

Lenders to Small Businesses Draw Investors

Alternative lenders are filling the gap left by banks, says Pine Brook's Rob Glanville



By Allison Collins December 16, 2014

The decline of bank lending to small businesses has created an opening for alternative lenders that provide capital to small businesses. Those alternative lenders are attracting investor money. Small businesses used to be able to rely on increased credit card lines, business lines and equity lines of credit, which are not readily available these days.

“Banks don’t have the resources to make a small loan; it doesn’t make sense for them,” says Rob Glanville, managing director at private equity firm Pine Brook Partners. Pine Brook is one of the investors that see an opportunity in the space vacated by small banks.

“In the aftermath of the financial crisis, Pine Brook has been spending a lot of time identifying sectors where capital is less available than it used to be. One of the sectors we identified quickly was lending to small businesses and lending to less-credit-worthy businesses,” Glanville says. In September, the firm agreed to [invest \\$110 million in lending group Strategic Funding Source Inc.](#) The company provides direct financing, including loans and cash advances, to small- and mid-size companies.

Pine Brook is not the only one investing with an eye towards small businesses. In June, [CIT Group Inc. \(NYSE: CIT\) picked up Direct Capital Corp.](#) through U.S. commercial bank subsidiary CIT Bank. Direct Capital is a Portsmouth, New Hampshire-based lender for small and mid-size businesses. When CIT made the acquisition, Direct Capital had provided more than \$2 billion in equipment, franchise and vendor financing services to more than 80,000 businesses.

Ares Management LP (NYSE: ARES) has also made a deal in the space, picking up [Keltic Financial Services LLC and Keltic Financial Partners II LP](#) in June. The Keltic entities provide asset-based loans to small and middle-market companies. When Ares made the deal, Keltic had about \$155 million in loan commitments in its portfolio.

Other alternative lenders to small businesses, including OnDeck and Kabbage, have attracted venture capital investments, bringing in \$77 million and \$465 million, respectively. “There has been real growth in lending to small businesses in the past couple of years, growth that we expect will continue,” Glanville says.