NOSTRUM GROUP

The 3rd Annual Nostrum Group Review

Finding expansion capital

The challenge for early-stage asset finance organisations

assetfinance INTERNATIONAL

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CONTENTS

Foreword by Richard Carter, chief executive, Nostrum Group 6

Section 1: Overview 8
The drought continues 8
Government studies 9
Government initiatives 10
The FLA: Lobbying government to promote asset finance 12
Promoting the growth of non-bank asset finance players – is it the right policy? 13

Section 2: Funding trends and the outlook for sourcing expansion capital 15
Asset finance funding availability 15
Viewpoint: RBS Commercial & Private Banking 17
Key funding trends 19
The British Business Bank 20
The British Business Bank: Committed to supporting new and alternative platforms 21
Funding for Lending 22
Funding for expansion 23
Case study: Renaissance Asset Finance 24
Block discounting 25
The growth of alternative funding sources 26
Case study: SQN Asset Finance 27

Section 3: Alternative funding sources and solutions 28
New models for lending 29
P2P business lending 29
Peer-to-peer lending 30
Investment from the British Business Bank 31
Viewpoint: RateSetter 32
Crowdfunding increases options 32
Case study: Money&Co. 33
Innovations to ease cashflow problems 34
Viewpoint: Platform Black 34
Innovations in auto finance 36

Section 4: The case for investment in asset finance 39
Diversification brings benefits 39

NOSTRUM GROUP

Foreword by Richard Carter, chief executive, Nostrum Group

Richard Carter

This report continues the work started in 2011 when, in an immediately post-recessionary environment, Nostrum Group in conjunction with Asset Finance International decided to investigate how new start-up asset lenders were finding the necessary funding.

Since then, in a series of annual White Papers, it has become apparent that a major structural change has occurred in the industry which is effectively changing the face of asset lending in the UK.

The latest White Paper, *Finding Expansion Capital – the Challenge for Early-stage Asset Finance Organisations* continues the investigation into the impact of these structural changes.

Recent research by charity NESTA has shown that of the £749m lent to date for P2P business lending, some 33% of borrowers believed that they would have been unlikely to get the funds elsewhere – including from their banks. Nor were these borrowing businesses the so-called "zombie" companies. Around 63% of them were witnessing a growth in profits – and some 53% reported an increase in employment since securing the funding.

NESTA calculates that from 2012 to 2014 P2P business lending rose by 250%, P2P consumer lending grew by 108% and equity crowdfunding rose by 410%.

Furthermore, these new P2P lenders are making all the running when it comes to market profile. Over 44% of SMEs are now familiar with alternative sources of funding, while 9% have used or tried to use it.

Mainstream lenders, often cloistered within their banking parents' straitened balance sheets, are maintaining a far lower market profile these days. It is a rare event to see any market advertising seeking to attract SME business by the established asset lenders. The industry, practitioners and trade associations, really need to examine their approach to serving small businesses.

The future well-being of the asset lending industry is not best served by an unbalanced approach, with new entrants making all the promotional running. Many of the P2P lenders will not have the numbers of experienced staff in place to ensure sound and prudent underwriting quality. As a consequence there remains the distinct danger that history will once again repeat itself, with turnover sought at the expense of quality.

If the asset finance and leasing industry has any kind of future it must rest upon a modus operandi of prudence and "doing the job properly".

Nevertheless, on the positive side, this White Paper does show that entrepreneurship is alive and well among UK asset lenders, and those new innovative methods of getting to the business customer are being tried and tested on almost a daily basis, with a host of new players entering the market.

One clear message from the executives interviewed in this report is that, irrespective of the size of business and its funding aspirations, it is essential that the core business model is sound, scalable and profitable.

Technology systems have a crucial part to play here, whether in allowing the lender to launch in a cost-effective manner, or having appropriate controls in place during the growth phase. A robust platform is essential to underpin the business.

Richard Carter

Chief Executive - Nostrum Group

Section 1: Overview

This is the third White Paper produced by Asset Finance International, in conjunction with Nostrum Group, examining the latest funding issues affecting start-up and early-stage finance companies. Such companies are by definition small, but small businesses create around two-thirds of private sector jobs and are fundamental to national economic growth, as their success affects that of larger firms.

Having got set up and running, with a solid working base, the next challenge for an early-stage operation is accessing a source of capital for expansion. The UK asset finance sector is growing as companies look for equipment finance as confidence returns, and there have been a number of recent examples of capital raising by early-stage finance firms, some of which are highlighted in this report.

The UK economy in 2014 has finally shown it is pulling out of recession. GDP growth is accelerating and unemployment is coming down. Forecasts are for more of the same. UK banks have ensured their liquidity levels cover requirements under Basel III regulation and now have ample capital on their books. The UK is recognised as providing some of the most conducive conditions for starting a business; in fact, the last World Bank survey on the ease of doing business rated the UK as the best country globally for getting credit, in terms of the legal rights of borrowers and lenders, and scope and accessibility of credit information.

This leaves, in theory, only the prospect of when the inevitable rise in interest rates will start as a grey cloud on the horizon for a potential borrower.

The drought continues

However, in reality, the situation is not at all as clear cut. In spite of all the confident pronouncements, small and medium-sized enterprises (SMEs) are still not finding access to funding straightforward, or at least not from their primary port of call, the mainstream banks.

In the period of extended and unnaturally low interest rates following the banking crisis, with the high-street banks nursing their balance sheets to protect their return on equity, a funding vacuum formed, which is now being partially filled by the challenger banks and other non-bank lenders. However, the structure of the market is essentially unchanged; the clearing banks still dominate the market.

Back in March, Chancellor George Osborne said: "The success of small and medium-sized business is key to the government's long-term economic plan. That's why we are fully focused on making sure businesses can get the finance they need to grow and create jobs. This includes actively supporting innovative new forms of business lending."

Despite the emergence of competitors, the four large banks still account for 80% of lending to SMEs, and that figure only accounts for approved loans. The government itself has reported that over half of SMEs seeking finance for the first time get rejected, and research suggests most of them do not try again.

Have SMEs simply been looking in the wrong place? Is it a case of being unaware of the options, or entrenched views regarding where to look for finance? The options are varied and increasing, but these alternatives should not always be the second choice.

Access to capital for SMEs from the mainstream banks dried up with the onset of the financial crisis, and although those banks remain dominant there have been positive changes, including the emergence of the challenger banks, along with more radical alternative sources such as peer-to-peer (P2P) lending and crowdfunding. The government has launched its own business bank, the British Business Bank, and attempted to refocus its Funding for Lending initiative away from consumer credit to business finance – although the success of the latter (as detailed later) is debatable.

Government studies

In July 2014, the government's Competition and Markets Authority (CMA) conducted an SME banking market study in a joint project with the Financial Conduct Authority (FCA). This made a provisional recommendation for a "joined-up, in-depth market investigation into the market … for SME banking (including the over £2bn business current account market and business loans)", providing reasons that included market concentration, viable access to the payments system and lack of a branch network.

Key facts and findings from the CMA market study are shown in the table.

SME banking (CMA and FCA market study)
The largest four providers account for over 85% of Business Current Accounts (BCAs) and 90% of business loans.
Over 3.5 million BCAs.
Barriers to entry remain significant, including the need for a network of local branches.
Almost 70% of SMEs agree that having a local branch is still important.
There has only been one entrant into full-service SME banking – Metro Bank – in recent years.
Annual switching levels remain low – only 4% of SMEs switch bank each year.
Fewer than 30% of SMEs shop around regularly for BCAs and loan products.
Satisfaction levels of SMEs with the 'big four' banks for BCAs are around 60%. 13% trust their bank to act in their best interests, and only 25% feel supported by their bank.

On 16 July, the second reading took place in the House of Commons of the Small Business, Enterprise and Employment Bill. As Secretary of State for Business, Innovation and Skills Vince Cable acknowledged, access to finance and maintaining cash flow are critical for small businesses, and cash flow can be badly impacted by late payment of invoices. He said that "all businesses depend on cash flow, and even successful businesses can run into trouble if there is a long gap between completing a job and receiving payment," adding: "Small and medium-sized businesses are currently owed about £40bn in late payments, and there is a lot of evidence that it is a particular problem for the small business sector. More than 50% of companies experience late payments, but the figure for big companies is much lower." (Source: Hansard) (This is covered further in Section 3 of this report, under 'Innovations to ease cashflow problems'.)

The new legislation, if passed, would require large businesses and quoted businesses to report on their business payment practices, which should give small firms greater confidence when entering into contracts.

Cable also announced: "To try to broaden competition and choice, we will require larger banks to share data on their small and medium-sized business customers with credit reference agencies, and we will require the credit reference agencies to provide equal access to those data for challenger banks and alternative finance providers, which will make it much easier for businesses to seek loans."

And he added that the government is looking at measures that could force banks to refer SMEs that do not meet their lending criteria to alternative funding providers.

As mentioned, many small businesses that have been rejected once are put off trying again, and being put through a referral process is hardly a confidence booster. Independent research among 1,000 businesses conducted by invoice finance firm Bibby Financial Services revealed that the reason for nearly half of SMEs being turned down for finance was simply that they had not been trading long enough.

Bibby's UK CEO, David Postings commented: "The fact that half of those turned away were told they hadn't been in business long enough underlines a familiar catch-22 where owners require funding to kick-start or grow their businesses, but need a track record to obtain funds," adding: "If we truly want to support businesses in the UK, we need to find a way of supporting them from start-up and early stages, right the way through to maturity."

Government initiatives

What impact has resulted so far from efforts by government to stimulate lending to early-stage businesses, and what can be expected from new initiatives? The opinions of banks and asset finance companies on these matters appear later in this report, but here are some figures.

