ASSET BACKED FINANCING ARTICLE

TRADE RECEIVABLES SECURITIZATION

A LOWER COST SOURCE OF REVOLVING DEBT

Companies of all sizes and credit profiles use securitization to achieve significant cost savings in comparison to other forms of debt. Due to the highly structured nature that is characteristic of these transactions, securitization lenders can provide capital at a relatively low price. Below are a number of factors to consider related to securitization.

WHAT SECURITIZATION DOES

Securitization allows your company to monetize its trade receivables by legally isolating the assets from the bankruptcy estate of the company originating them. The company pledges its trade receivables to an independent, bankruptcy-remote "Special Purpose Entity," which then pledges its ownership interest in the receivables to the lender. The structure of these transactions allows your financial institution to provide capital at a lower spread than other forms of debt given the added security provided by the bankruptcy-remote nature of the pledged receivables.

HOW A SECURITIZATION WORKS

Securitization allows your company to receive cash due from its trade receivables immediately, despite the fact that the payment terms may be 30 days or more. The interest cost is relatively low because the receivables' cash flows are legally segregated and protected from other creditors in the event of a bankruptcy. This legal separation of the receivables has no impact on the company's operations; the business continues to manage its accounts receivable (and customers) in the same manner as it did before the securitization. Securitization does not require changes to your credit and collection policies or procedures, and the process is completely transparent to your customers. Customers continue to make payments into the same company accounts used prior to establishing a securitization, and customers are not notified or aware that the receivables have been securitized. Unlike a factoring program, receivables are pledged, rather than sold, to securitization lenders, and lenders do not take any equity, or upside, in the receivables. The proceeds from the securitization can be used to originate more assets, to reduce outstanding debt with higher interest costs or to provide for other capital needs.

KEY BENEFITS OF SECURITIZING RECEIVABLES

There are several reasons that companies might want to consider exploring this financing option.

- **Securitized debt has a lower interest cost** than other forms of corporate debt because the assets are legally isolated from the company's bankruptcy estate and the transactions are structured to reflect a lower risk profile than lending directly to the company.
- **Banks are generally willing to commit much larger amounts** in a securitization than to a conventional revolving credit facility, and companies can also benefit by having a smaller bank group provide the securitization.
- **Securitization preserves capacity in the bank market.** Securitization commitments enhance rather than cannibalize your bank's ability and capacity to provide other forms of credit commitments.
- **Securitization can increase your company's total liquidity** and diversify its funding sources.
- **Securitization is non-recourse financing** that is compatible with all other forms of debt (including secured debt).
- **Securitization can enhance the enterprise value** of your organization.

THE PROCESS

PNC's Asset Backed Finance team has extensive experience with taking first-time securitization participants through the initial set-up process, as well as committing to and improving existing transactions.

It is not uncommon for companies to have no exposure to receivables securitization prior to discussing it with their financial institution. Your financing team should work closely with management to assist with the data gathering and reporting process. PNC frequently provides first-time issuers with significant annual interest cost savings versus other sources of debt. If you have existing securitizations, ask your asset backed finance team to suggest structural recommendations to improve the flexibility and efficiency of your transactions.

HOW TO DECIDE IF SECURITIZATION MAKES SENSE FOR YOUR COMPANY

Securitization may be a source of financing if a company maintains total receivables of $50 million or more. Through innovative structuring, securitization provides companies with direct access to the capital markets. Companies across a wide spectrum of industries have unlocked the value of their assets and obtained the necessary capital to support their current operations and future growth through securitization.

PNC'S EXPERIENCE

The bank has been active in the market and consistently committed to securitization since the late 1980s. Since that time, PNC has been a market leader in structuring and executing in the trade receivables securitization space, as evidenced by the execution of more than 200 unique transactions.

PNC's Asset Backed Finance team leverages its significant experience to creatively structure transactions to maximize borrowing capacity as well as cost savings for clients.

For more ideas, insight and solutions, contact your Relationship Manager or visit pnc.com/cib.

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