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Complete Guide to

Raising Additional Debt Capital

Ebook

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As companies grow, they often require more sophisticated and strategic approaches to funding. The financial strategies that fueled your company's initial success will not be sufficient to sustain its continued expansion.

The previous guide, co-authored by Cross River Bank and Finley, A Fintech's Guide to Debt Financing, covered the basics of raising an asset-backed credit facility from start to finish. This guide covers the additional topics that finance and capital markets leaders must consider as they continue to grow.

While no two fintech and specialty companies are identical, all companies seek to secure funding to preserve low borrowing costs, operational flexibility, and ease of capital management.

By moving from a single form of debt capital to a combination of multiple forms, fintech and specialty companies can better align their financing strategy with their growth objectives, manage risks more effectively, optimize costs, and enhance overall financial stability and flexibility.

But transitioning from one credit facility to a mix of debt instruments requires careful planning and execution. This guide will give you the insights and strategies you need to effectively manage and leverage various debt instruments to support your company's growth.

We'll explore three funding sources to consider for your next debt capital raise:

- Credit Facility
- Forward Flow
- Securitization

We'll also cover choosing the right debt instruments, negotiating the best terms, best practices for post-close management, and the most important KPIs to track to measure success.

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Planning for a debt capital raise

How to choose your next funding source

With an established credit history and existing financial obligations, your next debt raise should build on the foundation you've already set while addressing your evolving needs and goals. This process requires a thorough evaluation of your current debt structure, the performance of existing instruments, and your company's future trajectory.

Here are questions you should be able to answer to make the best decision:

- What are my origination, risk, and treasury priorities? Do you want to maximize cash today or minimize the cost of carrying receivables throughout their lifetime? What are your goals and KPIs?
- What data do I have? Compile all your data, including historical performance, so you can advertise to lenders.
- What are my current credit facility's strengths and weaknesses? This is an opportunity to bolster weaknesses and mitigate risks associated with your current funding source.
- What are my long-term goals? Make sure that the funding source and the lender you choose can accommodate your growth and changing business dynamics for the life of the loan—often 3-5 years.
- What is my loan product strategy? Will I need to support new types of originations?

Case Study

Ramp

Ramp manages several hundred million dollars' worth of debt capital today; this is the capital that fuels the company's originations and keeps credit card transactions on track. But back in 2021, when Ramp raised its first $150 million credit facility from Goldman Sachs, it needed to find an initial solution for managing the complex automation, compliance, and reporting tasks associated with operating a warehouse line of credit.

Rather than build internally, Ramp decided to buy Finley's software for rapid implementation and turnkey access to a digital credit agreement, funding request automation, deliverables deadline and file tracking, and comprehensive analytics.

Read their story

> "When we looked for off-the-shelf software solutions that could meet our needs, we couldn't find one that could handle the nuances of our credit agreement. Finley helps us minimize risk and saves our finance and engineering teams dozens of hours a month."
>
> Eric Glyman, Chief Executive Officer, Ramp

Planning for a debt capital raise

Potential funding sources

There are many options for debt capital, but for the purpose of this guide, we'll be exploring these choices: credit facility, forward flow, warehouses, and securitization.

Option 1

Credit Facility

Best for

Fintech and specialty finance companies needing flexible access to funds for origination.

Consider if

- You require ongoing access to funds with the ability to draw and repay as needed.
- You want to manage cash flow variability or cover ongoing originations.
- You prefer a financing option with flexible costs based on the amount drawn.
- You want to aggregate assets for a future securitization.

A credit facility is a type of preapproved loan that businesses can access on an ongoing basis, rather than taking out the whole loan at once. The size of a credit facility is similar to the limit on a credit card: businesses can draw up to the full amount of the credit facility, but typically, they access portions of it as needed and repay their loans continuously.

Credit facilities are ideal for businesses that require flexible financing to manage ongoing activities with a mix of equity and debt. For fintech and specialty companies that have recently raised equity financing, credit facilities offer a way to incorporate debt into the capital stack, minimizing the long-term cost of capital.

For example, asset-backed credit facilities (or ABL credit facilities) can only be used for consumer or business lending. These facilities are typically accessed by fintech and specialty companies wanting to ramp up their lending operations quickly. The collateral that underpins these credit facilities tends to be a pool of receivables or assets that generate predictable cash flow. This contrasts with cash-flow credit facilities, which are sized and priced based on a business's past revenue.