The Bank of England has extended the Funding for Lending Scheme (FLS) until January 2015, with incentives to boost lending skewed towards SMEs. The Bank states: "The FLS aims to encourage more lending to the UK economy than would have been the case in the absence of the Scheme." However, the latest data from the Bank tell a different story, as total lending in the second quarter of 2014 not only fell but fell faster than in the first quarter.

There are 36 financial institutions (FIs) participating in the FLS extension, the majority of which are smaller building societies not involved to any great extent in lending to businesses. Total net lending to all businesses in Q2 2014 was down by nearly £4bn, with net lending to SMEs falling by £435m. Net lending to SMEs was flat or worse from 24 of the 36 FIs, although the majority of the decrease came from three lenders: Nationwide Building Society (down £501m), Clydesdale (-£439m) and RBS Group (-£360m). It should be noted that RBS has not drawn on FLS funds, although it is a member of the scheme; HSBC is the only high-street bank that did not sign up from the outset.

On a more positive note, net lending gains to SMEs between April and June came from Lloyds Banking Group (up £384m) and Santander (+£99m) of the high-street lenders, and positive figures from the challenger banks Investec Bank (+£136m), Aldermore (+£118m) and Shawbrook Bank (+£63m).

Quarterly certified lending by selected lenders to UK PHFCs and NBCPs, Q2 2014 (£m)

	Total	Lending to large corporates	Lending to SMEs	Lending to NBCPs	Total finance secured through FLS
Aldermore	118	-2	118	2	485
Clydesdale	-640	-200	-439	0	0
Investec Bank	96	-40	136	0	0
Lloyds Banking Group	-2,078	-2,446	384	-16	14,000
Nationwide Building Society	-364	137	-501	0	8,510
RBS Group	-1,500	-1,129	-360	-11	0
Santander	254	156	99	0	600
Shawbrook Bank	83	20	63	0	65
Total for all extension participants	-3,933	-3,473	-435	-25	31,814
Non-extension participants					13,923
Overall total					**45,738**

Note 1: PNFC = Public non-financial corporation; NBCP = Non-bank credit provider.
Note 2: The major non-extension participant is Barclays, which had £12bn outstanding through FLS as at 30 June 2014.

Source: Bank of England

And on another positive note, lending to SMEs from alternative sources such as P2P and specialist person-to-business (P2B) lenders have been increasing to levels that indicate a real change is taking place: P2P and P2B are rapidly moving away from being niche options towards becoming primary sources of small business finance, an important part of which is expansion finance. (This is covered further in Section 3 of this report.)

The FLA: Lobbying government to promote asset finance

By Simon Goldie, FLA head of Asset Finance

Simon Goldie

"In 2013, £22.4bn of asset finance went to businesses and the public sector"

As providers of asset finance (leasing and hire purchase), FLA members have played an important part in helping British businesses, and the UK economy, return to growth. In 2013, £22.4bn of asset finance went to businesses and the public sector. This represents 30% of all fixed capital investment in the UK (excluding property and own-account software).

Since the credit crunch, the government has pursued policies aimed at increasing funding for SMEs. The FLA has been a vocal advocate of the asset finance industry in Whitehall and Westminster, and has worked with the government to secure a proper role for asset finance in the various policy initiatives it has announced.

For instance, we succeeded in ensuring that – in contrast to previous such measures – asset finance was explicitly included in the Funding for Lending Scheme, Regional Growth Programme and the Wholesale Guarantee Scheme. Earlier this year, FLA members met the government's British Business Bank (BBB) to review plans for extending the Enterprise Finance Guarantee to include leasing. Areas of possible support include asset-backed loans and the financing of soft assets. We are also in discussion with the BBB about a possible financial instrument aimed at increasing the amount of asset finance available to SMEs over the longer term.

In addition, the 2014 Budget extended the Annual Investment Allowance limit from £250,000 to £500,000 for all qualifying investments (including asset finance) in plant and machinery made between 1 April and 21 December 2015.

Banks, including FLA members, have also been taking part in the BBB's pilot phase of a new Wholesale Guarantee Programme. This is essentially a government-backed guarantee that covers any losses in excess of an agreed threshold. It has been designed to encourage additional lending to small and medium-sized businesses with turnovers of up to £25m, those less than five years old, or those focused on growth.

Qualifying FLA members have also made use of the Bank of England's Funding for Lending Scheme. We successfully persuaded the Bank to expand the Scheme's criteria to allow participating banks to lend to non-bank finance companies.

Several FLA member firms also continue to take advantage of the Government's Regional Growth Fund. The FLA is now discussing with the BBB and the Department of Business, Innovation and Skills how to promote the Fund and encourage other asset finance providers to use it.

The FLA will continue to act as an advocate for the asset finance industry so that its members can continue to help Britain work.

Promoting the growth of non-bank asset finance players – is it the right policy?

George Ashworth and Julian Rose discuss how to promote asset finance as an investment

Julian Rose

George Ashworth

The asset finance industry in the UK is oddly secretive about itself, publishing extremely limited data on its composition, size and performance. Looking at the published accounts of many of the funders we find that it's an industry dominated by banks, with RBS, Lloyds, HSBC, Barclays, Santander and Close being the largest players to make their asset finance book size public. It is estimated that the banks own at least 80% of all new B2B asset finance production in the UK.

Despite the importance of the banks, overall the asset finance industry is a diverse sector, with over 50 funders, the majority being non-banks. There are also over 500 commercial finance brokers working in the asset finance industry, many with experience to varying degrees of own-book funding.

With such a vibrant industry, it's not obvious why we need to make it easier for small non-bank funders to be able to grow. Perhaps there is a 'Heineken effect', with the non-banks able to refresh the parts of the SME lending market that larger bank funders cannot reach? Some experts argue there's a need to prepare for a mass exit of banks from the asset finance market on the heels of ING. Meanwhile, some politicians point to the role of non-banks (and particularly the holy grail of peer-to-peer funders) to compensate for alleged failings in the SME lending policies of the large banks.

We think the main reason to promote the growth of non-banks isn't directly about any of these issues. Instead it's about removing a key problem in our market that is constraining the success of both the non-bank and bank funders.

"In essence, the heart of the issue is capital efficiency and the ability (or inability) of authorised institutions to quantify it"

In essence, the heart of the issue is capital efficiency and the ability (or inability) of authorised institutions to quantify it. In the absence of being able to do so, asset finance is merely debt. As the banks are currently the primary source of debt for non-banks, for so long as it remains the case that non-banks cannot access other sources of liquidity, both parties are inextricably connected to the issue of capital efficiency.

Is the solution for non-banks to access other sources of liquidity? As things stand today, the asset finance market doesn't work as well as it should for investors. It is only those already 'in the know' who understand it. Compared to other countries including the US, Canada, Australia and Germany, there is insufficient data available on the market – in particular, granular loan performance data – to allow funders to attract external investment. As a result, only those with long-standing experience of the industry – mostly existing funders in the market – offer funding to non-bank players. The investment market for asset finance funders is largely a circular one within our industry.

"Only those with long-standing experience of the industry – mostly existing funders in the market – offer funding to non-bank players"

Attracting more non-bank investment into the industry, whether that is through traditional facilities or new securitisation-type structures that are under active discussion at the government's British Business Bank (BBB) and the European Central Bank (ECB), would boost opportunities for non-bank funders to expand. It relies, however, on existing players – predominantly banks – deciding to pool and publish a lot more data on the market.

"The conclusion … is that asset finance should not be seen as debt. This should be an attraction to investors whether they be authorised institutions or not"

A first real attempt at this was done recently by Leaseurope in respect of their ground-breaking study done with Deloitte. The study encompassed 15 European jurisdictions and 17 separate organisations and 1.5 million separate case files. The finding of the research was clear: asset finance is capital efficient. The conclusion therefore that one can fairly draw from the research is that asset finance should not be seen as debt. This should be an attraction to investors whether they be authorised institutions or not.

Armed with this data, potential investors that are not authorised institutions should already be looking at acquiring asset finance portfolios as a useful source of ongoing (albeit short-term) yield of up to five years, whether through direct investment or through securitisation-type structures such as those being developed by the BBB and ECB. Clearly, authorised institutions that have not invested in the collection of data to enhance loss, given default analytics, would not be able to be a direct beneficiary, but it should spur them to invest in their asset finance capability.

The benefits would not be felt only by the non-banks; they would also help the banks to meet ever-increasing internal (operational and strategic) and external (regulatory) demands for performance information.

Making the industry less secretive might be most urgent for small non-bank funders looking to grow their businesses by attracting investment, but it is equally relevant to existing large funders. It's time for an industry summit to hear from the investors, see how this data is provided in other countries, and agree solutions. Supporting the growth of small non-bank funders in this way is the right policy because it will also support the health of the entire market.

George Ashworth, managing director, ABN AMRO Lease

Julian Rose, founder, Asset Finance Policy

Section 2: Funding trends and the outlook for sourcing expansion capital

Asset Finance International canvassed the opinions of a broad sweep of UK asset finance funders, and brokers, both long established and more recent ventures, on the current state of the market and the near-term outlook. Issues covered included:

- Asset finance funding availability;
- Key funding trends;
- The impact of the government's British Business Bank and Funding for Lending schemes;
- Sourcing new funds for expansion or renewal of debt facilities;
- The use of block discounting; and
- The potential of alternative funding sources.

Asset finance funding availability

"Funding is available right now if you can prove you can bring in the deal flow to support it"

Overall, the opinion of the panel was that there has been a discernible, though not dramatic, increase in supply-side funding over the past year. There is a clear indication of a more positive attitude to providing facilities by established asset finance lenders; growth aspirations and consequent interest in lending opportunities have been spurred as their lending targets have been increased by anything up to 25%, a distinct contrast to the previous five years. Bill Dost, managing director, D&D Leasing, said: "We have found funding easier to come by, especially if you are willing to pay rate for it …cheaper levels of funding are out there as well. The reality is that funding is available right now if you can prove you can bring in the deal flow to support it."

