Volume 9 | July 2021

MID-STATES ADVISORS
A Private Placement and Business Brokerage Firm
Newsletter

Mid-States Advisors, Inc.
Monthly Article & Updates

Good Morning,

2021 continues to roll on. Hard to believe we are half way through the year!

Here in Michigan all government mandated Covid-related occupancy related restrictions have been released and business has returned to relative normalcy. Breakfast, lunch and meetings over cocktails are back and it feels like the last hurdle will be full returns to the office. The office may never return fully to the old model, with many allowing at least partial work from home, but many companies are trying to bring people back slowly so that they can comfortably adapt to the changes.

This volume's article is dealing with something that many business owners and management team may be addressing in the near future: their outstanding loans or lack thereof. After many recent conversations with lenders we realized that the pandemic led to an uncommon occurrence, companies did not change their lending relationships. This happened for a multitude of reasons including PPP loans and their forgiveness, lenders being generous with loan deferrals, and more. As people start looking at their lending arrangements, and their current and future needs, we thought this the perfect time to address what a Commercial Loan is, where they're used and who provides them.

As always, if you are interested in learning more about this volume's content or if we can help you or a client in any way please feel free to reach out to one of our team members.

Best Regards,
The Mid-States Team

Joseph P. Alam III, 313-670-5713, jp3@midstatescapital.com
Joe Alam, 313-215-1700, jpa@midstatescapital.com
Jim Mies, 248-766-7884, jm@midstatescapital.com
Jim Connor, 248-935-4037, jjc@midstatescapital.com

Visit our Website

JUST WHAT THE HECK IS A COMMERCIAL LOAN AND WHERE DOES A LOWER MIDDLE MARKET COMPANY GO TO GET THEM?
Part 1 of a 3 Part Series

Mid-States Advisors Inc. serves the lower middle market borrowing community by locating Commercial loans of between $2 Million and $100 Million. Before anyone takes exception to our comments, remember they are addressed to lower middle market businesses.

Locating the best possible funding sources for middle market companies at the lowest possible cost and with a structure that best fits the needs of our client is our passion. We like to start the conversation with potential clients by asking, "What do you need or want in a lending relationship"?

Where do we find the lenders, and how do we and our clients, find the proper fit?

Let us address the question of what makes up the Commercial Lender community. This is Part 1 of a 3 part series. In this article we will discuss, the role of Commercial Banks, Asset Based Lenders, SBA or Department of Agriculture guaranteed loans, and Factors. In Part II, we will cover the role Subordinated Debt Lenders, Loan Syndicators, Hard Money Lenders, SBA Direct loans, Small Business Investment Companies (SBICs), Purchase Order Finance, Trade Finance, Merchant Finance, and the recently enacted and temporary CARE loans. In part 3 we will discuss the financing of Commercial Real Estate. It is also important to understand how to negotiate loan guarantees, and to understand the importance of finding the proper person within the lender's organization.

We are sure it will come as no surprise that at the top of the list are the Commercial Banks. Banks are conservative but offer the lowest rates and can be the most flexible of the various categories of lenders.

Commercial Banks generally offer the following loan products:

- Term loans for machinery, equipment, and furniture and fixtures,
- Term loans or Commercial Mortgages for owner occupied real estate,
- Lines of credit, collateralized by accounts receivable and inventory.
- Bank overlines, used to cover any shortfall in collateral coverage.
- Specialized loan products for businesses with unique needs. i.e., floor plans for auto or equipment dealers, or warehouse loans for mortgage bankers or businesses originating subprime auto paper.

It should be noted that in dealing with the middle market, banks generally require the personal guarantee of the controlling shareholders or members. More on guarantees in a subsequent article.

Asset based lenders (ABLs) offer loans collateralized by accounts receivable, inventory, and to a lesser extent, machinery and equipment. The advantage of using an ABL is that they are more focused on the collateral than the earnings. Theirs should be a Balance Sheet focus. In recent years we have seen commercial banks establish ABLs as subsidiaries or as department within the bank. They have a lower cost of funds than a non-bank owned ABL and can be competitive in their pricing. But…a bank is a bank, and their focus again is more on earnings than a traditional “independent” ABL. These lenders generally do not offer a commercial mortgage product. Rates can be anywhere from 50% to 100% higher than bank rates, and compliance with the lenders credit reporting and monitoring requirements is a significant additional cost, particularly for a smaller loan.

SBA and Department of Agriculture Guaranteed Loans can be especially useful particularly in assisting under-capitalized buyers in completing the purchase of a business. We use two primary programs; one for equipment and real estate and the other for lines of credit and fixed assets. Many believe that the guaranteed loan is limited to $5 Million, but that is not the case. There are several different programs offered by the SBA and the Department of Agriculture, and Mid-States Advisors, Inc. has developed significant expertise in utilizing these programs for the benefit of our clients. Beyond their usefulness in acquiring a business, Guaranteed Loan programs are useful in inducing a lending institution to approve a loan because of the shared risk with the government agency. We find that even the banks’ SBA lender who has attended SBA sponsored classes in these programs, frequently is not sufficiently experienced in using them.

Factors are another class of lender serving lower middle market businesses. Factors purchase accounts receivables rather than lend against them. Advance rates are more aggressive, and interest rates are high. The process used by factors is even more intrusive and time consuming than that used by commercial banks or Asset Based Lenders. Over the last few years, we have noticed a trend for ABLs to offer to factor receivables as an alternative to their standard ABL loan product.

This concludes our discussion of Commercial lenders that do the great bulk of the lending to operating businesses. In a second article, we will cover Subordinated Debt, lenders and a diverse universe of special purpose lenders that most commonly are, or at least should be, used for special needs or for bridge loan financing.

We welcome discussion and comment on this or any of our Newsletter articles. If you would like to discuss our services in more detail or to discuss the content in today's newsletter, please contact us to learn more about how we can assist your company or client. Below are the direct phone numbers and emails for a Mid-States team member who can answer your questions (yes, we answer our own phones):

Joseph P. Alam III at 313-670-5713,JP3@midstatescapital.com
Joe Alam at 313-215-1700, JPA@midstatescapital.com
Jim Mies at 248-766-7884, JM@midstatescapital.com.
Jim Connor, 248-935-4037, @midstatescapital.com

See our team at Midstates Advisors' website