

Asset-Based Financing: Streamlining and Expediting a Traditionally Cumbersome Process

By Karna Hoskote

Traditional financing provides much-needed funding to advance major commercial or other tangible projects, particularly beneficial to companies planning months in advance. But what happens when funding is required immediately or when clients have minimal experience? Asset-based financing can help clients avoid the complexities involved with traditional financing methods.

Because of lender's strict guidelines, they are limited to the types of large commercial projects they finance. These agreements involve formal appraisals, third-party reports and approval from loan committees. In many cases, clients also need previous experience or equity partners to qualify. The approval process is long, complicated and uncertain. Commercial financing may also involve last-minute surprises should the bank or financial institution change terms or pull funding altogether. Even with adequate assets, the project may not garner approval. Worse yet, a bank can call their notes due at any moment, because their lending guidelines may have changed or their investors or regulators may not be satisfied with the lending institution's choice of investments. This leads some clients to private investors (hard money), that introduces even more challenges including; higher rates, lower LTV's (loan to values), shorter terms, higher fees, and more exposure to failure of the project because of external or internal factors.

In situations that involve a commercial or other tangible project, asset-based financing provides a much faster and more direct path to approval. Asset-based funding leverages the client's existing assets, in most cases eliminating appraisals, third-party reports and loan committees. Further, this option provides elevated client privacy. Asset-based financing doesn't require business experience or equity partnership, with approval in as little as 3 to 5 days and expedited funding in 30 to 60 days.

To launch the process, clients simply request a letter of credit (LOC), issued by an investment-rated bank. LOC's are bank-issued financial instruments guaranteeing payments for a specified duration, given the instruments conditions are met. The LOC, also known as SBLC (Standby letters of Credit) or ILOC (Irrevocable letter of credit), must be unconditional. Clients must also have adequate support assets. Investment-rated banks issue these directly to the client, with rating requirements based on the type and amount of financing.

Many developers use asset-based financing to avoid the hassles involved in proving their project to a traditional finance company. Because asset-based financing is leveraged against existing collateral, this is all the support and leverage they need to close the deal.

Flexibility is yet another perk. With terms based on the amount and type of financing, clients might benefit from monthly compounded interest and payments to simple interest terms with deferred payments and no pre-payment penalties. Flexibility increases for LOC's greater than \$100 million. Further, financial instruments are adaptable to meet the client's needs. With many Letters Of credit having an evergreen clause, which means the LOC's can be renewable, larger projects can be drawn out over time, if it is needed because of external or internal factors.

The greatest benefit to the client is an increased LTV ratio, which can be significantly higher than those for traditional commercial financing, escalating to as much as 100 percent of the clients' LOC face value. These higher LTVs reduce a borrower's upfront cash requirements significantly. When combined with expedited approval, developers have a fool-proof path to success.

Asset-based financing is perfectly suited for large business entities, developers, private equity funds principally in the real estate industry, or those primarily focused on tangible assets. Hedge funds are also strong candidates, minimizing project risk by using advanced investment strategies. Asset-based financing can also provide a convenient funding environment for offshore development projects. With the added privacy provided by asset-based lending, developers can now finance a diverse array of projects globally, that may not have been attainable before.

With this new and exciting finance approach, you can now fund any projects: globally, with privacy, without the hassles of traditional finance methods, and in an efficient manner.

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