"Many of the mainstream bank-owned asset finance businesses have increased lending into the market"

Wesley Harfield, head of Sales at Investec Asset Finance noted that: "There has been an influx of new funders in the asset finance market and many of the mainstream bank-owned asset finance businesses (Lloyds, Barclays, RBS and Santander) have increased lending into the market." (See also the RBS Viewpoint below.)

On the other hand, George Ashworth, managing director, ABN AMRO Lease NV (UK Branch) was of the opinion that: "In 2014, so far, there has been the addition of ourselves (ABN AMRO Lease). I am not aware of any other significant new capacity on the supply side."

Carl D'Ammassa

From the challenger bank viewpoint, Carl D'Ammassa, managing director of Asset Finance at Aldermore, said: "From an Aldermore perspective, asset finance lending continues to go from strength to strength. In 2013, the bank's asset finance origination amounted to £609.8m, an increase of 74% compared with 2012. On average, we have been growing by 80% year-on-year since we opened for business five years ago, while the market has remained largely flat. However, things are now picking up. Recent statistics from the FLA show the market enjoyed 6% growth in the first half of 2014."

"There is tangible interest from external parties in asset finance, no doubt attracted by the apparent high rates of return compared to other investment vehicles"

A new factor noted by the panel is the interest in funding that is coming from external third parties such as private equity, corporates, family funds and similar new entrants, attracted by the sector's potential rates of return and comparative security. Mark Picken, managing director, Shire Leasing noted that: "There is tangible interest from external parties in asset finance, no doubt attracted by the apparent high rates of return compared to other investment vehicles. Previously they were kicking the tyres and looking for 12 to 15% returns on investment grade deals! Now they are more realistic in the returns they expect and, as the trade press is reporting, some deals are finally being done."

Juan Kelly

However, Juan Kelly, managing director, Conister Bank, struck a more cautionary note: "It appears that liquidity is returning to the market. Indeed, there is some danger that the pendulum will swing too far the other way, particularly in the hard asset classes for established lenders. This is a highly cyclical business, so I suppose there is some inevitability to that, but let's hope our collective memory serves us better this time."

The more recently established operations have also witnessed an increase both in sources of finance and the levels of funding available, with both traditional and challenger banks showing a more aggressive appetite for asset finance business, and new sources competing in the market. This is perhaps an indicator of the growing levels of confidence in the UK economy as it climbs out of recession.

Rivers Leasing managing director, Ratan Daryani, was upbeat about the effects on his business: "Over the past 12 months Rivers Leasing has seen both an increase in the number of sources and the level of finance available to its business. This has come from the increased number of block discounters now offering facilities to Rivers Leasing and the increased size of the initial facility or facility increases eventually negotiated. I put this down to two factors: firstly, increasing confidence and liquidity in the market; and secondly, Rivers Leasing's profitable growth has made it a more attractive proposition to lend to. In addition, alternative sources of funds, often representing high net worth individuals chasing yield, have become more available."

Hugh Sigrist, managing director of Renaissance Asset Finance, highlighted the changing market structure: "There have been many new sources enter the market and at the same time, a more aggressive stance by those already in the market. There have been newly formed lending businesses such as Renaissance, Hampshire Finance and Praetura Finance. There have been more acquisitions by banks to buy market share, such as Investec with Mann Island and Metro Bank with SME Invoice Finance. Lenders such as Shawbrook, Close, United Trust Bank, and Investec are all becoming more aggressive for business and growth. Other companies such as Lombard and Lloyds seeming to have a refreshed appetite for asset finance business."

This point was taken up by Richard Carter who, as chief executive of technology solutions provider Nostrum Group, is able to provide a perspective from a non-financial institution. He commented: "We are seeing fundamental structural changes taking place in the market. The newcomers are making the running to fill the void left by the slide in high street lending to small businesses, but although growing the proportion is as yet small and too many firms remain unable to access the finance they need. There is still a long hill to climb."

And from a broker's perspective, Mike Deacon, managing director of Asset Based Finance & Leasing (ABFL) said: "There has been a real increase in funding from smaller private lenders and some of the challenger banks. Major banks are not as keen to take risk and are still deleveraging, except to existing customers, and even those are being more rigorously examined."

Viewpoint: RBS Commercial & Private Banking

Nick Parkhouse

The mainstream banks have been given a hard time by the media, particularly regarding poor lending figures from the FLS. However, RBS for one claims that, despite the headline data, it has been very active in funding in the speciality finance markets, including various recent funding facilities arranged for expanding asset finance companies.

Here, Nick Parkhouse responds robustly to the accusation that the clearing banks are not playing in the funding market, and provides an insight into the finance options available.

"With the UK moving out of recession and into, hopefully, long-term growth we see an opportunity to support high quality asset finance businesses as they seek to grow alongside the economy"

RBS has a long-standing presence in the speciality finance markets lending to non-bank lenders, including the secured loan and unsecured consumer markets. It is in the last 12 months that we have sought to gain new wholesale exposure to the asset finance market, starting with a new £25m loan to Haydock Finance which we announced in June 2014. With the UK moving out of recession and into, hopefully, long-term growth we see an opportunity to support high quality asset finance businesses as they seek to grow alongside the economy.

Within the speciality finance team we have seen an increased appetite and desire from market participants we have spoken with to grow their businesses. Some are investigating private equity investments, whereas others are looking at how they can go it alone. While it may sound like it is easier to source financing at RBS our requirements have always remained the same – strong and experienced management team, quality and in-depth data reporting, clear underwriting criteria and well thought out and effective collection processes.

Block discounting has been a valuable financing tool for new and existing borrowers alike post crisis and with terms (credit and pricing) seeming to continue to improve it is set to remain an important financing tool for lenders new and old. However, those looking to 'trade up' to a wholesale facility can find the break costs prohibitive impacting on their ability to 'seed' a new funding structure. There are pros and cons to block discounting funding and we have seen a marked increase in market participants using debt advisors to help them in evaluating the best way forward.

Expansion capital considerations are twofold for any expanding asset finance company, but it's also of importance for relatively new lenders. Many are seeking to address the immediate issue, which is equity to fund their portion of loan book growth. However, a secondary requirement potentially looms on the near horizon, this being working capital to increase headcount across underwriting and collections, upgrade to systems and as the inevitable arrears and losses (in the normal course of business) start to come through, working capital to bridge the timing between not being funded by their loan provider (repurchase under block/ineligibles under wholesale) and recovery of the assets/sale realisation – a requirement which will quickly grow in absolute quantum as the loan book grows.

As a significant player in the financial markets, RBS has a unique view and access to asset finance companies large and small looking to grow, as well as institutional investors looking to put funds to work in this market. We see good investor interest; however, strangely, at least on an initial look, this becomes easier the larger the

“Whichever funding source an early stage lender decides to go for, the key is to think to the long term about what they want to be, how to build capability as appropriate, and how they want to exit the business”

amount you need – typically £20m+. On reflection, this makes sense; given the level of analysis required for such businesses, many funds need to ensure the absolute return they are getting makes that time spent worthwhile. It does, however, mean at the smaller end of the development capital requirement, and especially we believe in the £3–10m range, there appear to be limited cost-effective options outside of selling entirely to private equity. The team here at RBS continues to meet with a range of investors to seek a solution to this gap, and while we are finding pockets of interest, we have yet to find the ‘perfect’ solution.

Peer-to-peer platforms such as Funding Circle offer an interesting route for raising funding; however, there are many issues to think about. If an inter-creditor is needed, do you need all ‘peers’ to sign in to it? Can you get the quantum you require? Will your other funders simply see this as additional indebtedness and reduce their availability accordingly? These are all questions a borrower needs to think about prior to heading down that route.

Whichever funding source an early stage lender decides to go for, the key is to think to the long term about what they want to be, how to build capability as appropriate, and how they want to exit the business. So if you want to securitise or anticipate selling to private equity at some point in the future, then build your reporting capabilities, including data warehouse/analytics capabilities, and capture the data now. You can always interrogate the data later and tidy up your reporting, but it’s very difficult to go back and capture the data in the future if you haven’t been capturing it from day 1. The time investment in producing this level of data analysis should be repaid through being of value to future capital providers.

Nick Parkhouse is senior director – Financial Institutions Group, RBS Commercial & Private Banking

Key funding trends

Our panel's experience over the past year strongly suggests first, that confidence is returning to the market; second, that asset finance as a funding option for SMEs is increasing; and third, that while banks may be more willing to lend, there are clear restrictions regarding who they will lend to and on what terms.

"Our figures suggest that our customers are using leasing as a 'first call', since we have seen a significant increase both the number of leasing deals we are underwriting and also the value of those deals"

Steve Swift

Kennet Equipment Leasing chairman Steve Swift was the first to highlight the trend towards market confidence as reflected in increased deal volume and value: "Our figures suggest that our customers are using leasing as a 'first call', since we have seen a significant increase both the number of leasing deals we are underwriting and also the value of those deals, which suggests overall SME market confidence is improving. This indicates that lease finance has an even more pivotal role to play in the economic recovery within the UK, particularly if the banks are still reluctant to lend."

Carl D'Ammassa was also positive about the SME market: "Asset finance is really beginning to establish itself as a leading lending option for SMEs, I expect that within the next three to four years the market will return to pre-crisis levels, given the significant year-on-year growth we have seen recently. The days of SMEs viewing asset finance as an obscure alternative form of finance are gone; I think it is now firmly considered a mainstream option."

D'Ammassa also noted: "So far in 2014, the market has grown by 11% according to the FLA, yet at Aldermore we're seeing the broker market outpacing that rate of growth, which is really great news for the whole industry."