Pros

Flexible financing

Flexibility in borrowing to meet varying cash flow needs

Liquidity

Ongoing access to funds for origination needs

Better planning

Improved cash flow management

Capital commitment

Capital commitment is a notable benefit

Immediate liquidity

Provides quick access to cash by selling assets upfront.

Cons

Interest rate risk

Variable interest rates can increase borrowing costs

Asset management

Collateral restrictions can limit flexibility and pose asset risk

Ongoing maintenance

Covenants and restrictions may limit operational flexibility

Equity contribution

An equity contribution or haircut will be required

> "I definitely recommend Finley for a few key reasons. Cost efficiency is always there—we save money with Finley. More important is efficiency—it keeps you focused on growing your business by making all operations very efficient. Even more important is trust—getting your bank partners and everyone on board to trust the platform is a huge vote of confidence for us. This is especially important for a young company, as banks tend to ask more questions of younger companies. Consistently reporting correctly and meeting their requirements helps build long-term trust, which we can leverage when negotiating our next."
>
> Anurag Puranik, Chief Risk Officer, Coast

Option 2

Forward Flow Agrements

Best for

Fintech and specialty finance companies with predictable and steady future receivables that come in on a regular basis.

Consider if

- You need immediate and regular cash flow based on future receivables.
- You're willing to sell the entire risk/reward ratio, trading near-term certainty for the potential upside.
- Your receivables are high quality and predictable.

With a forward flow, a lending company sells its assets upfront at a pre-negotiated price, providing immediate liquidity. This setup involves the buyer agreeing to purchase a specified amount of receivables regularly (monthly or even daily) throughout the length of the agreement.

The price is established in advance, allowing the seller to have a predictable and steady cash flow, making it easier to manage and plan for future business decisions. This type of agreement is particularly beneficial for businesses that need to quickly convert their receivables into cash to fund ongoing operations or new ventures.

In a forward flow agreement, the seller transfers the risk and reward of the assets to the buyer, distinguishing it from other financing options like warehouse facilities, where the seller retains ownership and the associated risks. This means that while the seller may lose out on potential upside if the assets perform well, they gain near-term certainty and can move forward without waiting for the assets to mature.

Pros

Immediate liquidity

Provides quick access to cash by selling assets upfront.

Predictable cash flow

Pre-negotiated price offers steady and predictable cash flow.

Simplified reporting

No need for borrowing bases or adherence to covenants.

Operational efficiency

Reduces the complexity of managing receivables over time.

Flexibility

The seller can make quick business decisions without waiting for asset maturity.

Cons

Loss of potential upside

Seller forfeits potential gains if the assets perform well.

Fixed price agreement

The pre-negotiated price might not reflect future market conditions.

Potential lower returns

The seller might earn less overall than retaining assets.

Market dependency

Reliant on finding buyers willing to enter forward flow agreements.

Option 3

Securitization

Best for

Fintech and specialty lending companies with large portfolios of high-quality, predictable cash flow assets and years' worth of high-quality data.

Consider if

- You need significant liquidity from a large pool of assets.
- You have a proven track record with other types of debt capital.
- You have high-quality assets that are attractive to investors.

Securitization is a financial process where receivables are turned into marketable securities that can be sold to investors. These securities are sold to investors, who receive the cash flows from the underlying assets. Securitization helps provide liquidity to the original holders of the assets and spreads risk among a broader base of investors, often making it a more cost-effective form of financing.

Credit rating agencies play an important role in the securitization process by evaluating the creditworthiness and risk associated with the securities issued. They look at the quality and performance of the underlying loans, considering factors like default rates, past performance, and economic conditions. Based on this evaluation, they assign credit ratings to the securities, which can range from high-quality (investment grade) to lower-quality (non-investment grade).

Before the securities are sold, rating agencies produce detailed pre-sale reports that cover all aspects of the loans, notes, and the overall transaction, except for the final interest rate. The assigned credit rating influences the interest rate; higher-rated securities usually have lower interest rates because they are seen as less risky. The credit rating significantly impacts the attractiveness of the securities to investors and the overall cost of funding for the issuing institution.

Securitization is typically considered a more sophisticated option, often employed after a company has established a solid performance record. A business wouldn't hop straight into a securitization—it needs years' worth of validated data showing strong performance.

