



## Hands-on lender bets on fledgling firms

### Gerber links loans to inventory; keeps close tabs on risky credits

BY HEIKE WIPPERFURTH

With orders pouring into their new business, early last year Malte Lorenz and his wife, Marlo Weinstein, faced a crisis. In order to fill those orders, their company, Thro Inc., a manufacturer of decorative pillows and throws, needed \$300,000 for fabric and other materials.

The couple's bank, Chase Manhattan, was no help. It balked at lending them any more than \$50,000. Other brand-name lenders also said no.

Finally, the entrepreneurs tried a different approach. They got in touch with Jeffrey Koslowski, executive vice president of Gerber Trade Finance, a small Manhattan-based lender specializing in fledgling firms.

One month later, Gerber approved the loan the couple had requested.

Gerber is one of a handful of niche players in the risky business of lending money to upstarts, a business also known as inventory-purchase finance. Since their clients lack much in the way of assets or even cash flow, the lenders typically link their credits to the borrowers' inventory—everything from raw materials to work in process—and pin their hopes of repayment on the purchase orders in hand.

In the case of 5-year-old Gerber, that approach has enabled it to grow to 11 employees and 38

clients. Last year, Gerber's outstanding loans almost doubled to \$120 million from \$70 million.

#### South African roots

"We are the first funder of a business," says the company's president, Gerald Joseph, who came to the United States in 1994 and started Gerber two years later. The lender is jointly owned by two South African companies, Gerber Goldschmidt Group, where Mr. Joseph was a director, and Investec Bank Ltd.

Gerber's clients tend to be importers and distributors of basic consumer products or commodities ranging from steel to shrimp. Its average loan is around the \$1 million mark.

Lending at such early stages of a company's life is so dangerous, though, that Gerber has to go to unusual lengths to make sure it gets paid back. For example, Mr. Joseph insists on entrepreneurs putting up their personal assets as part of the loan guarantee. In addition, he makes it a habit to visit all of the borrowers once a month to keep close tabs on their ups and downs.

"When the time comes that they need some help, we should already know that in advance," he says flatly.

In looking over potential borrowers, Mr. Joseph knows that one of his most important tasks is checking out how well they manage their inventory and collect their receivables. He is also keen to

ensure that they have realistic expectations about the returns from their business.

#### Likely borrowers

Mr. Koslowski says that the lender tries to target companies with low overhead, which helps reduce their need for cash, and those making a basic product, which also helps Gerber sell off the inventory if the business goes belly-up.

"Very few lenders like that kind of business," admits Mr. Joseph. "Most like receivables, equipment, real estate, which is nice, easy-to-understand collateral."

Frequently, though, taking the risk pays off, as it looks like it has in the case of Gerber's loan to Thro. Last fall, Gerber even increased its commitment to \$800,000. That decision was made easier since by that point the borrower could point to a big jump in revenues for its second year of operation, when it brought in \$4 million, up from \$200,000 the previous year.

Thro's Mr. Lorenz says the price for the loan is reasonable. For the first loan, a 120-day term loan of \$300,000, Gerber charged a 3% commission and an interest rate of 2% over the prime rate, which was 8%.

Now, though, Thro is doing so well that it has other lenders knocking on its doors. At least for the time being, Mr. Lorenz says, he will stick with Gerber. "They were very hands-on, very involved, and they saw our customers," he says. "We don't want to get lost in the shuffle anywhere else." ■