"The major UK commercial banks appear to be following relationship-first credit policies"

The caution that has been noted in legacy bank lending continues, and their restrictive policies are a major talking point. Unless you are already a trusted client, it appears that it is very difficult to secure funding. As George Ashworth observed: "The major UK commercial banks appear to be following relationship-first credit policies. In the asset finance industry, this is reflected in the commercial bank-owned lessors only extending finance facilities to already banked clients." Juan Kelly put it succinctly: "The legacy banks appear more willing to lend to the sector, but not yet to early-stage asset finance organisations." Ashworth also noted that: "The costs associated with both risk and compliance are increasing and we discern diverse bank-owned organisations will next turn for potential scale efficiencies to this particular area of their businesses."

More generally, our panel also noted changes to funding terms and margins as funders appear to chase volume. Wesley Harfield commented that: "One new trend is stretching terms (length of funding and LTV), and decreased margins", while Bill Dost reflected: "Funds seem to be following the US model currently, which is that rate compression is affecting the market, margins are shrinking and deals are tougher to come by. I think many funders are chasing volume right now, to the detriment of rate."

Wesley Harfield

Harfield also noted a move to own book: "There is a move from the broker market to grow own book to increase annuity income and reduce dependency on fee income. Private equity firms have made a number of acquisitions with a view to growing own book, presumably with an eye on exit within four to five years."

Hugh Sigrist highlighted the issue that, although there may be more funding deals out there, the processes and terms of the lending may not have changed much in terms of flexibility and responsiveness, with a rigid systems-based approach being applied at the expense of getting funding into the economy.

Sigrist said: "While there are more lenders entering the market and those that are here looking to write more business, the majority are all looking at the 'straightforward' deals, from a central systems-based approach to lending, rather than setting up a more flexible, 'hands on', out in the field visiting the customer's business, type of stance. The same goes in terms of supply route for goods. The 'sausage' based systems approach,

means many lenders will only accept invoices from franchised or very large, used suppliers. Once the customer wishes to buy from another source (normally for good commercial reasons), the lender has not got the time or infrastructure to look in more detail at the supplier chosen and make some fairly basic audit checks."

"Lending is often about the 'detail' and 'mechanics' of a deal. Not the creditworthiness of client or even the rate"

He went on: "We had an example of a £30m net worth business approaching its bankers to fund the acquisition of used trucks from another operator. While the bank happily financed their new truck purchases, at a crazy rate like 0.5% over bank base, it told the customer it could not accept an invoice from just another corporate and it had to be a franchised supplier. This scenario shows that lending is often about the 'detail' and 'mechanics' of a deal. Not the creditworthiness of client or even the rate. This is also where, in my opinion, a huge gap exists, and as a result a serious lack of funding into the economy. To operate here though, you must have a high level of expertise, very experienced people and plenty of common sense. All of which are lacking."

Mike Deacon

Mike Deacon commented: "Smaller lenders are more risk-friendly, although rates reflect risk. Customers are being weaned away from major banks as choices widen." He also noted the increase in access to finance from alternative lenders, saying: "Peer-to-peer and crowdfunding are becoming easier to find as alternative sources of working capital."

The growth trend in the alternative funding arena was identified by Ratan Daryani, who said: "The main trend I have noticed is the increase in the number of alternative funding sources becoming available, extending from crowdsourcing businesses to banks, accountants and solicitors representing those with surplus funds looking for a higher yield on their money." (Alternative funding sources are surveyed in Section 3 of this White Paper.)

The British Business Bank

Opinions on the objectives and effectiveness of the government's British Business Bank (BBB) vary considerably among our panel. Most give it a cautious welcome overall, both as a contributor to the wider economy and as an aid to business in general by unlocking finance; there is also the feeling that it is helping to raise the profile of asset finance among SMEs. But the overall view is that it's too early to judge how successful the enterprise has been or is likely to be in meeting its stated aims, and it faces a number of obstacles and constraints.

Giving the scheme a broad welcome, Carl D'Ammassa said: "Any initiative that facilitates lending and greater cashflow will not only improve the fortunes of businesses, but it can also be a benefit for the wider economy. We are very supportive of the BBB scheme and I hope its profile and impact continues to grow throughout the SME community."

"The government's understanding of the asset finance industry (and the issues with which it wrestles) is probably higher now than at any other time in the past"

George Ashworth focused on the BBB's interaction with the asset finance sector in particular, noting both benefits and impediments: "It is still very much early days, but there's certainly been some very intensive and informed engagement by the BBB within the asset finance industry. It leads me to conclude that the government's understanding of the asset finance industry (and the issues with which it wrestles) is probably higher now than at any other time in the past. Quite how much the BBB will be able to achieve is still unclear, as it would appear to be constrained by both limited budget and State Aid rules." This constraint was eased in October, when the European Commission confirmed that the BBB has received State Aid approval, giving it a ceiling of up to £6bn of aided activity, as well as the freedom to carry out commercial activities and to act as a managing authority on behalf of the UK Government.

Wesley Harfield was also a supporter: "The BBB has increased liquidity for non-bank owned finance companies to support smaller lessors' own book building activity."

A more cautious view of the scheme's effectiveness was expressed by Steve Swift: "It's great that there are government-created initiatives in the marketplace to fund SMEs; however, it's difficult to say whether this has been pivotal in creating more funding for

those businesses." This was echoed by Bill Dost, who queried its reach: "We haven't had a whole lot of exposure to it in the last few months, although we did when it first started. The government's plan seems to be geared for the larger funders and not the smaller leasing companies. So we haven't spent a lot of time on it in the last few months."

"From a potential partner's view, I see the BBB as a valuable new source of funds, initiatives and experience"

Mark Picken said: "From a potential partner's view, I see the BBB as a valuable new source of funds, initiatives and experience. I see the process to get access to these initiatives becoming easier. The senior management team are generally from a commercial background; they understand the pragmatism required in doing business and have opened the opportunity to a much wider audience. I have no doubt they paddle like the proverbial swans to satisfy central government's appetite for endless reports, and Shire Leasing is now a proud partner of the BBB with its £40m investment in providing additional funding to UK SMEs."

Richard Carter added: "As the BBB's lending expands, more providers of finance to small business will benefit. However, lending innovation requires technological innovation to make the process most cost efficient, and even the newer, more flexible lenders need to be alert to this and be able to adopt new systems."

The final word lies with Juan Kelly, who looks to the wider banking picture: "I'm not sure it has had a great impact but it is early days yet. The Competition and Markets Authority (CMA) has recommended a full competition inquiry into banking. I would expect that to proceed. That is more meaningful. Deep structural reform is required to get a better deal for consumers."

The British Business Bank: Committed to supporting new and alternative platforms

By Keith Morgan, CEO, the British Business Bank

Keith Morgan

The British Business Bank aims to make finance markets for smaller businesses work better, enabling the sector to prosper, grow and build economic activity. As part of that, we are committed to increasing choice in finance markets for smaller businesses by providing support to new and alternative platforms. We are already making a strong impact, with more than 60% of our £830m of investments and loans in the last year supported through new and emerging providers.

"We estimate our current pipeline for the Investment Programme to be £900m, with around £200m of the programme funding currently unallocated"

Our recent investments have included CAML – an asset finance provider focused on the business and professional sectors, RateSetter – an online marketplace where people directly lend to UK smaller businesses, and Shire Leasing – a leasing finance provider funding business critical assets for small businesses. We estimate our current pipeline for the Investment Programme to be £900m, with around £200m of the programme funding currently unallocated.

We are also looking at interventions specifically to help smaller businesses access asset finance, including developing an innovative new asset finance funding vehicle. This vehicle will combine newly-originated portfolios from a number of smaller originators, providing funding to ramp-up and finance the assets until the aggregate portfolio becomes sufficiently large to be funded by the capital markets.

We expect the British Business Bank to be an important catalyst in changing and improving finance markets over the long term, making a real difference to smaller businesses' success and growth.

Funding for Lending

In contrast to the generally favourable view of the British Business Bank, there is considerably less support for the government's Funding for Lending Scheme, with only Carl D'Ammassa an enthusiastic supporter, saying: "For Aldermore, the Funding for Lending Scheme has been a resounding success, increasing access to financing for homeowners and businesses across the UK. Whilst there are concerns across the market that the scheme may have been misused by some, Aldermore has been a keen participant in the scheme and has seen first-hand the impact it has had on lending to consumers and businesses alike."

Most of the panel was sceptical as to how much of the funding has filtered down to SMEs. Allegations of the large banks using FLS as a cheap source of funds to existing customers in order to enhance their margins abound, and it was certainly the general view of the panel that asset finance and the SME sector had not seen much benefit from the scheme. Steve Swift's was a typical comment: "Whilst it was launched to much promise, banks don't appear to have used it much, and there's no real evidence it has filtered through to brokers. It's fair to say that it's therefore not had much of a part to play in enabling greater funding for SMEs", while Juan Kelly noted: "Well, the Bank of England and HM Treasury Funding for Lending Scheme Usage and Lending data doesn't make great reading. I think it's hard to argue that it's been a success."

Mark Picken agreed with Kelly, saying: "In two words, not very. However, I see it from a smaller player's point of view. I am sure that from the standpoint of some of the large clearing banks' it has been wonderful."

"Its launch excluded so much of what would benefit asset finance that it made little impact. Reiterations of it have tried to encompass asset finance with limited success"

Picken went on to explain: "Its launch excluded so much of what would benefit asset finance that it made little impact. Reiterations of it have tried to encompass asset finance with limited success. Reports of banks' lending more to the same borrowers and using to FLS to enhance their margins are commonplace, but the real question is, did it get lending to new, cash-starved, borrowers? I would say not, and the reason is simple. Government provided cheaper funds to some lenders with FLS but that did not, and was never going to, change the lenders' risk appetite or credit policy. So they just kept lending these funds to the same people and may or may not have made more margin in doing so."

