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Lifelines

POFs respond to SOS signals from small businesses

By LISA MORRIS JOSEFAK

Evan Platt got a shock sifting through his e-mail on a March morning last year.

President of Bellmore's Ultimate Apparel, Platt discovered the finance company he'd been using for three years was terminating his company's credit line. "They abruptly cut us off," said Platt, explaining that the morning he received the e-mail, Ultimate Apparel, a $3.5 million importer and wholesaler of clothing, was doing just fine.

"We were basically a non-problem child," Platt said. "It appeared we were too small for them."

Platt scrambled, approaching several banks to keep his business from drowning, but requests for financing were swiftly denied.

"They laughed us out of the building," he said.

His borrowing options exhausted, Platt grabbed hold of a life-saving if pricey option: purchase order financing, or POF. Today, Ultimate Apparel is steaming forward, reporting $5 million in revenue.

"POF services kept us afloat and allowed us to grow and move on," Platt said. "Today we're back on track and working with a bank."

This scenario is not uncommon to Richard Eitelberg, president of Bayside's Hartsko Financial Services. He's performed financial CPR on many distressed businesses, including Ultimate Apparel, by providing purchase order financing and letters of credit – a method of finance trending up as the economy goes the other way. Hartsko reported $120 million in revenue last year and is geared toward $180 million for 2010.

The cold truth is banks are not lending, Eitelberg said. "I don't care how much money the government puts into these banks, they are still held to certain controls that I am not," he added. "We don't finance everything but we finance anything that fits within our box."

Richard Eitelberg: Loans money when banks won't.

That box doesn't include funding payroll, rent or vehicles, for example, but it's a roomy box, financing purchase orders from $500,000 to $5 million.

How does it work? Eitelberg explained that Hartsko steps in to pay a factory to manufacture and ship products. Once the transaction is complete, Hartsko takes its cut, charging a fee for the use of their capital on every transaction, and gives the rest to its client.

High fee-based transactions – up to 36 percent in interest a year – have naturally drawn critical fire. In response, Eitelberg said while some of the money he uses comes from bank loans, other available funding sources such as hedge funds can be super-expensive.

"When we start borrowing money at very high rates, we have to pass it on to our clients," Eitelberg said. "We don't look into credit scores of individuals, we don't look at personal financial statements. Obviously, we do background checks, but we look for things more like fraud."

To safeguard his own company, Eitelberg has Hartsko control the inventory throughout the entire transaction. "We don't own the inventory but we take a lien on it," he said. "If the inventory is going to a store or warehouse that we have an agreement with – we can always take over the merchandise."

Another measure Eitelberg takes in securing transactions is keeping an eye on margins – the difference between the selling price and the actual cost of sales.

"We usually look for 30 percent margins," Eitelberg said. "If the margins are 20 percent we ask the client to bridge the gap between the 20 percent and the 30 percent. That's what protects us when we're selling off merchandise."

But these sour transactions are few and far between, Eitelberg said, adding that many of the clients go on to thrive.

Just ask Michael Levy. Executive vice president of Media Street Group, Levy's use of purchase order financing saved his Deer Park company from shutting down.

A manufacturer of electronic devices, two years ago Media Street Group was struggling. "The bank just shut its doors on us," Levy said.

Until his bank slammed the door, all of Media Street's financing was quick and simple. For example, Levy would inform his banker about a $1 million order and the need to get more money to make the product, ship it, sell it, get paid and pay back the bank.

The bank usually gave Levy a 90-day note at about 7 percent. He was stunned when the bank stopped funding, since Media Street had no history of defaulted loans or even any late payments. But banking executives only saw 2008 figures which showed Media Street treading water.

Searching for a life raft for his sinking company, Levy turned to purchase order financing. Today Media Street's products are back on the shelves, even cracking big brand outlets including BJs and Best Buy. The company reported $2 million in revenue in 2009.

Levy realizes he paid dearly to keep Media Street moving forward. "But I didn't have a choice."

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