TSL FEATURE

The State of Lender Finance

BY MICHELE OCEJO

In a rapidly evolving financial landscape, lender finance has emerged as a dynamic and competitive sector. To gain a deeper understanding of the current trends, challenges, and priorities shaping this space, we spoke with five industry veterans: Russell Turley, first vice president, commercial banking team leader, Valley National Bank; Gen Merritt-Parikh, co-CEO, Haversine Funding; Patrick Green, SVP, head of Lender Finance, Flagstar Bank; Stewart Hayes, managing director/SVP, Wells Fargo Capital Finance; and JD Gettmann, managing director, head of lender finance, MidCap Financial Services, LLC.

The demand for lender finance has remained robust over the past year, driven by various sectors and evolving market dynamics. Turley observed, “We have seen consistent demand for more capital from our clients and from the broader market, specifically from asset-based lenders. We have also seen more consolidation via M&A, and I think this activity will continue as an older generation looks to exit and as larger lenders look to diversify via geography and/or product set.”

Green echoed this sentiment, noting, “Demand this year has been relatively consistent, both in the commercial finance and consumer finance segments. On the commercial finance side, ABLs, small business lenders, and equipment finance companies have been robust, while in consumer finance, direct consumer lenders, both auto and non-auto, have been active. Increased activity in some of these spaces was driven in part by the pending tariff situation. We anticipate activity to remain strong over the course of the next year. The bigger question may be what bank appetite will be over that period. Certainly, if some banks pull back, it will afford more opportunities for those who are ingrained in the space.”

Merritt-Parikh highlighted the shift from banks to private credit, stating, “Banks are tightening while private credit expands, so non-bank capacity is filling the gap. For us, activity is strongest in logistics, manufacturing/near-shoring, healthcare, and some seasonal and disaster-recovery pockets. Into the next 6–12 months, we expect lenders to run a bit tighter with increased reserves, cleaner reporting, and step-up facilities. Overall, demand should remain elevated.”

Hayes added, “There is strong interest and support from institutional investors to the non-bank lending space, and we expect lender finance activity to non-bank lenders to remain high. Additionally, there have recently been several new entrants in the nonbank ABL market and multiple new entrants in the equipment finance space.”

Gettmann emphasized the competitive landscape, saying, “Competition in the lender finance space has definitely intensified... the days of white space in the lender finance market are in the past. On a go-forward basis, I don’t see the competitive landscape getting any easier. I think the space has been an area where a solid risk/return profile can be achieved for experienced market players and that should continue to drive demand for assets.”

Underwriting Criteria

Underwriting practices remain a cornerstone of lender finance strategy. Merritt detailed their approach: “Underwriting starts with the portfolio and how it performs. We review the loan tapes, concentrations, delinquencies, and performance metrics; assess loss history and trends; and confirm the data matches the story. We dig into loan files and do testing. We also look at the engine behind it all: policies, systems,

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processes, and reporting, and we evaluate the quality and history of the financials. Most of all, it's the people though for us - reputation, credit culture, expertise, and experience."

Turley emphasized consistency and discipline, stating, "We focus on companies that have comprehensively shown consistency and discipline in their lending practices and overall approach. The ability to have sustained success through stressed economic cycles is the ultimate high watermark."

Hayes outlined a multi-faceted evaluation, including management team, product structure, portfolio composition, and platform capabilities. "We want to understand if the company has comprehensive portfolio management and accounting systems, documented policies and procedures, detailed underwriting criteria, audited Financial Statements, etc."

Gettmann stressed predictability, noting, "We spend a lot of time focused on predictability of asset performance in our deals. It is the deals with sporadic performance that give us pause. We provide capital across a wide spectrum of asset classes on both the commercial and consumer side. There is some nuance to each asset class in terms of focus, but quality of management, sufficient liquidity/capital in the business, strong underwriting and servicing capabilities, and portfolio diversification are important across the board."

Green added, "Consistency in financial and collateral performance is highly regarded by lenders like Flagstar. While some may alter their underwriting due to macroeconomic or geographic drivers, it's critical that those changes are thoroughly calculated and well-explained while remaining consistent with their policies and procedures."

The impact of tariffs and global trade shifts has been mixed across the sector. Hayes observed, "Some ABLs and factors with underlying clients with meaningful import activity have been materially impacted. Larger dollar equipment purchases from foreign manufacturers have been impacted. On an overall basis, non-bank lender portfolios have held up well. The bottom line is business continues and everyone at all levels has to make the best decisions for their respective businesses."