Richard Carter

Richard Carter concurred, noting: "It seems that, despite the government's best intentions in introducing it, FLS hasn't worked for small businesses. It's plain that the demand for funding has been there, but the traditional lenders have been hamstrung by core IT systems and processes that meant they haven't been in a position to increase supply significantly to this sector, even with FLS backing."

Wesley Harfield argued that, while there had been some benefit for SMEs in terms of cost of funds, FLS had done little to improve access to funding: "I think it has been successful in driving down the cost of borrowing for mainstream banks, which in the main has driven down the cost of borrowing for SMEs and corporates to sub-financial crisis levels. We do not believe that it has increased access to liquidity to those who are unable to source funding; it has just driven down the cost for those who were able to access funding anyway."

The same issues of lack of expansion of overall liquidity while providing cheaper credit to those who could already access it were raised by George Ashworth; however, he placed the discussion within a wider economic framework: "I think it is important to bear the original objectives in mind. It is also important to bear in mind the disparity of the player types within the scheme. The overall original objective was to get liquidity into the UK economy. For the most part, I believe that the FLS actually helped to make loans that would otherwise have been available to businesses cheaper. In other words, for the most part, it did not extend the overall availability of liquidity. It primarily helped those businesses that could already secure credit, secure it on a cheaper basis. To other players within the scheme such as challenger banks, it provided the ability to lower the cost of funding. The fact it's now being copied across the eurozone by the European Central Bank shows that it's generally been seen as successful. However, like any

"Like any government intervention, it risks distorting the market. The fact that it's needed shows that economic recovery still has a way to go"

government intervention, it risks distorting the market. The fact that it's needed shows that economic recovery still has a way to go."

Funding for expansion

One of the more challenging aspects of growing a successful business is securing new funds for expansion and/or renewing debt facilities. Asset Finance International asked the panel whether they had noted any change in the lending climate for established lessors. Overall, the opinion was that it has certainly become easier to obtain finance for expansion, both from the legacy banks and from challenger banks and alternative asset investors, with new lenders entering the market and terms generally easing. However, some cons were also noted, such as rate issues.

Bill Dost

Bill Dost reported: "I think funding for expansion and renewing debt facilities and even creating new facilities has become easier. This is because right now there is a large surge of people chasing deals and a large influx of new funders in the market, so many are chasing market share. Unfortunately, this does mean that many have been compressing their rates to do so and that could have a long-term detrimental effect (but others may say this is just balancing out the higher rates we have had for some time). Time will tell."

"Terms are easing and as lenders look to grow their portfolios, pricing is easing too"

A change in lenders' focus was noted by Mark Picken: "I don't think it has got easier but the discussions are easier. They are more strategic now and focused on development and growth rather than the preoccupation with minimising or avoiding risk in any lend. I think terms are easing and as lenders look to grow their portfolios, pricing is easing too. Not by going down significantly, but by not being the primary focus."

The legacy banks may have been improving their lending facilities to smaller operators of late, but Wesley Harfield pointed to the lack of trust that remains from the financial crisis: "It has got much easier for established lessors to source new funds as some high street banks are offering large facilities to relatively small operators. Notwithstanding this, many small lessors are shunning these lines as they remember the refinancing issues they had when the facilities either expired or came up for renewal during the financial crisis."

Potential issues concerning the high returns expected by some new funders were noted by George Ashworth: "There's growing interest in funding the market now coming from private equity players and non-UK banks, and we've seen some recent announcements of new funding arrangements. However, these funders are generally looking for a higher return than can be achieved from many parts of the market. It leaves non-bank lessors in a difficult position on rate, particularly with FLS." (See also the earlier special article by George Ashworth and Julian Rose, 'Promoting the growth of non-bank asset finance players'.)

Case study: Renaissance Asset Finance

Managing director Hugh Sigrist looks back at the obstacles faced when trying to raise capital

Hugh Sigrist

It was hard work finding suitable banks or equity houses to launch our new lending business, despite our enormous experience and very well-respected reputation.

The irony is that many banks obtain a bank licence and become licenced deposit takers. Then, due to our rules and the government guarantees on deposits the bank holds, they are able to raise large funds very quickly. However, once they have obtained all these deposits, they often have very little idea of how to successfully lend out the money, ensuring they make a profit and also lend in a prudent manner. Of course, due to the cost of the funds they now have, they desperately need to lend, which sometimes leads to them backing the wrong ventures. I got the feeling that there was a lot of money sitting out there, not being used, for just these reasons, which certainly is not helping the economy grow.

Some of the banks I spoke with already had conflicting group divisions, which I wanted to avoid at all costs. The competition should be out in the market, not within an internal group. I felt that with some of the equity houses the vision was very short term, to create a portfolio as quickly as possible and then sell it off. This is no good for your clients and introducers of business, who want long-term, reliable and trusted relationships. It is also no good for your employees, who I would always look to protect and feel are the major asset to any business.

It was also hard to find a bank that would empower us with enough authority to be able to service our clients speedily and efficiently. And this would be far harder to achieve if a high percentage of deals had to be referred to the bank's credit committee.

So I was looking very much for a commercially minded / entrepreneurial banking partner, which understood the asset finance sector and believed in a true 'hands on, know your customer' approach. This would entail working closely with the client in the field and developing a very close business relationship, not dealing at 'arm's length' on a purely systems-based operation, which I also feel leaves the bank far more open to fraud.

I was very lucky to find a commercial bank that ticked all the boxes.

Block discounting

Block discounting has often been perceived by smaller asset finance companies as an old-fashioned product that's available from only a limited range of providers, and difficult to access and manage for various reasons, not least of which was the quantum required by the provider. We asked our panel whether they felt that block was becoming more accessible to smaller operators, and if so, how well understood it is as a funding mechanism. The consensus was that block is a valuable funding tool in the box for many small lessors, that the market is opening up, and that it is in general well understood. On the other hand, the panel also noted that various obstacles still remain that inhibit its potential.

"Block discounting continues to be the product of choice for smaller asset finance companies"

Wesley Harfield said: "Block discounting continues to be the product of choice for smaller asset finance companies and is readily accessible for well-run prime and near-prime providers. Block is well understood by the smaller asset finance companies", and Bill Dost concurred: "I think block is very accessible as long as you have the ability to continually raise capital on your own and you have a robust enough balance sheet to interest the block discounters. I think it's a great product and it will likely see more use in the coming days. I think it's quite well understood."

Another enthusiastic supporter was Carl D'Ammassa: "Aldermore has actively participated in block discounting since we formed. Funding smaller lenders is a great way for us to be able to help a broader range of SMEs. Like anything, there is an educational role to be done to raise awareness around the product; all SMEs need to fully aware of every form of funding available to them. From those firms we support, it seems to be a valuable and popular option."

"The issue is in the product itself which I would suggest has a limited shelf life"

George Ashworth felt that block was probably more accessible than for several years, and noted increased competition among providers: "Block funding returns for funders are declining, reflecting the fact that there is now greater competition in this space. As a result, I think the product is becoming much better known." Meanwhile, Juan Kelly noted drawbacks: "I believe it is accessible and also more widely available. The issue is in the product itself which I would suggest has a limited shelf life. It soaks up equity and just isn't well suited to fast growing young lending businesses."

Mark Picken gave a balanced view of the pros and cons: "Block discounting is an incredibly safe way for providers to lend, with many layers of risk mitigation compared to a direct deal, assuming there is full recourse to the borrower (the smaller asset finance company). Given this mitigation, it remains surprising that the providers still insist on their borrower having skin in the game by limiting their advance rate on a deal to anywhere between 85% and 95%. That means the borrower has to find this equity in every deal, putting cash flow strain on the business. Inevitably, this will inhibit the potential of the business and growth will be limited to the availability of capital to fund the gap.

"There is awareness of the product in the market but there are other barriers to entry. There is the need to have bill and collect systems that are robust and approved by the funding providers. This is expensive and often too much for a small business to entertain. There is the need to have direct debit facilities, and these are not easily offered by the banks to businesses embarking on this new income stream, and then there is the quantum. Providers often want minimum volumes of business before they will offer a block discounting facility and if these start at c. £500k per annum that may not be achievable. This is a classic chicken and egg story!"

Mark Picken

The growth of alternative funding sources

There was a clear split in the attitudes towards alternative funding sources in our panel. Most of the established operations had not approached this area of the market; however, the newer operations had more experience to report.

"The headline cost of finance can look attractive, but the add-on costs for various services raise the total cost to beyond a sensible rate"

Ratan Daryani

Ratan Daryani saw advantages for his business: "We're actually currently in discussions. The main advantage of alternative funding sources for Rivers Leasing is to spread the options of funders to the business, thereby reducing the risk of one funding source and type, e.g. banks and block discounting. The main issue I see with some types of alternative funding sources is not necessarily knowing where your commercial/financial information that is required by potential investors ends up. Another key aspect of some sources of alternative finance sources that has become an issue is that the headline cost of finance can look attractive, but the add-on costs for various services raise the total cost to beyond a sensible rate."

While Daryani's opinion was overall positive, Hugh Sigrist was more circumspect: "We have considered alternative funding sources – private funds, sources such as the Funding Circle concept. However, they were too complex and with too much variation for our requirements. And we always have concerns about confidentiality of our clients and business."

(For more on this topic, see Section 3.)

Case study: SQN Asset Finance

Neil Roberts

In July 2014, SQN Asset Finance commenced operations in the UK with the aim of investing in business-essential and revenue-producing (or cost saving) equipment. It will also target investment in a range of other assets with high in-place value and long economic life.

Neil Roberts, portfolio manager of SQN Asset Finance Income Fund told Asset Finance International how the company raised finance and gave his views of expansion finance options.

***AFI:** Do you detect any changes in the sources and levels of funding available in recent months?*

Neil Roberts: Yes. SQN has raised £150m in the first main market listing of a diversified asset finance investment fund. Previously, Summit Asset Management Ltd and SQN relied on SQN's US investment funds to provide funding for UK leasing deals. This is a significant step-up in the volume of business to be written but the demand is clearly there.

