The Best of Both Worlds:
How Community Banks and Asset-Based Lenders Partner to Serve SMEs

BY MICHELE OCEJO

Community banks play a vital role in enabling local businesses and communities to thrive. By either offering asset-based lending as part of their product offerings or partnering with a nonbank asset-based lender, community banks can offer the best of both worlds to small and mid-sized businesses. The Secured Finance Network interviewed several of its members who shared their experiences and perspectives.

Yvonne Kizner is senior vice president – asset-based lending with Cambridge Savings Bank. She provided some background on the institution: "Cambridge Savings Bank is a mutual bank. We have 17 branches located throughout the metro Boston area, and we are about $5 billion in asset size. My partner, Keith Broyles, and I started the asset-based lending group for Cambridge Savings Bank in April of 2019." Kizner explained that prior to the launch of the ABL business, companies that were not meeting their operating cashflow needs would have been bypassed by the bank. "The asset-based lending group has allowed the bank to do more transactions and open up our geography a bit since we will take on a deal that's in the New England area through New York and New Jersey, beyond where our middle-market team concentrates."

In addition to expanding geographically, Kizner said ABL has allowed Cambridge to expand in terms of the types of companies they are now able to fund as well as "enabling us to diversify in terms of loans away from real estate, where a lot of community banks are heavily focused. We're all about improving our customers' financial wellbeing, and I think that being able to go to a bank with an asset-based formula versus a non-bank, which likely is a more expensive option, helps our borrowers in the long run."

PATRICK BROCKER
Peapack-Gladstone Bank

DAN KARAS
Allied Affiliated Funding

DONALD LEWIS
Eastern Bank

JEFFREY GOLDRICH
North Mill Capital

YVONNE KIZNER
Cambridge Savings Bank

Boston-based Eastern Bank recently completed an IPO in October 2020, which formed Eastern Bankshares, Inc., the stock holding company for Eastern Bank. Donald Lewis, senior vice president and head of asset-based lending at Eastern Bank, said, "The bank today is about $15 billion in assets. I joined a little over two years ago to head the ABL business and we're seeing steady contributions to our overall Commercial business. We look at deal sizes from $3 to $30 million. I would say our sweet spot is between $5 and $20 million. We lend throughout New England and into New York and New Jersey."

Lewis pointed out that ABL is certainly a growth opportunity for a community bank when done appropriately. "It can also act as a complementary product with a C&I offering or a group with clients that may need an ABL structure for a period of time due to certain events, such as an economic downturn. To the extent ABL can be a part of lifecycle situations for a business, it helps enhance how a team within a bank can service its customers." And even when banks deem it appropriate to refer a customer to a nonbank ABL partner, the ideal outcome is a return of that customer to the bank.

Nonbank lenders such as North Mill Capital play a key part in this process. Jeffrey Goldrich, president and CEO, North Mill Capital, said, "North Mill is a nonbank lender, 100 percent owned by a BDC called Solar Capital. We offer both nonbank asset-based lending and factoring. Our loan sizes go from pre-revenue – we'll do a startup in our factoring business – up to $35 million of credit facility size in either ABL or factoring. We'll indulge pretty challenging turnarounds and pretty challenging balance sheets and P&Ls, and if the assets are good and management is honest, we can finance those companies regardless of financial performance history."

Goldrich indicated that most of North Mill's referrals come

from banks throughout the country. When the loans are ready to "graduate back" to bank financing, they return to the referring bank without an early termination fee. "It gives the referring bank a huge advantage over competition when the loan is ready to go back to bank financing," explained Goldrich.

He added that some non-bank lenders, including North Mill, will partner with banks to provide needed capital to clients that may be on the fringe of being "bankable." "They like to downsize their exposure. We run the collateral and the credit, and then at any time the bank wants it back in full, they can pay us out. But, in the meantime, we do all the collateral monitoring." This type of arrangement benefits both the nonbank and bank lenders, but it's especially beneficial to the client.