One additional note when it comes to securitizations: private securitizations are gaining traction as an alternative to public ones, especially for smaller deals, because they're more flexible and come with fewer regulatory hurdles. Unlike public securitizations, which involve a lot of disclosure and oversight, private deals let issuers work with a smaller group of accredited investors under terms that can be more customized.

Pros

Lower Cost of Funding

Typically involves lower interest rates compared to other forms of borrowing, reducing overall financing costs.

Increased liquidity

Converts loans into marketable securities, providing immediate cash flow to fund operations or new investments.

Risk transfer

Transfers the credit risk associated with the underlying loans to investors, reducing the company's risk exposure.

Balance sheet management

Improves financial ratios and regulatory capital requirements by removing securitized assets from the balance sheet.

Diversification of funding sources

Accesses a broad pool of investors, reducing dependency on traditional bank loans and lines of credit.

Market presence and reputation

Enhances a business's reputation in the financial markets, signaling strong operational and financial management capabilities.

Cons

Complexity and cost

Involves significant legal, accounting, and regulatory costs, which can be burdensome for smaller companies.

Market and interest rates

Subject to market fluctuations and interest rate changes, which can affect the cost of funding and the attractiveness of the securities to investors.

Credit rating dependency

Success largely depends on the credit ratings assigned by rating agencies. Poor ratings can lead to higher costs and reduced investor interest.

How they stack up

Comparing Forward Flow, Securitization, and Credit Facility

Criteria	Credit/Warehouse Facility	Forward Flow	Securitization
Typical Size	$10M+	Variable	$100M+
Cost of Funding	High	Variable	Low
Complexity and Cost	Medium	Low	High Initial Costs
Market and Interest Rate Risk	Fixed or Floating	High	High
Credit Rating	None	None	Required

Case Study

Coast

Coast uses Finley's insights feature to see the whole balance of their portfolio alongside what they have pledged to the bank. It provides a detailed insight into Coast's covenants, what is eligible and what is not, and granular-level reporting. At the same time, the team can access high-level details to grab quick insights and snapshots of what's happening in the portfolio at any given time.

Coast also relies on Finley's automated cash recycling component. A historically time-consuming aspect of managing a debt facility, the draw recycling component lets Coast auto-generate certain loan tapes that satisfy bank requirements in 30 minutes or less.

Read their story

“I spend two hours per week or less on facility management. I've spoken with founders of other companies where they have raised facilities, and it sometimes requires two- or three-person capital markets teams to operate. Without Finley, we would definitely need to hire a full-time employee.”

Anurag Puranik, Chief Risk Officer, Coast

The debt capital raise process

Negotiating terms and finding the right capital provider

The key to getting the best terms possible for your needs

When negotiating your second facility and choosing a capital provider, your job is to ensure a strategic fit and beneficial terms. First and foremost, know what you're after and be clear with what you need upfront.

Three fundamental frameworks for your decisions to keep in mind:

1. Minimize risk exposure for your portfolio
2. Facilities are relationships
3. Precedent documents drive the market

Minimize risk exposure for your portfolio

Mitigate risk wherever possible. Take a look at your current situation and decide what's not working in your current deal or what's a fundamental risk to your business, and come to the table with an idea of how this new facility can bolster those weaknesses.

For example, if your current deal has regional limitations, find a deal that would fill the gap and offer capacity for underserved regions. This would protect you from the risk that business would explode in that region and you wouldn't be able to support it.

You should also consider what it will look like when you need a third or fourth facility. How will they all work together? It's in your best interest to keep your new facility's terms closely aligned with your current facility's terms to simplify compliance and stay operationally aligned. Make sure you stagger maturity dates so that you have a year or more in between each one—that way, you don't find yourself in a situation where two facilities mature simultaneously and you need to raise a significant amount of money all at once.

Consider the day-to-day mechanics of the facility, too. How often can you draw? What are the settlement times? Make sure these details align with your internal processes. Small adjustments, like extending the delivery time for financial documents from 15 to 17 days, might not be a big give from the lender upfront, but it's a big deal to change once the agreement is locked in. Be thorough with the little details to make sure you're asking for everything you need upfront.

Facilities are relationships

Banks and lenders often offer cross-selling opportunities and additional services that can support your business growth. If you've done well and built a solid relationship with your initial lender, then depending on your goals, bringing on their other services might make sense to help grow your business.