***AFI:** Have you identified any funding trends?*

NR: The SQN Fund is a permanent capital fund allowing longer-term fixed rate funding to be available for renewables and infrastructure deals for the first time. There is clearly a demand for this.

These 'project' deals represent up to half our business, with more traditional business making up the balance.

***AFI:** Has SQN accessed funds via alternative funding sources? If so, how would you rate your experience?*

NR: Yes, directly from the stock market. There are massive barriers to entry, but it's a permanent and growing source once achieved. We expect to return to the investor market in the New Year to raise a further £100m to invest in asset finance transactions.

***AFI:** Would SQN consider using alternative funding sources? What do you consider to be the pros and cons?*

NR: We have been working for over seven years establishing the Investment Fund structure in the UK to be independent of banks and securitisation structures. The advantages are very clear, but the cost of capital is higher than equivalent bank funding.

***AFI:** Is there any aspect of alternative funding sources that actively dissuades you from using them?*

NR: No, now that we have pioneered this route to capital we believe we can grow the Fund and our investor base. We are the first lessor but probably not the last to come to the stock market in this way.

Section 3: Alternative funding sources and solutions

When it comes to SME finance, which would include expansion finance for early-stage asset finance companies, the buzz in the industry is definitely centred on alternative sources of funding. The rise of online platforms has introduced an entirely new set of investors to small business lending.

Initially, these were individual savers frustrated by interest rates that had been reduced post-credit crunch to levels that were producing negative real returns, and these savers saw peer-to-peer (P2P) lending as a novel prospect to earn much better rates whilst lending in a way that directly benefited other individuals and small businesses. In just a few years though, the numbers have ballooned as this form of investment has caught on, not only as a method of investing that normally produces a better return than traditional savings, but as an investment from which positive results can be seen to result.

Combining banking with advances in technology that have made this form of investing acceptable and trusted, these online marketplaces now link supply to demand in a swift and transparent manner, with no need for intermediaries. This section contains the views of a spectrum of alternative lenders provided to Asset Finance International.

Regarding the likely impact of alternative funding sources, Rhydian Lewis, CEO of P2P firm RateSetter, said: "Alternative funding sources are diversifying sources of funds available. This will result in more stable funding – i.e. lending is currently reliant on the health of a small number of banks, but diversification is changing this."

According to a report by independent think-tank Nesta, the UK alternative finance market grew by 91% in 2013, from £492m to £939m, with person-to-business (P2B) lending reaching £193m, invoice trading platforms funding £97m, and equity crowdfunding registering £28m (Source: 'The Rise of Future Finance', Nesta, December 2013). The total is projected to exceed £1.6bn in 2014, Nesta calculates. Of the overall alternative finance market, P2P accounted for some 85% of all lending in 2013.

It should be borne in mind that this represents a very small amount compared to conventional bank lending, but it cannot be denied that the alternative sector is on a rapid growth trajectory, backed by goodwill from both investors and borrowers.

"Speed and efficiency of decisions and drawdowns is absolutely key, and the winners will be those with a fast turnaround"

James Lovett

James Lovett, business development manager of P2P business lender Funding Circle commented: "The market is hugely competitive and as more and more lenders embrace technology, this will only increase. Just over the last six months we have seen a number of new lenders come to market, so speed and efficiency of decisions and drawdowns is absolutely key, and the winners will be those with a fast turnaround."

This drew agreement from Richard Carter of Nostrum Group, who said: "Financial services are in a period of transformation and the rise of P2P and P2B lending is a great example of an agile new sector taking on the established lenders – alternative lenders are exploiting new media and technology to create a profile to challenge the mainstream banks."

However, Carter cautioned: "Great care needs to be taken when dealing with such an exponential growth. Responsibility is vital when dealing with consumers who may be disaffected with the traditional system, where for example every failure of banks' legacy systems is broadcast virtually instantly on social media. In such situations, any alternative can seem attractive."

New models for lending

Recently, the alternative sector has been enhanced by new concepts and business models such as that provided by crowdfunding, which has been used to raise capital for start-ups through to being used as a platform by companies to sell mini-bonds to investors. The attraction of these bonds is that they are sold directly to investors, although as they are not listed they cannot then be traded, so the investor must hold them to maturity, and there is greater risk to the investor as there is less regulatory oversight. Nonetheless, mini-bonds have been successfully used to raise expansion capital, in one instance by P2P firm Wellesley.

One new business model is Money&Co., which provides P2B lending based on crowdfunding, whereby businesses make loan requests through the firm's website and lenders then bid for the loan and the income it generates. (See also the Case Study on Money&Co. below.)

However, as mentioned there are challenges facing this nascent sector, not least of which are regulation and investor protection. The Financial Conduct Authority began regulating P2P lenders in April 2014, requiring sufficient capital to be held to offset any financial shocks. Investors are not covered by the Financial Services Compensation Scheme, but the P2P companies do not see this as being appropriate compared with regular savings schemes as the investment is spread among many borrowers to mitigate the risk of default. In addition, a number of P2P firms have set up 'provision' funds as a separate safeguard.

"The regulatory regime for banks is expensive because of the need for safety following the shocks of the financial crisis in 2008"

Rhydian Lewis commented: "The regulatory regime for P2P lending is appropriate. The regulatory regime for banks is expensive because of the need for safety following the shocks of the financial crisis in 2008."

P2P business lending

At first sight, the volumes lent to SMEs by P2P business lenders are not great compared with the main banks, but as Samir Desai, CEO and co-founder of Funding Circle, pointed out in his quarterly update this October, new lending by Funding Circle investors in Q2 totalled £54m and this grew 35% in Q3 to £72.8m. Compare these figures with those of Funding for Lending scheme (FLS) participants (detailed earlier in this report), he said, and it can be seen that "we are now one of the largest sources of finance for small businesses in the UK."

Other P2P business lenders include Thin Cats, RateSetter and Zopa; all the main players are represented by the Peer-to-Peer Finance Association (P2PFA). According to its latest data for Q1 2014, cumulative business lending by P2PFA members topped £500m, of which £131m was new lending, with over 5,100 borrowers supported by more than 31,000 lenders. These figures all represent considerable increases over the previous quarter.

Business lending data for P2PFA members

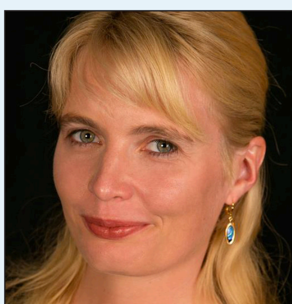
	Q4 2013	Q1 2014	Increase (%)
Cumulative lending (£m)	263.6	502.4	90.6
New lending (£m)	63.2	131.5	108.1
No. current lenders	27,010	31,616	17.1
No. current borrowers	3,861	5,169	33.9

Source: P2PFA

The P2PFA provided the following breakdown of its activities to Asset Finance International.

Peer-to-peer lending

By Sam Ridler, executive director, Peer-to-Peer Finance Association



Sam Ridler

Peer-to-peer (P2P) lending was founded in the UK by Zopa in 2005 and as an industry has cumulatively lent almost £1.9bn in funds to businesses and consumers. The growth of P2P is exponential and in 2014 we expect P2P platforms alone to lend £1bn – with over £500m of this in the P2P business lending sector.

The Peer-to-Peer Finance Association (P2PFA) was founded in 2011 and represents over 95% of the UK P2P lending market. Our membership currently comprises Zopa, RateSetter, Funding Circle, Thin Cats, LendInvest, Madiston, LendLoanInvest, Wellesley & Co, and MarketInvoice.

All members must adhere to our operating principles (http://p2pfa.info/rules) and the P2PFA has developed a standard for reporting defaults. The P2PFA is working with the European Commission, all parts of UK government and the Financial Conduct Authority (FCA) to promote understanding and best practice in the sector.

The UK is the first country in the world to develop specific regulation for P2P and on April 1 2014 the sector became regulated by the FCA. The British Business Bank has invested over £80m in P2P platforms (Zopa, RateSetter, Funding Circle and MarketInvoice) to reach business lenders and in the 2014 spring Budget the government committed to creating a P2P ISA which will scale the P2P industry to a whole new level.

Another indicator of the rising attraction of P2P comes from the US, where the industry began. The market there is now mature enough that lenders are considering listing on the stock exchange – the first being Lending Club, the world's largest loans marketplace, which is expected to float on either the NYSE or Nasdaq later this year. Lending Club is a consumer lender, but it is believed that a P2B lender in the US, OnDeck Capital, may follow with an initial public offering (IPO). With moves like these IPOs, this form of funding will be recognized as no longer niche, but becoming part of the financial framework.

Richard Carter elaborated, stating: "The traditional system is creaking at the seams and there is a need for a broader range of lenders to relieve the pressure on mainstream banks which are struggling with the digitisation of customer services. New, technology-driven players are taking market share where they have superior productivity."

Looking at market trends, James Lovett said: "There is certainly a lot of capital around at the moment; the market has become more competitive and we have seen increased availability of funding via private equity and hedge funds. There's also a lot of interest in the acquisition of broker/lender businesses."

"It's time to accept that these types of support facilities, using banks as the primary distribution channel, are no longer the answer"

He continued, commenting on the lack of finance reaching SMEs through FLS: "There's unfortunately no doubt that the Funding for Lending scheme is failing to help the thousands of British businesses that need finance, but can't access it. It's time to accept that these types of support facilities, using banks as the primary distribution channel, are no longer the answer."

As noted earlier in this White Paper, the government is keen for banks to refer SMEs that do not meet their lending criteria to alternative funding providers, raising the prospect of cooperative relationships being set up. On this, Rhydian Lewis noted: "Yes, there will be cooperation, as has been seen recently between Funding Circle and Santander, for example."