Patrick Brocker, senior managing director and head of structured finance for Peapack-Gladstone Bank, noted that tremendous effort and resources were placed on providing PPP loans to clients and non-clients alike during 2020 to help companies weather the effects of Covid-19. "Peapack-Gladstone Bank is celebrating its 100th anniversary this year. Helping our communities has been part of our DNA since 1921," said Brocker. The Bank's parent company, Peapack-Gladstone Financial Corporation, is a New Jersey bank holding company with total assets of $6.0 billion and AUM/AUA of $7.6 billion as of September 30, 2020. With 19 retail locations and nine private banking and wealth management offices, Peapack-Gladstone Bank and its wealth management division, Peapack Private, provide innovative wealth management, investment banking, commercial and retail solutions, including residential lending and online platforms, to businesses and consumers. Peapack Private, offers comprehensive financial, tax, fiduciary and investment advice and solutions, to individuals, families, privately-held businesses, family offices and not-for-profit organizations. "Our goal is to help our clients establish, maintain and expand their legacy, while offering an unparalleled commitment to client service," said Brocker.

Dan Karas is executive vice president of Allied Affiliated Funding, which was acquired by Axiom Bank in 2018. Karas provided further details on his institution: "Axiom is based in Maitland, Florida. The bank was started in 1963, is privately held, and acquired by the current owner in 2003. We have 17 branches throughout central Florida. At Allied, we have a national footprint, we do transactions up to $10 million, and support the bank strategy by financing nonbankable clients with yields that exceed those of a traditional commercial bank." Karas listed the three advantages of offering ABL products for a bank: "We've broadened the product suite such that we can obtain clients at stages such as startups or high growth or financially challenged that don't fit a community bank risk. And, as others have mentioned, once the client's performance improves, they graduate to the bank's commercial lending group without having to restart the relationship. The second is we're a defensive tool for the commercial bank client whose financial performance deteriorates, but is still acceptable for ABL or factoring. And then the third is we deliver yields that are better than traditional commercial real estate or commercial C&I loans, which helps lifts the bank's interest margin."

Kizner said ABL has allowed Cambridge to expand in terms of the types of companies they are now able to fund as well as "enabling us to diversify in terms of loans away from real estate, where a lot of community banks are heavily focused. We're all about improving our customers' financial wellbeing, and I think that being able to go to a bank with an asset-based formula versus a non-bank, which likely is a more expensive option, helps our borrowers in the long run."

Getting Started

Of course, starting up and maintaining a successful ABL division isn't without its challenges. A key tenet is to be sure you are hiring experienced asset-based lenders rather than expecting your existing staff to just move into ABL. Kizner shared her experience: "It's critical that you have the right people running the shop and managing the portfolio and that you have the systems in place that can help manage availability on a daily basis. I started at Cambridge Savings with Keith Broyles a year and a half ago, and prior to that we did the same thing at Blue Hills Bank, another community bank in Massachusetts. In both cases, the banks were not looking to take this on, and we approached them and convinced them with a business plan. It's a combination of getting both the board's and executive management's buy-in, which

is a huge education process."

Part of that education, said both Kizner and Lewis, is explaining ABL's unique aspects to those not experienced in ABL, many of whom assume that if the yields are high, it must be risky. "We need to explain that if it's very well managed and well monitored, then, in fact, it's probably the least risky piece of lending that you can do within the bank. I certainly would rather take on an asset-based loan than real estate these days," said Kizner.

Lewis brought up the difference between traditional C&I lending and ABL. "There is such a heavy emphasis on cashflow coverage which certainly is important, but with ABL deals, having sufficient liquidity to operate a business is really what's most important. That understanding and thought process can differ from traditional C&I transactions."

The Benefits of Community

All of the community bank ABL executives agreed being a member of the Secured Finance Network provides them with opportunities to which they would not otherwise have access. One key benefit is exposure to a host of quality service providers, such as attorneys, turnaround firms, software providers and field examiners. Kizner recounted their experience: "We found an alternative software provider through SFNet that was much less expensive than some of the others, but offered greater functionality. And we wouldn't have found that without being part of this network."

Lewis spoke about the benefits of participating on SFNet conference panels. "Our Commercial Risk Management Director was on a panel during SFNet's virtual convention in November, which helped to create awareness about his expertise, build new relationships and network with other institutions." Lewis also spoke highly of SFNet's Crucial Conversations webinars which were launched during the pandemic and are free to member organizations' staff.