But, there are also situations where it would be advantageous to expand your network and build relationships with other banks. Consider what your lender can bring to the table in addition to the facility. For example, if your current facility is with a niche fintech provider, starting a partnership with a global bank might make sense if you plan to expand internationally. A larger bank can provide broader services and support your long-term goals.

Precedent documents drive the market

If you've had your facility for a couple of years and are just now returning to the market for another, be aware of what may have changed. Often, legal precedents emerge, and there are new standards and credit agreements that the lender needs to have. It's a precedent for them in all the deals they've done since you raised a facility. So, ask what the current market standard is. What is precedent? What is open to be negotiated? Start there. It's as simple as not making the banker's life too difficult, knowing what they're dealing with, and appreciating that side of the table. It makes for a much better time for all involved, knowing what they can and can't move.

Success post close

How to manage multiple funding sources

Once you have secured your new debt capital, the focus shifts from raising to managing and optimizing it effectively. The complexity of handling various debt instruments requires a robust framework to ensure compliance, streamline operations, and maximize capital access. Operationalize as much as possible to maintain compliance and access to your capital.

How funding requests change with multiple forms of debt capital

Managing funding requests becomes more complex when dealing with multiple forms of debt capital, as each debt instrument has its own requirements, processes, and compliance obligations.

Here's how funding requests differ across various types of debt and how the right tools can help you manage.

Compliance requirements

What's different

Each form of debt (e.g., credit facilities, securitization, forward flow agreements) has unique compliance requirements. You'll need to track and fulfill each instrument's diverse covenants and reporting obligations.

How to manage it

Implement debt capital management software to ensure you meet all the varying requirements without missing deadlines or conditions. The right technology can keep you current on upcoming deadlines, automatically generate the financial and portfolio reports your capital provider expects, and alert you when you're in danger of tripping a covenant or other credit agreement stipulation.

Borrowing Bases

What's different

Each type of debt might have different criteria for calculating the borrowing base. For example, asset-backed lending (ABL) uses inventory and receivables, while securitization might involve pooling assets like mortgages or auto loans.

How to manage it

Borrowing base certificate generation can become a bottleneck in accessing debt capital. Automating borrowing base certificate generation can help your company maximize its capital access by preventing delays in the draw process, maximizing your effective advance rate, and ensuring that your lender counts your total collateral accurately.

Funding request processes

What's different

Each debt type has its own funding request process. Credit facilities might require borrowing base certificates, while securitization might need detailed asset performance reports.

How to manage it

Establish streamlined workflows for each funding request type, ensuring that all necessary documents and approvals are obtained efficiently. Automate wherever possible to mitigate risk.

Approval timelines

What's different

Different debt instruments may have varying timelines for funding request approvals. For instance, securitization might involve longer due diligence than a revolving credit facility.

How to manage it

Develop a coordinated planning approach to align funding requests with your cash flow requirements, considering the different approval timelines.

Reporting and documentation

What's different

Each type of debt has specific reporting needs. Forward flow agreements might require detailed receivable reports, while securitization demands periodic asset performance updates.

How to manage it

Use a centralized reporting system to efficiently manage and fulfill diverse documentation requirements.

checklist

A checklist for digitizing your facility

Credit Agreement Digitization

Digitize your credit agreements to make key terms easily accessible. Extract and store critical information such as interest rates, repayment schedules, covenants, and compliance requirements.

Create a centralized digital repository where all team members can access up-to-date agreement details, ensuring everyone is aligned on the terms and obligations.

Develop a shared team dashboard that overviews all credit facility terms, deadlines, and definitions. This shared view ensures that all stakeholders know upcoming obligations and key milestones.

Automate funding operations

Implement systems that automatically generate required documents based on your credit facility templates. This reduces the administrative burden and ensures consistency and accuracy in document preparation.

Use templates for common documents such as borrowing base certificates, compliance certificates, and funding requests.

Set up automated systems to calculate and generate borrowing base reports based on asset-level data. This ensures accuracy and efficiency in determining available credit under your facilities.

Integrate these systems with your financial and inventory management systems to pull real-time data, reducing the risk of errors and improving decision-making.

Integrate your financial systems with your banking partners to enable automatic monitoring of financial covenant compliance. This integration allows for real-time tracking of key metrics and early identification of potential covenant breaches.