The Santander-Funding Circle link was set up in June 2014, regarding which Ana Botin, CEO of Santander UK, said at the time: "SMEs need access to multiple sources of finance, and Santander's partnership with Funding Circle is a good example of how traditional and alternative finance can work together to help the nation's SMEs prosper. Peer-to-peer financing is also a useful way to introduce people to the concept of investing in entrepreneurs; an important element in a healthy enterprise economy."

Investment from the British Business Bank

Where the FLS has not succeeded, the government hopes the British Business Bank (BBB) can work, and it is supporting alternative lenders, as noted by the P2PFA.

This point was made by James Lovett: "Alternative sources of finance like peer-to-peer lending are proving to be a better way [than FLS] for the government to get finance through to hard-working British businesses. Funding Circle is just one of the recipients of investment via the British Business Bank. This money has helped 2,298 businesses access finance, and this figure is increasing every day."

He continued: "Any scheme that helps businesses access finance via alternative methods is welcome. The Business Bank is lending a total of £60m to businesses through Funding Circle, and their support has helped to increase trust and credibility of the service we provide amongst the business community," concluding: "There is recognition now that the traditional system is fundamentally broken and there are faster, more efficient ways to get much needed capital to small businesses."

(See also the piece from Keith Morgan of the BBB earlier in this report.)

Another beneficiary of BBB investment is RateSetter, and Rhydian Lewis gave his views on this, as well as the company's small business proposition and his outlook on the industry, to Asset Finance International.

Viewpoint: RateSetter

Rhydian Lewis

RateSetter is an alternative lender that launched in October 2010 with the aim of making peer-to-peer lending as straightforward as possible, by providing savers with a fair rate of return on their investment and borrowers with a simple, low-cost loan. Having got established, RateSetter has raised £8m of expansion capital from its private shareholders and in March became the biggest peer-to-peer lending platform in the UK by monthly origination.

***AFI:** How did the deal with the BBB come about? Did the Bank approach you?*

RL: The first point about our involvement with the BBB, and it's an important distinction, is that it is lending through RateSetter, rather than investing in it. In fact, we contacted them initially. We were then in talks for over 18 months – it's a very thorough due diligence process and we're a young business, so there was a lot that needed to be sorted out.

Our operation appealed to them, as they wanted to get into the micro-business lending arena (including sole traders, which we're strong on) and they are keen to support alternative lending as opposed to straight bank loans.

***AFI:** Will the BBB continue this lending?*

RL: It may be ongoing. If it goes well, they may well continue, but it's early days yet.

***AFI:** What is the RateSetter proposition for small businesses?*

RL: We are a lending platform, and we believe anyone should be able to be involved. We favour a totally open and transparent market with as much access as possible and with no preferential treatment. This means anyone, from a man with £10 to a multimillion-pound hedge fund, can be a saver, and all borrowers have access to the cheapest lending possible.

My view is that, for the small businesses that we concentrate on – that is, the sole trader/owner-managed space, with the emphasis on 'small' in SME – alternative lending has a vital role to play. It will take time, and providers of alternative funding need to take a long-term view, probably a 10-year view. You have to prove to people – savers and borrowers – that your proposition is better, and this takes time.

I don't envisage the mainstream banks will focus on our sort of borrower, as they're not very good at it, but they might be prepared to pass business on. But everything is commercially driven, so it would have to make sense to the banks.

"For the small businesses that we concentrate on, alternative lending has a vital role to play. It will take time, and providers of alternative funding need to take a long-term view, probably a 10-year view"

Crowdfunding increases options

Crowdfunding, of both equity and debt, is the latest addition to fundraising, commonly to seed finance for new ventures, but it is gaining traction in raising P2B finance for SMEs. There is now a representative body, the UK Crowdfunding Association, which promotes best practice in the industry.

Case study: Money&Co.

Nicola Horlick

One high-profile beneficiary and exponent of person-to-business loan based crowdfunding is Money&Co. CEO Nicola Horlick outlined the operation to Asset Finance International.

AFI: *How far has the business grown since start, and has this been better than projected?*

Nicola Horlick: We are delighted with the progress we have made since our launch at the end of April 2014. We have now made over £3m of loans to SMEs, including a £1m loan which the Financial Times called the largest, single non-property-backed crowdfunded loan. We have a substantial and fast growing pipeline of loans.

AFI: *Have the challenges/risks for Money&Co. changed since the initial set-up?*

NH: No, as the site launch was so recent. The challenge is to manage the balance between lenders and borrowers.

AFI: *Where is your funding coming from? Would you approach sources such as the British Business Bank?*

NH: Our funds are currently coming from the crowd and we have a number of sizeable lenders. New platforms need to trade for six months before applying for funds from the British Business Bank. We have therefore just started discussions. We're keen to develop a number of funding streams and are also talking to family offices and institutions.

AFI: *Who are you lending to?*

NH: We lend to SMEs that are either UK limited companies or LLPs which have three years' filed accounts, a minimum turnover of £100,000, were profitable in the last full financial year and have strong cash generation. We offer senior debt and take a debenture over the company's assets. We lend between £50k and £3m for between one and five years.

AFI: *What are your views for the future – will P2B really be a viable alternative lending source?*

NH: We strongly believe that P2B will continue to grow as a funding source for SMEs. As awareness of and confidence in the proposition grow, it will increasingly become a viable and attractive alternative to the banks. We can offer a decision in 72 hours, our loan documentation is very simple and our debt has no financial covenants or management reporting requirements – making the proposition look very attractive relative to the banks!

"The banks are being encouraged to make referrals and we anticipate more formal tie-ups in the sector"

Some of our borrowers have chosen us over bank offers. The banks are being encouraged to make referrals and we anticipate more formal tie-ups in the sector. From a lender's perspective, P2B offers the potential to earn a better return on their cash. We promote the importance of diversification and suggest potential default rates. We believe that the inclusion of P2B loans in the new ISA (NISA) will be transformational for the industry.

AFI: *What are your views on regulation of this type of lending?*

NH: We believe that proper regulation is vital to protect lenders and borrowers, promoting the health of the sector. We are pleased to be operating under an interim permission from the FCA (as well as being an appointed representative of Bramdean Asset Management) and have been allocated our slot to apply for full permission towards the end of next year.

Innovations to ease cashflow problems

The curse of SMEs is the cashflow gap caused primarily by slow payment from larger customers (referred to earlier in this report). Expansion planning can be blighted by lack of working capital as SMEs effectively become bankers to large businesses.

This is, of course, not a recent development: the invoice finance industry is large and debtor finance in the form of factoring and invoice discounting has long been a feature of small business finance.

However, as with lending, mainstream financial institutions tend to be hampered by legacy IT issues and processes, and online platforms are increasingly offering options to speed payment. Two such companies, both backed by the British Business Bank, are P2PFA member MarketInvoice and Urica.

Richard Carter commented: "Developments in financial technology are leading the way. The market is being disrupted vertically, in terms of digital banks, and horizontally, in areas such as transparent and effective payment systems."

Viewpoint: Platform Black

Caroline Langron

Another innovative approach comes from Platform Black, which provides 'invoice trading' through an auction platform on which companies can place invoices for funders to bid to finance, thereby converting the invoices to working capital. Platform Black also offers supply chain finance, which managing director Caroline Langron described to Asset Finance International, as well as giving the company perspective on the current state of the market.

AFI: *What in your view is the significance of the UK government's recent decision that banks must forward SMEs' unsuccessful loan applications to other potential finance providers, including asset-based financiers? Is it likely to deliver a major boost to small businesses?*

Caroline Langron: The UK government's recent decision that banks must forward unsuccessful loan applications made by SMEs to other potential finance providers will be a major breakthrough for the UK's businesses, which have been struggling to access the finance they require from traditional sources.

The recent Trends in Lending report from the Bank of England confirms that the Funding for Lending Scheme does not go nearly far enough to address the lack of funding available to SMEs. We know that the high street banks currently turn away around 40% of loan applications from SMEs, and evidence suggests that around one-fifth of those do not approach providers of alternative finance because they are simply unaware of what is available.

"Legislation to direct the banks to pass these customers on to alternative sources is a major step forward in providing the visibility to SMEs as to what is available to them at a potentially more competitive rate"

Legislation to direct the banks to pass these customers on to alternative sources is a major step forward in providing the visibility to SMEs as to what is available to them at a potentially more competitive rate. It also empowers SMEs to be able to get the best route to access finance for their company rather than being restricted to fit into a box. The alternative finance providers stand ready to help these businesses and get the UK economy firing on all cylinders.

We are particularly encouraged by the Chancellor's pledge to "cement the UK's position as the FinTech capital of the world", which is precisely what the alternative finance sector has been seeking to achieve. It shows that the government has been listening and reinforces the position of alternative finance in the mainstream financial services marketplace.

AFI: *What are Platform Black's principal lending criteria for invoice financing? Do you provide the service for new-start or early-stage companies?*

CL: The invoice should fit the following criteria:
- Not be pre-dated;
- Not be older than 30 days;
- Repayment terms should not be >90days;
- Show full company details, including VAT number and company number;
- Complete debtor details;
- Correct trust account details;
- If disclosed, to carry the assignment clause;
- Not sale or return;
- Minimum value £10,000.

The SME Criteria for Invoice Trading are as follows:
There is the option for the SMEs to have confidential trading or disclosed trading with us. The criteria are shown below:

Disclosed Trading:
- Turnover >£1million;
- 2 years profitable trading;
- Net worth >£50,000;
- Invoice values >£10,000;
- Financial accounts should be audited or accountant prepared;
- HMRC & PAYE up to date, or TTP (copy to be provided);
- No adverse credit information on company or directors;
- No CCJs;
- No 'pre-packs' or CVAs.

Confidential Trading:
Same as above, except net worth >£250,000.

Security:
For either type of trading personal guarantees or debentures may be required.