SFNet's advocacy efforts were also praised by participants. Kizner is a member of SFNet's Advocacy Committee. "I was pleased to represent institutions under $20B, and community banks in particular, in conjunction with SFNet's Advocacy Committee and its endeavors to ensure legislators heard from many constituents in the finance community relating to PPP. With SFNet's contacts, I was able to secure a meeting with seven representatives of the Federal Treasury department and indicate the concerns the asset-based lending community had with the Main Street Lending Program as it was being developed. This was a perfect example of the vital role SFNet plays and one of many reasons we value our membership," she said.

Pandemic Effects

The COVID-19 crisis has affected community banks in many ways. Kizner said, "The immediate impact was the PPP and understanding the program, getting the application out, making sure that our borrowers were included in the first round. It was a little crazy. People put in a lot of hours in a very short amount of time, and then it was waiting to see how our borrowers fared and whose businesses would be impacted and for how long. We were deeply, deeply impacted." Lewis agreed that banks were laser focused on PPP. "Eastern was the third largest PPP provider in Massachusetts, helping to secure over 8,500 loans, which given our commitment to small businesses, is something we're proud to have been able to contribute."

Kizner also pointed out how COVID has drastically changed prospecting. Other than some rounds of golf and outdoor lunches during the summer, virtual meetings are the order of the day. She lamented the lack of face-to-face contact, which is vital to ABL.

Karas has been impressed by the industry's ability to adapt: "I think the best example of this success is the SFNet annual convention in November. I'm confident that we've all learned to adapt to remote video interactions with leadership teams and clients. I like to borrow this Marine Corps slogan: we all have learned to improvise, adapt, and overcome." Lewis agreed and added he was impressed by his bank's technology team, which was able to get the C&I team, in addition to the entire Bank, up and running remotely in just several weeks.

Brocker's business hasn't felt a great impact as his business is about two-thirds or more highly capitalized cashflow-oriented financings. "We didn't have much in the way of PPP loans in our portfolio, but in addition to our banks tremendous PPP support within our communities, we actually stepped up to help a number of the SFNet nonbank members by getting their customers PPP loans. Our bank was and will continue to be extremely active and committed to providing PPP loans and saving jobs.

Kizner, Lewis and Brocker agreed the pandemic has increased their interaction with nonbank industry partners. Brocker said, "We have seen an increase in our referrals out to non-bank finance companies. We act as a resource for our C&I group when they feel the client needs are beyond a stand-alone bank solution. In those cases, either a joint deal between us and a non-bank that can monitor it safely, or a referral out to our non-bank partners, may be in the best interests of the client and we always put the client first. He went on to explain, "We view ourselves as advisors to companies. We like to put capital out from our balance sheet, obviously, but if a company is better off with another solution then we're dutybound to send them in that direction and be a matchmaker, rather than serving our self-interest."

"I've had a lot of phone calls, mainly with non-bank finance companies, that are interested to understand if there are assets that we are looking to offload. This has given me a chance to find out what kinds of deals they're seeing in the marketplace and potentially how we could partner or refer deals back to one another. There has definitely been a lot of more interaction than pre-COVID," Kizner said.