Tariffs and Trade Dynamics

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Turley pointed out, "The asset-based lenders and factors that have underlying borrowers that are reliant on imports from overseas have drawn on their lines. Borrowers have drawn on their lines as a precaution to avoid any uncertainty around their liquidity... a true domino effect. That said, it is difficult for management teams to react or change strategies given the unpredictability of what will happen next, and if policies will remain in place long term."

Green emphasized proactive communication, stating, "It's helpful to have management teams that are actively engaged and communicating with lenders on potential impacts. Even for companies not directly impacted by trade and tariff issues, it's worth considering potential macroeconomic issues, such as potential effects on interest rates and unemployment."

Merritt noted, "So far, we haven't seen a material impact or disruption across our portfolios. On our side, we intentionally reduced inventory exposure over the last two years and ask for additional reporting and monitoring on specific transactions. It's still early, so Q4 will be telling. And, yes, we expect more emphasis on credit discipline and reserves into next year."

Gettmann added, "We have limited exposure in our lender finance book to asset classes with significant tariff exposure. Constant communication with borrowers on potential challenges is key."

Regulatory Scrutiny

Regulatory compliance remains a priority despite varying levels of scrutiny. Green highlighted the importance of dedicated compliance roles, saying, “It’s ideal to have a dedicated compliance officer/employee that reports to the CEO, owner, or Board of Directors. We are always very focused on regulatory/compliance issues regardless of any administration’s focus and look for partners that hold a similar view.”

Gettmann said, “Our underwriting process has and continues to focus on an adherence to proper regulatory guidelines… engaging qualified legal and regulatory counsel is pivotal.”

Merritt-Parikh noted, “Regional banks have tightened KYC and AML. The patchwork of state disclosure and licensing rules is also notable. Some platforms have leaned-in or geofenced certain states, and others are still catching up. We focus on how the factor or lender implements and documents the requirements; the goal is more transparency with a repeatable process that reduces risk.”

Hayes affirmed, “We have always been and will continue to be diligent in monitoring the policies and lending practices of our non-bank lender clients. This includes understanding their product, underwriting criteria, portfolio management, KYC, AML, and onboarding.”

Turley stated, “We rely on the fact that the asset-based lenders and factors adhere to these policies and remain disciplined and accountable. Even though the current administration does not focus on scrutiny of lenders (bank or non-bank) as much as the previous administration, it does not change our view that asset-based lenders and factors must place a heavy emphasis on truly understanding who they are providing capital to.”

Borrower Challenges

Access to capital and economic uncertainty are top concerns for borrowers. Turley remarked, “Access to capital is an ongoing and ever-present challenge. Making sure your capital provider understands your industry is crucial to reducing operational stress.”

Green discussed the rate environment, saying, “Borrowers are getting some relief from the high-interest rate environment… the relationship between a bank and client is never more important.”

Merritt emphasized flexibility and talent, stating, “Lenders want capacity that maximizes availability without handcuffs. Cost pressure exists, but the worst of the squeeze appears to be easing as stronger shops hold the line. The execution challenge is growth with quality: adding volume without giving away terms, keeping credit and concentrations intact, and dialing back some of the stretch that crept in last year. I will add that the talent market was a challenge, but seems to be in motion; there’s been a lot of movement recently, which may present new opportunities for both individuals and lenders.”

Hayes pointed to competition, noting, “With respect to competition amongst non-bank lenders, there are many institutional investors seeking to deploy and/or expand investment in the non-bank lender asset class. As such, many non-bank lenders are seeking ways to offer more flexible structures without taking more risk. In the non-bank ABL space, credit funds are expanding their reach and becoming more competitive. In the non-bank equipment finance space, there have been multiple new entrants focusing on mid-ticket and large-ticket products.”

Gettmann succinctly summarized, “Ability to originate quality risk/reward transactions in their target markets.”

As lender finance continues to evolve amid shifting economic conditions, regulatory pressures, and competitive dynamics, the insights shared by these industry leaders offer a valuable lens into the sector’s trajectory. From disciplined underwriting and proactive borrower engagement to navigating trade complexities and regulatory expectations, the themes that emerged underscore the importance of adaptability and strategic foresight.

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