

THE FULL SPECTRUM

A Publication of SPECTRUM Commercial Services

“Reserve” that Prospect Credit for Yourself

We want all of the bankers referring business to us to remember that if SPECTRUM finances the credit, we will allow that borrower to move to the referring bank *at any time* with *no prepayment penalty*. The referring lender has essentially “reserved” that prospect while they complete their turnaround. SPECTRUM can provide financing with one of our unique financing programs such as:

- Asset-Based Credit Lines on accounts receivable, inventory, equipment and real estate for needs ranging from \$750,000 - \$4,000,000
- Structured ABL lines ranging starting at \$200,000.
- Accounts Receivable Financing ranging from \$50,000 to \$4,000,000
- Bank Participation Programs

Recent Solutions

SPECTRUM's offices in Denver, Detroit and Minneapolis have started the year with a number of new deals. Two examples which involved close cooperation with banks are illustrated below:

A major regional bank assisted an investor in the financing of one of two recently acquired companies, but could not provide financing for the other due to its troubled financial history. The lender referred SPECTRUM and we were able to provide the company financing while the lender “reserved” the credit for himself to take over when it is ready to “graduate” to bank financing.

SPECTRUM recently funded a transaction with a young

consumer products company that is gaining traction. The referring community bank was uncomfortable with the short track record and the high growth curve. But this was a good fit for SPECTRUM and we anticipate this company will return to the bank shortly.

SPECTRUM

- *Serving the financing needs of local businesses since 1995.*
- *Creative financing solutions for companies and the professionals that serve them.*

An Asset Based Loan Can Be A Good Alternative To Covenant Anxiety

With the financial statement season winding down, it is time to look at your clients and determine if any of them are candidates for covenant non-compliance. Recently, we are seeing more companies realizing lower than forecast earnings or even losses, both of which could trigger one or more covenant defaults. These defaults may have been caused by rising raw material costs (steel, copper, aluminum & petroleum are at record highs), rising interest rates (the Fed raised rates at every meeting last year) or due to stricter covenants as lending has become more price competitive with banks in turn beefing up their covenants.

Loan covenant defaults have been very noticeable in the automotive supply industry, with forest products and healthcare industries coming in second and third in number of incidences in 2005. Fully twenty percent of automotive loan covenants were breached in

2005. This year does not look to be any better and in some areas it could be far worse.

The debt leverage covenant is often the first covenant to be violated. Depending upon the relationship with the company, many lenders will 1) waive this violation, 2) charge a fee and reset it, or 3) restructure the loan with a higher interest rate. Waiving the default may be best for the relationship, but it is not always best for the bank. Charging a fee and resetting the covenant(s) may not help the relationship, but it is a better alternative for the bank. Resetting the covenant is dependent upon what the client's forecasts show for future compliance, the explanation for the breach of the covenant and the reliability of the client's previous forecasts.

As the defaults become more persistent, it may be best for all concerned to consider moving the line to an asset based loan. Asset based lenders can offer borrowers flexibility in their operations and in their financial planning. Most asset based loans have less restrictive covenants than traditional bank credit facilities. This can be especially helpful if the company wishes to make distributions (for tax purposes in Sub-S corporations), pay dividends or other transactions that would have a negative impact on the debt leverage ratio. Sometimes this additional flexibility is just what the business needs to move ahead.

Give us a call and allow SPECTRUM to be a part of your portfolio solution!



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