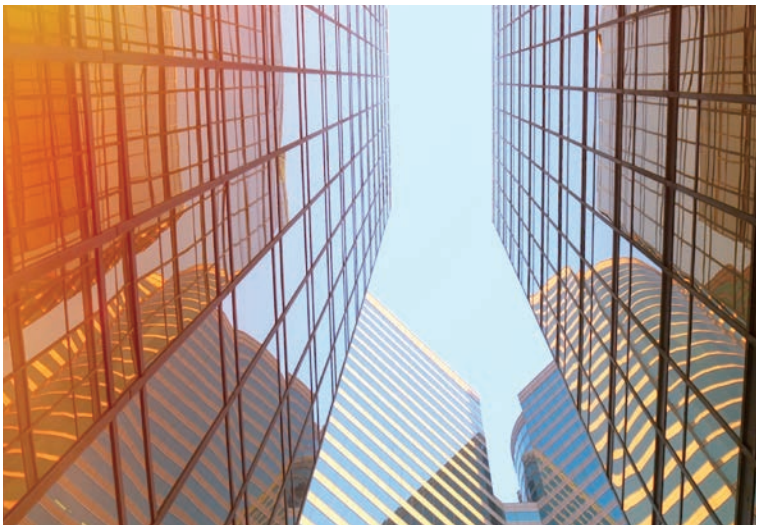
Karas has not seen the same increase and credits the various government stimulus programs for this. "I think the combination of regulatory guidance that was given to work with our clients and the liquidity generated by PPP loans, allowed a lot of banks to hold onto their relationships. I think an exception to that is companies that had public debt or needed to address near-term securities. I

think that's going to change in 2021, and I think we'll see more interaction."

According to SFNet's latest quarterly data, utilization is down significantly among bank lenders. Kizner and Karas pointed out that utilization depends on the customers' business. "We've had a couple clients that have actually thrived during COVID. They were able to tweak their product mix and actually had some working capital issues because they were growing quickly. And then on the opposite end of the spectrum, I've had others that have been horribly impacted and the PPP was literally a lifesaver. We've seen just about everything across the spectrum." said Kizner.

On the second round of PPP, Kizner said, "It will be extremely helpful to a number of our borrowers who continue to be deeply affected by COVID, especially in the hospitality space. We plan to jump on this as soon as SBA opens the program."

Karas is also hopeful the second round of stimulus will provide a lifeline to customers. "The simplicity it provides for forgiveness of the first round of loans of $150,000 and less, combined with the opportunity for many of our clients to obtain new loans, will be of tremendous value in continuing to move our economy forward."



Lewis brought up the difference between traditional C&I lending and ABL. "There is such a heavy emphasis on cashflow coverage which certainly is important, but with ABL deals, having sufficient liquidity to operate a business is really what's most important. That understanding and thought process can differ from traditional C&I transactions."

The Year to Come

When discussing the challenges and opportunities for 2021, Karas said, "I'm proud to say that my counterpart at Axiom, who leads our commercial banking team, has increased both loans and deposits every month since May. We've been focused on helping clients and prospective clients to deliver creative solutions, try to be supportive through their challenges and being proactive at addressing their needs. So I don't know what we'll face in 2021, but I think if we all continue to focus on supporting the referral partners and our clients and being proactive to help them solve their issues, then I think we're going to have a really successful 2021."

Brocker explained, "Every portion of the economic cycle creates opportunities and challenges. The challenges always revolve around the credit tail in your portfolio and your internal reputation and what you have on the books and whether it's going to perform well. In addition, competition typically is less severe at times like this, and so those who have a good portfolio and can make really good decisions in choppy waters have tremendous opportunities to grow and help a lot of clients, prospects and referral sources who need it."

Lewis believes the increased stability can be a positive indicator for M&A activity "which, for ABL, can be very transactional and lead to some good opportunities."

Goldrich expressed concern about the unknown long-term impact of COVID. "My concern is that we'll eventually come out of this and we'll be changed. I live in New York City and it's staggering to see the amount of restaurants, bars and stores that are closed." He pointed out these closures represent many who are now unemployed and that this is a problem reverberating throughout the country. "I think there will be really serious challenges affecting all of us. The good news is the Secured Finance Network has created a plan to assist its members with the changes to come that includes more frequent and on-demand opportunities for relationship building, accessing information and professional development.

Kizner and Lewis both acknowledged existing challenges would continue, particularly in the first half of the year, but expressed optimism that the vaccine rollout will increase stability and improve the economy. "I'm happy that our executive team decided we are going to continue lending, we are not going to shut down prospecting, despite COVID. So clearly 2021 will be all boots on the ground. I really hope that with the vaccines we're able to resume face-to-face meetings, but as Jeff mentioned, SFNet has created ample virtual opportunities for networking and education to help its members weather the uncertainty."

Michele Ocejo is director of communications for SFNet and editor-in-chief of The Secured Lender.