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# Fountainhead Funding taps alternative financing sources

Tampa Bay Business Journal - by [Margie Manning](#) Staff Writer

Robert Perez and his partners at Com-Tek Communications, a cable installation firm in Tampa, know how to make connections.

But the 18-month-old company very nearly became a victim of its own success when it landed a big contract and didn't have the money to pay upfront for the material needed to get the job done.

The company was too new to qualify for a business loan from a bank, and neither Perez nor his partners wanted to take out a personal loan. Instead, they solved their cash crunch by factoring, or selling accounts receivables at a discount in return for cash up front.

Factoring is one of several alternative funding sources for a growing number of businesses, said **Diane Homa, principal of [Fountainhead Funding](#)** in St. Petersburg.

**Fountainhead** helps match businesses with funding sources outside of the traditional bank. Factoring and asset-based lending, or providing a loan secured by accounts receivables or other assets, are the most popular forms of alternative funding, but Fountainhead also offers others tailored to a company's needs.

## Bridging the gap

In addition to young companies, alternative funding is designed for firms in hyper-growth mode.

"I signed up a client that had been in business for 16 years, and he won two huge awards. He had been doing about \$150,000 a month in sales and suddenly he was doing \$500,000 a month," **Homa** said. "He supplied labor and he would get paid (by the client) 45 or 60 days later, but he had to make payroll on a weekly or bi-weekly basis, and there's no way to bridge that gap."

After striking a factoring deal, that client was able to handle \$700,000 a month in sales, **Homa** said.

She also handles troubled companies that have a chance to turn around their finances, generally firms that have two back-to-back years of losses and are out of compliance with bank agreements. With an asset-based lending arrangement, a company could secure a revolving line of credit based on a percentage of its annual sales and inventory.

The downside of alternative funding is that it is a more expensive form of borrowing than a bank loan. Asset-based loans typically carry an interest rate of prime plus 6 percent, as opposed to a bank loan that might be 1 percent or 2 percent over prime.

"It's considered a little riskier, and the lenders have to monitor and manage these businesses," **Homa** said.

## **Consolidation**

Worldwide, businesses secured \$340 billion in asset-based loans in 2003, the most recent year for which information is available, according to the Commercial Finance Association in New York. Factoring volume for 2003 was \$96 billion, the association says.

The industry has been consolidating with two large deals since the beginning of the month.

On April 1, industry leader CIT Group (NYSE: CIT) purchased all of SunTrust Bank's (NYSE: STI) factoring assets and related asset-based loans. On April 5, Regions Financial Corp. (NYSE: RF) said it agreed to sell its Capital Factors Inc. of Boca Raton to Perry Capital LLC, an \$11 billion-asset New York hedge fund.

Both SunTrust and Perry Capital were among the top five players in factoring, according to the trade journal American Banker, but the profitability of the business likely was a factor in the sales.

"A lot of banks find it's more difficult to make money in the sector because it's hard to assure the quality of the goods and the quality of the company you're making a loan to," said Richard Bove, a St. Petersburg-based analyst with Punk Ziegel & Co. "Companies like CIT believe they can exert pricing advantages if they consolidate."

Bove said consolidation at the top likely wouldn't hurt the smaller players, such as Fountainhead, because the bigger companies won't go after their clients.

## **Buzzwords**

Asset-based lending: a business loan secured by assets such as accounts receivables, inventories, machinery and equipment, and real estate.

Factoring: the purchase of a business' accounts receivable at a discount.

Purchase order funding: short-term funding used to finance the purchase or manufacture of specific goods that have been pre-sold by a business to a credit-worthy customer.

Consumer contract financing: sale of a company's installment contracts with its customers for immediate cash.

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