

Story Lenders Offer a Lifeline in a Weak Economy

Economic uncertainty and recent turmoil in the lending sector has fueled the need for story lenders to provide many forms of financing including equipment financing to storied credits.

By Dean Oliver

There's a bright spot on the horizon in equipment finance and leasing, even as this industry – like countless others – grapples with tightening lending standards, inflation and rising interest rates. That shine comes from story lenders, a unique type of lender who sees more opportunity to assist non-investment grade customers amid tighter bank lending standards and other fallout from this year's bank failures.



Dean Oliver
NFS Leasing, Inc.

Industry leaders have high hopes for growth in originations as capital-hungry businesses assess their equipment needs and seek financing solutions that are fast, flexible and efficient. Now, as traditional lenders adopt stricter credit standards, alternative sources such as independent story lenders are more important than ever in the equipment finance space.

A Trusted Partner

Silicon Valley Bank's and Signature Bank's recent failures have everyone on edge, and understandably so. Add to that the persistent threat of recession and it's clear that lenders and customers alike are looking to develop a trusted, transparent relationship that will help support them over the long term.

For those businesses with less-than-perfect credit, short-term cash constraints, or unique circumstances, a story lender can help fill the gap by providing equipment financing and secured loan solutions. While traditional equipment finance companies may decide not to write leases or loans to customers with C, D, or story credits, NFS Leasing and other niche lenders see the opportunity and work hard to provide creative solutions to those customers, including corporate, vendor and manufacturer partners.

Story credit is critical because there are businesses of all

shapes and sizes with a unique vision for their business and a desire to grow it, but some need mission-critical equipment in order to execute that plan. We're talking about everything from manufacturing and medical to agricultural, construction, robotics, IT and scientific instrumentation verticals. Companies in these sectors want and need money, but along the way, they may be turned down by a bank or other funder with rigid lending criteria.

That's where story lenders come in, serving customers such as:

- Startups and pre-revenue
- Emerging businesses
- Venture capital and private equity-backed companies
- C, D, and story credits
- Turnarounds

By their very definition, story lenders specialize in making credit decisions based on the potential of a customer. They are relationship-driven and take pride in going the extra mile to understand an applicant's business needs. The end goal is a customized, creative finance solution that may include flexible terms or down payment to meet the business needs.

Beyond the Balance Sheet

Unlike more traditional lenders that typically zero in on an applicant's credit score and financial reports, story lenders look beyond the balance sheet. They examine the business plan but encourage discussion about specific goals and challenges. They listen to the unique situation and opportunities. They consider the management team, the leadership style and past successes. They learn more about the target market and essential-use equipment. They eagerly check the company's track record for past "wins."

With all those elements, in addition to the financial situation, the story lender gains much-needed context to make a credit decision and try to get the customer to a "yes" when previ-



ously all they heard from other lenders was “no.” For these small and middle-market non-investment grade companies, a credit approval can be transformative -- unlocking capital that enables the business to grow, meet a critical timeline, or seize an opportunity when otherwise it may have stagnated.

At NFS Leasing, for example, we want to understand and help businesses. We have been doing that for over 15 years and do that by getting to know the business owner, listening, and working very quickly to provide a solution. Often, timelines are critical, so that is another key benefit to working with a story lender.

Think about it: All too often, there’s an unrecognized strength, underappreciated skill, or hidden product that stands between the financing a company needs for success and that customer looking elsewhere or holding off on equipment acquisition. Unfortunately, these don’t always appear on a balance sheet; they are revealed by lenders who know how to listen to the customer’s story.

It’s important to note that a trusted story lender, including NFS Leasing, is active in industry trade groups such as the National Equipment Finance Association (NEFA), and the Equipment Leasing and Finance Association (ELFA).


Continued Challenges

In January 2023, the Federal Reserve Senior Loan Officer Opinion Survey (SLOOS) on Bank Lending Practices revealed that banks had tightened standards and terms on loans to businesses and households. Notably, significant net shares of banks reported having tightened standards on commercial

and industrial loans to firms of all sizes. Banks also reported having tightened all queried terms on C&I loans to firms of all sizes over the fourth quarter.*

This tightening of lending standards has been compounded by the recent banking crisis triggered by Silicon Valley Bank and Signature Bank, resulting in significant turmoil and increased uncertainty. As a result, banks may become even more risk-averse and less willing to lend, leading to more customers being turned away by traditional lenders.

We hear this every day from customers who are struggling to secure financing. This tightening of lending standards will make it more difficult for small to mid-sized businesses to obtain equipment leases and working capital loans, even though such financing is essential for business growth and expansion. Fortunately, alternative solutions such as story lending are becoming increasingly important to serve these customers’ needs.

The equipment finance and leasing industry is not immune to these challenges, yet its leaders remain cautiously optimistic. We know that businesses across the board require capital for equipment acquisitions, and story lenders will seek every opportunity to serve innovative companies that can’t meet traditional lending standards. That puts non-bank lenders in a prime position for growth in 2023. Stay tuned! 

* <https://www.federalreserve.gov/data/sloos/sloos-202301.htm>

ABOUT THE AUTHOR: Dean Oliver is Executive Vice President of Sales, Principal of NFS Leasing, Inc.

“
By their very definition,
story lenders specialize
in making credit
decisions based on the
potential of a customer.