”

While an underperforming economy has made asset-based lending more popular, an economic recovery could also lead to greater asset-based demand.

“As the economy becomes more robust, there’s a need for working capital financing,” Viggiano said. “As credit strength improves, there’s greater demand.”

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