

Bank & Non-Bank Lenders – A Match Made In Heaven For Small Businesses

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Many believe that banks and non-bank lenders are competitors. However, there are many flexible capital non-bank lenders that can be great strategic partners for banks.

What makes a firm a great partner for commercial banks is that:

- 1) They are willing to provide subordinated debt and equity capital behind and with a bank partner.
- 2) They are not interested in trying to capture other valuable business from companies including cash management, wealth management, investment banking, insurance or deposits.

Other key aspects that banks should look for with strategic non-bank debt and equity capital providers is their ability to provide:

- 1) Additional capital if the business requires it.
- 2) Strategic operational support including governance and reporting.
- 3) Assistance with proper execution and integration of acquisitions, divestitures, and the potential sale of the business.

A common example for collaboration is when a bank's client company has an opportunity to grow through acquiring a competitor. Often the financing need is beyond what the bank feels comfortable providing and that is where a non-bank lender can come in to be helpful in getting the deal done, allowing the bank to retain that client.

Client service is top of mind for both banks and non-banks alike. When a client borrower has needs for his or her business that cannot be met by one or the other, introductions to new business opportunities are made and clients are retained benefitting all parties.

It is crucial for banks to choose the right non-bank lender to partner with for the benefit of their client company borrowers. It is the bank's reputation on the line if the non-bank lender they recommend the company to also work with fails to deliver. We all know that trust is hard-earned and easily lost. Key elements to consider in selecting a non-bank lending partner include ones that are:

- 1) Well capitalized.
- 2) Flexible and solutions oriented.
- 3) Focused on adding value to the company in terms of strategic advice around governance and growth.
- 4) Experienced having managed investments through multiple credit cycles.

For non-bank lenders active in the US smaller business marketplace, some can benefit from a longstanding public private partnership sponsored by the US Government's Small Business Administration (SBA) called the Small Business Investment Company (SBIC) program. This program provides for low-cost US Government debt to be raised at the fund level by these licensed SBIC funds for investment into businesses alongside the capital raised from investors. Fortunately for banks, SBIC funds were granted an exemption from the Volcker Rule so yet another way for banks and non-banks to partner together is that banks can be investors in these SBIC funds. Benefits for banks include:

- 1) SBIC funds' portfolio companies may present new lending/deposit opportunities.
- 2) Potential for compelling absolute and risk-adjusted investment returns.
- 3) Provides further diversification to the overall investment portfolio.
- 4) Community Reinvestment Act (CRA) credits can be generated from investments in SBIC funds.

Non-bank lenders that invest in smaller US companies have become a valued partner to all stakeholders in providing that capital. Banks and non-bank lenders are a “match made in heaven” in meeting the needs of many small businesses – the growth engines of the American economy.



ABOUT STAR MOUNTAIN

Investing in the Growth Engine of America[®] – Star Mountain Capital (www.StarMountainCapital.com) is a specialized asset management firm focused on investing in the large and underserved U.S. lower middle-market of companies with typically over \$10 million of annual revenues. Star Mountain’s distinctive business includes a custom-built media and technology platform and brings proven, large market resources to smaller businesses as a value-added investment partner.

Founded in 2010, 100% of the firm is owned by the senior team and 100% of full-time U.S.-based employees participate in the carried interest profits generated by the firm. Taking a data-driven approach, the senior team continues to make long-term investments in the business as seen by its experienced team, technology platform, processes and procedures.

As part of its ESG program (Environmental, Social and Governance), [Star Mountain’s Charitable Foundation](#), a not-for-profit 501(c)3 focuses on improving lives through economic development, including job creation, health & wellness and cancer research. Notable missions include helping match veterans and women with high quality small and medium-sized business career opportunities across the country, including within Star Mountain’s portfolio.

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