Use alerts and notifications to proactively manage compliance, addressing issues before they become critical.

Streamline the process of submitting funding requests by automating operations like wire scheduling and document submission. Automated workflows can ensure that all required steps are followed and documentation is complete.

Implement checks and validations within these workflows to minimize errors and ensure all requests meet the criteria before submission.

Ongoing Monitoring and Optimization

Schedule regular review meetings with your finance team to assess the performance of your debt instruments. Discuss compliance status, upcoming obligations, and any potential issues.

Use these meetings to review financial metrics and ensure that your debt strategy aligns with your overall business objectives.

Implement performance analytics to track the effectiveness of your debt management strategies. Analyze metrics such as interest expense, utilization rates, and compliance costs to identify areas for improvement.

Use these insights to optimize your debt structure, negotiating better terms or refinancing where beneficial.

Success post close

Picking the right capital markets KPIs

Capital Markets KPIs are challenging to nail down due to the varied responsibilities of Capital Markets leaders and the traditional reliance on error-prone tools like email and Excel.

Initially, a Head of Capital Markets might focus on raising debt capital, which can take months to quarters. Post-raise, their role shifts to operationalizing the credit agreement, ensuring compliance with covenants, and managing regular deliverables. Debt capital management focuses on preventing issues, which increases the risk and responsibility surface area.

Critical KPIs to track (and why they matter)

Capital Markets KPIs typically fall into two major categories: capital access metrics and team efficiency metrics. Both are crucial for different reasons.

Capital Access Metrics

These metrics relate to a company's ability to access debt capital. They indicate whether the company is accessing capital at a competitive rate.

Team Efficiency Metrics

These metrics measure a Capital Markets or Finance team's ability to streamline debt capital operations, such as executing a draw request. They highlight opportunities for improving internal processes around debt capital management.

Smaller fintech and specialty companies can benefit from establishing early baselines for KPIs, serving as reference points for future improvements.

Tools that automate documentation, reporting, and compliance checks reduce errors and save time. Systems that integrate with existing financial tools ensure seamless data flow and real-time tracking.

Begin with 2-3 KPIs agreed upon between finance and executive leadership. Gradually expand the scope of KPIs as the company grows and its debt capital operations mature.

Examples of effective capital markets KPIs

Effective Advance Rate

What it is

The effective advance rate is the amount a borrower can borrow (their max advance amount) as a percentage of the total value of their collateral.

Why it matters

Tracking this KPI ensures that a business isn't overpaying for its capital or pledging the wrong receivables. It helps negotiate better terms for future capital raises.

Expected vs. Actual Interest and Fees Over Time

What it is

This KPI tracks the expected versus actual interest and fees every month.

Why it matters

Understanding this discrepancy can help finance leaders negotiate better terms and manage the true cost of debt capital more effectively.

Ineligible Receivables and Excess Concentration Over Time

What it is

This metric tracks the portion of receivables that are ineligible or exceed concentration limits.

Why it matters

Minimizing ineligible receivables and excess concentration helps maximize capital access and minimize borrowing costs.

Average Number of Turns per Funding Request or Recycling Request

What it is

This KPI measures the average amount of back-and-forth between the lender and borrower for each funding request.

Why it matters

Reducing the number of turns improves efficiency in executing funding transactions, saving time and resources.

Financial Covenant and Portfolio Triggers Breached

What it is

This metric tracks the number of times financial covenants or portfolio triggers are breached.

Why it matters

Setting up automatic alerts for approaching thresholds helps prevent covenant breaches and maintain good standing with lenders.

Want to learn more?

Finley is private credit management software that helps companies with asset-backed loans save time and money by automating routine debt capital management tasks like borrowing base reporting, verification, and alerting.

Today, Finley manages over $20 billion in debt capital for customers like Ramp, Parafin, and Arc. If you're interested in learning more about software that can help you streamline your debt capital raise and management, we'd love to chat!

To learn more, visit finleycms.com.

Cross River is a technology-driven financial services organization that provides core infrastructure and embedded financial solutions with regulatory compliance.

Thank you to Len Losquadro from Cross River's Principal Finance Group for contributing to this piece. The PFG group at Cross River pursues collateral-based investment opportunities, offering platform originators and credit funds the ability to leverage assets across major ABS Sectors.

To learn more, visit crossriver.com.