

Lender Financing:

Providing Opportunity for Future Growth for Finance Companies and Lenders

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May 2018

Lender Financing is a specialized type of lending that has become more prevalent among finance companies and commercial lenders. Lending Facilities include revolving and term loans to consumer and finance companies which can typically range in size from \$5,000M to \$100,000M. Industries financed can include vacation ownership financing, auto receivable financing (buy here-pay here), debt buyer finance, consumer receivable finance, insurance premium finance, and other very specialized industries. The purpose of the facilities is to help borrowers leverage their loan portfolio for working capital and continued portfolio growth.

Lender financing has the typical risks similar to traditional asset based lending facilities. The volume of receivables in the borrower's portfolio can be substantial and could easily deteriorate and become uncollectable if proper controls are not in place. The borrowers underwriting guidelines, loan documentation, and information systems are key areas which need to be reviewed on a regular basis as part of the field examination process to help mitigate the risks.

One of the key focus areas has been on compliance with specific analysis of critical documentation including:

- loan applications
- promissory notes
- FICO scores
- Truth in lending agreements
- disclosure documents
- Risk rating criteria

Dopkins' examiners will generally spend ample time onsite at the client and obtain access to the borrower's systems in order to analyze these areas as part of the loan documentation testing. This information is compared with the data reported on the monthly reporting packages submitted to the senior lenders to document any exceptions. A detailed review of the borrowers systems and controls in place is also reviewed during the due diligence phase.

A key focus area is also ensuring that the borrowers are in compliance with their own underwriting guidelines that have been established. For example, if a borrower grants a payment extension or modification to one of their customers, the examiner will compare the borrowers underwriting guidelines to ensure that the changes are within the underwriting thresholds. As an example, some borrowers only grant extensions if the account is less than 6 cycles past due, and some guidelines require that only one extension is granted per year. The exam will test these areas to ensure these guidelines are met. A review of business licenses and how a borrower tracks and maintains them is also incorporated into the examination process.

Lender Financing is a very unique business that has a growing demand and can contribute to substantial portfolio growth for each party. Dopkins and Company maintains a specialized team of individuals that are very familiar with lender financing and rediscount facilities. The firm has been engaged on these types of transactions for multimillion dollar facilities with a variety of specialty lending groups including Goldman Sachs, Silicon Valley Bank and Square1 Bank. Regularly scheduled field examinations can help to point out any exceptions and risks that can be prevalent with this type of specialty lending.

Please feel free to contact Dopkins & Company ABL Consulting Services should you need any assistance related to Lender or Consumer Financing, or for more information, please contact:



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Dheeraj performs field examinations for commercial lenders throughout North America. He brings over 17 years of field examination and credit underwriting experience with large financial institutions.