AFI: *Are there any sectors/specialisms of companies that Platform Black prefers dealing with over others?*

CL: There are no particular sectors with which Platform Black prefers to deal, as our range of products offers facilities across all sectors. However, we do find that the top three sectors across our members include construction, manufacturing and IT, but we do have a range of other members from different sectors as well.

AFI: *What is Platform Black's unique selling proposition?*

CL: Our platform used for supply chain finance allows corporates to leverage the capital markets and access the returns from dynamic discounting as and when they want to, on a totally flexible basis. Which means that, as a corporate using our supply chain finance service, you can put free cash on the balance sheet and money on the bottom line, as well as mitigating supplier and sub-contractor financial risk in your supply chain, and negotiating more favourable rates.

AFI: *Will the company lend on a block discounting basis to an asset lender whereby the lender can subsequently use the funding to finance clients' assets?*

CL: No.

AFI: *Finally, can invoice trading fit in the mix of options available to aid the growth of early-stage (finance) organisations?*

CL: There are more than 20 other equity-based companies which focus on start-ups; this is not something we are focusing on, as our service would not necessarily be cost-effective for start-ups due to the size of their invoices and not being able to meet our criteria.

Innovations in auto finance

David Mercer

NextGear Capital UK, a vehicle stock funding company designed to support UK independent dealers in growing their business, was launched early in 2014 by Cox Automotive.

David Mercer, managing director at NextGear Capital, described to Asset Finance International the thinking behind this alternative source of finance and the processes involved.

***AFI:** What is the extent of your involvement with the asset finance sector? Which specific assets are you lending for, e.g. cars, commercial vehicles, yellow goods, IT, etc.?*

DM: NextGear Capital is wholly dedicated to funding used vehicles, specifically cars and commercial vehicles up to 3.5 tonnes. The NextGear Capital UK Stocking Plan was launched in 2014 to offer a tried and tested product to the UK used vehicle market. Available for purchases at sales in lane and online through partner auctions, the plan is also available to use for trade purchases and part exchange deals.

***AFI:** How do you see that developing in the near future?*

DM: There is lots of headroom in the market we are operating in. If we were to expand, the next logical steps could be to consider motorcycles and trucks in the future.

Our target is to have 50% of the independent vehicle dealers in the UK working with us and we see no reason why we cannot achieve this. With approximately 5-6,000 dealers as prospects, our target is to be working with 2,000 dealers within three years of launch. We launched in May of this year and are currently working with over 200 dealers, adding approximately 50 a month, so we are confident we can reach our target.

Our core business of stock funding will stay the same and we envisage no extension of our finance product offering.

***AFI:** What are your lending criteria? Can you supply any case studies?*

DM: We have four main lending criteria for dealers or auction houses:
- They must have a physical premises they operate from;
- They must have been in business for a minimum of 12 months;
- They must be VAT registered;
- We require personal guarantees from each director in the business, as security against default.

An example in practice

Dale Hodgkinson took on Strongford Garage as a going concern around eight years ago, after a long career in both motorbike and car sales. He has experienced huge changes in the industry and successfully managed the business through one of the industry's most difficult times.

Dale said: "As for many dealers, the things keeping me awake at night are sourcing good quality stock and then paying for it. I normally stock 20-25 vehicles but I have space for more.

"Opening up a NextGear Capital Stocking Plan has allowed me to increase my stock holding and be more reactive; making purchases when the good stock comes up at auction or online, rather than having to wait. This has already had an impact on

stock churn, because I'm able to give customers more choice, and a number of the vehicles I've bought using NextGear Capital have sold quickly.

"You'd be mad not to take advantage of a reasonably priced, flexible stocking plan. There are no ties to a retail finance provider and you don't get charged if you don't use the plan, which gives me greater control over what I can buy and more flexibility in where I can buy from.

"I firmly believe that the challenge of securing good stock will be a continuing theme. But having a NextGear Capital Stocking Plan means I can take the opportunity to buy the good stock when the opportunity arises; to stock more and sell more."

***AFI:** What impact do you think alternative funding sources are having and are likely to have in the future on traditional funding sources?*

DM: Stock funding research conducted by NextGear Capital in 2013 showed that used car dealers are underserved by traditional lenders (both specialist and high street) and a total of 96% of dealers use their own funds, with 41% of dealers using personal funds, 35% using cash flow finance and 20% using their overdraft – none of which are ideally suited for funding stock. Dealers also reported that sourcing and funding stock are their two biggest business concerns.

As the existing suppliers in the market have only been working with the larger dealer groups and have been strongly encouraging reciprocal consumer retail finance business, there was a real opportunity for someone like NextGear Capital to come into the market with an offering for the independent dealers.

Moreover, we are independent and have gone in where the banks don't want to lend. We have created a specific and tailored product for the market that the banks have been unable to replicate – we have made it easy for dealers to find funding for vehicles.

***AFI:** Do you have any relationship with established lenders? Can you foresee the development of complementary or co-operative relationships?*

DM: We do not have any relationships with any established lenders in the UK and we have no plans to.

Our initial funding has come from our parent company, Cox Automotive in the US, and further to that we have a $200m line of credit with US banks which is guaranteed by Cox. Our long-term plan is to stand alone and go down the route of securitisation, which we will outsource through a third party partner. We have aggressive but achievable expansion plans for the business when it comes to our funding; having launched in May 2014, we are planning to securitise around June 2015.

***AFI:** What are your views on the current regulatory regime?*

DM: We are not regulated by any official body in the UK as we are not a financial institution, we are a trading company. Our business model and VAT treatment has been signed off by the HMRC.

We are positioned completely outside the regulatory regime our competitors mostly operate in.

***AFI:** What vacuum is NextGear Capital filling?*

DM: Before we entered the market, there was no dealer funding offering bespoke finance solutions for independent dealers. We are offering 100% of funding for all vehicles, up to and including the VAT on commercial vehicles. Having identified the opportunity in the market, we are committed to making it easy for dealers to use us and as a result are growing strongly.

***AFI:** Was the development of this funding method demand driven?*

DM: Three years ago, with demand coming from the larger auction houses, Manheim Auctions in the US put in place a strategy to start offering specific auction funding – this involved buying what became NextGear Capital in the US.

With the business model working successfully in the US, the straightforward decision was made to start up in the UK, as the market practices and conditions are very similar.

***AFI:** What were the lessons learned in the US?*

DM: There were three mains lessons we have learned from the US:

- Ensure there is an easy-to-use integrated technological platform for both dealers and us;
- Keep the offering straightforward and simple with minimal variety – just have a simple product that is replicated many times over;
- Be completely transparent with what the offer is and show how you can help make money for the customer as a result.

The case for investment in asset finance

Christian Roelofs

Christian Roelofs of Grant Thornton's Financial Services Corporate Finance team assesses the prospects of asset finance investment

Finding capital for growth for an asset finance company often results in a 'chicken and egg' type of scenario. On the assumption that the business has leveraged its portfolio and prior year profits have been provided to the investors in the form of dividends, in order to materially increase the portfolio the business will require an injection of both equity and debt. But which comes first? Often the equity will not commit unless there is certainty on the debt side and vice versa; hence this becomes a significant exercise in stakeholder management and can take longer than anticipated.

However, clearly this is not insurmountable. There has been significant investment into the UK asset finance market so far in 2014. We have seen a number of examples of the model where equity is brought in as well as a large debt facility, including Cabot Square Capital's (Cabot) acquisition of Leasedirect Finance, where Investec provided a large debt facility. We have also seen something similar with both Henry Howard Finance, again acquired by Cabot, and Kennet Equipment Leasing acquired by Star Capital.

So why has there been more M&A activity in 2014? The recent influx of both debt and equity has been predominately driven by three factors. First, the excellent performance of asset finance receivables underpinned by continued healthy yields and extremely low (or, in a lot of cases, non-existent) bad debts. Second, there is a lot of liquidity that needs to be deployed, and being underpinned by both the credit of the user and security on the asset, makes asset finance an attractive investment in a market where the strings are to a large extent still being pulled by the 'risk' function. Finally and obviously, the significantly more positive macro environment and forecasts have given investors much more confidence across the board.

Diversification brings benefits

The influx of capital to the UK asset finance market has not just been through traditional sources. We have also seen companies utilise alternative forms of capital, including securitisation (e.g. Investec Asset Finance) and debt funds. The growth of alternative capital and diversification of capital sources is vital for the UK asset finance industry. Historically, UK asset finance has been overly reliant on traditional sources of capital and this lack of diversification has increased its vulnerability in times of tight liquidity as seen during the recent financial crisis. A diversified funding strategy is a more complex and often more expensive approach in the short term; however, the benefits should pay off in the long term across a full business cycle and in this regard there needs to be vision beyond the immediate.

Alternative capital also promotes improvement in business operations, financial management, data capture and reporting. These are areas that have been mentioned numerous times throughout the industry recently and are core to continued success and further growth and investment. There have been significant advances in technology, enabling us to capture and interpret enormous amounts of data, and we need to be taking advantage to ensure we are not lagging in this regard. The requirements of capital providers in relation to management reporting are increasing and will continue to do so; however, irrespective of this, we should be promoting the provision and interpretation of better management information to enable us to enhance performance. A sophisticated approach to business management and improvement across a balanced scorecard (clients, markets, operations and people) is what will drive business growth and more sustained investment.

As we know, so many lending sectors saw the demise of some significant operators after the financial crisis and indeed many sub-sectors almost disappeared without trace. UK asset finance was no exception, as the withdrawal of ING Lease highlighted. However, having made it through the crisis and having proved the business model can withstand

a downturn and be managed back to profitability and growth is something that is very attractive to debt and equity investors alike.

Now is the time to push the limits of our business models to take advantage of the current environment, as this may be that once-in-a-cycle opportunity to make a change for the betterment of the UK asset finance industry.

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