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WHEN BANKS SAY "NO": PRIVATE LENDERS STEP UP

Note: I asked Michael Ciaburri, the CEO of Worth Avenue Capital based in Connecticut, to write a piece about private lenders. Like most capital, private lenders are not right for all businesses. Do your homework before proceeding.

During the last several years, the private lending space has continued to grow both in the number of institutions that are competing in the marketplace as well as the amount and volume of loans that are being originated by these lenders.

As the banking industry continues to be over burdened with regulations from a complex and onerous regulatory environment, private lenders have gained a competitive advantage over commercial banks in terms of being able to provide capital to businesses of all types in an expedient and streamlined manner.

In the past, private lenders were known as the "lender of last resort" in which a commercial borrower would solicit a private lender for financing only after fully exhausting the commercial banking participants for their capital needs. Recently, however, various borrowers have begun to use private lenders as their "go-to" providers for their financing needs and are foregoing dealing with banks altogether. A recent transaction that my company funded late last year clearly illustrates this phenomenon.

Towards the end of November of last year, I received a call from a former bank client of mine whom I hadn't spoken with in many years. This client is the principal of a very successful family-owned commercial contracting company in Connecticut, who had several existing bank borrowing relationships already in place when he contacted me. In fact, this company had unused lines of credit (LOC) with two different banks in the seven-figure range that were available to his company for short-term working capital needs.

After meeting with his outside CPA firm earlier that week, the accounting firm advised the company that there existed a short "window" of opportunity in which the company could benefit from the pending new tax laws by taking on debt that would allow them to save approximately $200,000 in tax savings for the coming fiscal year. The "catch" was that the company needed to close on a new $2 million loan by year end.

Once the company had received this advice from their outside CPA firm, they immediately contacted their commercial loan officers at the respective banks to try and quickly arrange the necessary financing. The company did not want to access their unused lines of credit at those banks. Instead, they wanted a new and unrelated commercial loan in order to keep their LOCs separate from this particular financing need. Despite offering the banks excellent real estate collateral with sufficient existing equity, and offering to pay off the loan in 45 days or less, both banks were less than receptive to their loan request.

Subsequently, the company contacted me and I quickly gave them a same-day verbal approval for their loan request and then issued them a Letter of Intent (LOI) the next day. We ultimately closed and funded the loan just before Christmas, thus accomplishing the borrower's goal of closing the transaction by year end.

The borrower had liquidity events that they knew would come to fruition during January of 2018 and they ultimately paid off our $2 million loan in full within 38 days.

As of this writing, this same company has reached out to me again and we will be meeting to discuss another financing need that the company has in which they may have a chance to purchase a commercial property at a below-market price and they need to move quickly to take advantage of the opportunity.

This aforementioned example is just one of many in which my company has been able to fund a commercial loan to a business for opportunistic purposes.

Michael Ciaburri is the CEO of Worth Avenue Capital. He is a former bank CEO.