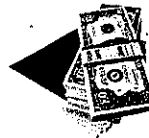


# In difficult times, firms turn to alternate financing



BY RICH KIRCHEN

rkirchen@bizjournals.com

To fund its startup, Northshore Power Systems received private equity from Oaktree Capital in Los Angeles, but when the Glendale firm was ready to start selling power generators, it needed a credit line.

Northshore Power chief executive officer Dorrance Noonan said because his company didn't have much of an operating history, it could not attain traditional bank financing. Banks determine whether to make a loan by evaluating the financial risks, and Northshore Power possessed no such figures for analysis.

So Northshore Power talked with bankers about another type of credit line: asset-based lending.

"I didn't expect we'd have anything but (that type of lending)," Noonan said.

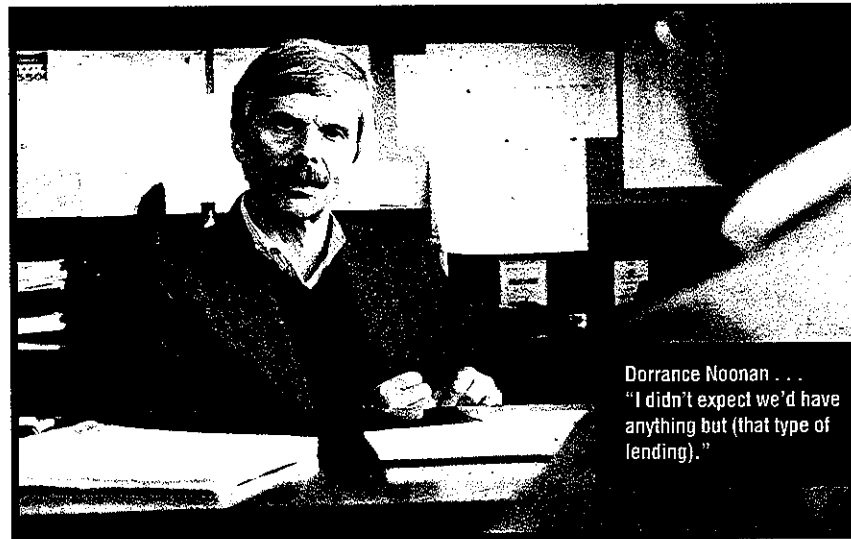
Asset-based lending is an alternative to conventional bank financing that is secured by real estate.

Asset-based lending ties a company's credit line to its finished-goods inventory, receivables and collateral other than real estate. The types of businesses most likely to qualify for such credit are manufacturers, distributors and retailers with large inventories.

During recessions, more companies turn to asset-based lending either voluntarily or when their bank informs them their financial results no longer qualify for conventional loans.

Asset-based credit lines typically are more expensive, but also allow a business more flexibility in terms of financial performance covenants, bank executives said.

While there used to be a stigma attached to



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companies that couldn't qualify for conventional loans and needed asset-based credit, that's not necessarily the case any more, said Jim Popp, president of Chase in Wisconsin. He said his bank has been "as busy as we can be" making these types of loans but it's not just because of the recession.

"Asset-based lending is not the penalty box," Popp said. "Asset-based lending is a very good, viable means to access capital for companies in certain situations."

Businesses are able to borrow varying amounts of money from a bank as a company's borrowing needs expand and contract, he said.

The size of companies getting such loans range from Noonan's 27-employee startup — he declined to disclose the amount of his credit line — to much larger companies like Boston Store parent The Bon-Ton Stores Inc. and the parent company of Grede Foundries in Wauwatosa.

On Feb. 9, Grede Holdings LLC announced a \$60 million financing agreement with Wells Fargo Capital Finance secured by inventory and accounts receivable.

Wells Fargo Capital Finance works with

companies going through turnarounds, as well as companies experiencing growth or doing acquisitions, said Victor Ronk, business development officer for Wells Fargo Capital in Milwaukee.

Bon-Ton announced in November 2009 that it signed a \$675 million asset-based credit facility with a group of banks including Bank of America, GE Capital Markets and Wells Fargo Securities.

Keith Plowman, Bon-Ton's executive vice president and chief financial officer, said the asset-based facility and a \$75 million second lien term loan will help the retailer manage its business through "the challenging macroeconomic environment."

"The new facilities provide us with increased liquidity to support the growth of our company," Plowman said.

In the case of Northshore Power, the company needed cash as it started to build its finished-products inventory and started running a warehouse in Waukesha, Noonan said. Noonan's firm signed an asset-based lending agreement with First Business Capital Corp., Brookfield, in March 2009.

Noonan was a founder of Northshore Power

in 2007, four years after he left Briggs & Stratton Corp., Wauwatosa, where he led the portable products group Briggs bought from a company he ran, Generac Portable Products Inc. Northshore Power has a license to design Honeywell-brand generators and sell them to large retailers including Costco and Home Depot.

Asset-based lending frequently carries interest rates that are two to three points higher than traditional bank financing, said Mike Colloton, vice president of business development for First Business Capital Corp. in Brookfield.

The total cost for asset-backed credit lines can run 3 percent to 5 percent higher than conventional bank financing, including fees, Colloton said.

However, Popp said the cost depends on the specific company and its overall risk profile. Companies that a bank rates as higher risk pay higher interest, he said.

"It's not always significantly more expensive," Popp said.

The asset-based arrangement requires businesses to report to banks on a weekly basis their accounts receivable and monthly on other collateral and cash flow, Colloton said. Bank representatives not only monitor customers' books but also frequently visit with the customers, he said.

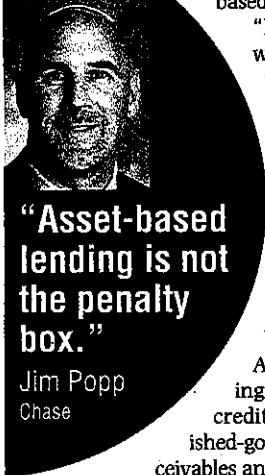
"We're looking for companies that are going to be survivors," Colloton said.

All of the larger regional banks participate in the asset-based lending arena, including Wells Fargo, Chase, U.S. Bank and M&I Marshall & Ilsley. Financial companies such as GE Capital also are active.

The larger banks do provide some smaller loans in the category, but also can do deals of \$100 million or more. First Business Capital, which is part of \$919 million-asset First Business Bank in Madison, focuses on smaller credit lines in the \$1 million to \$10 million range, Colloton said.

Because of businesses' increased interest in asset-based lending and the flexibility it offers, many banks have added staff to seek customers for the loans, said Sandi Evans, a senior vice president at U.S. Bank in Milwaukee.

"It's definitely a growing area," she said.



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Chase