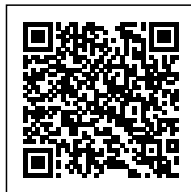


NEW FUNDING OPTIONS FOR SMES EMERGE - ALLEN & OVERY

Posted on 24/04/2015



Category: [Uncategorized](#)



Debt funds have entered the small and medium-sized enterprise lending market as they have less restrictive capital requirements than traditional banks

Bank loans have traditionally been the only option for small and medium-sized enterprises (SMEs), according to Allen & Overy partner Ignacio Ruiz-Cámara, who says Spain has effectively operated as a banking monopoly for years, with the Spanish banks historically controlling around 99 per cent of lending to SMEs.

"Access to capital markets in Spain was always very expensive, due to legal and tax costs, with key bond offerings being made out of Luxembourg or Ireland," he says. "This meant debt capital markets were mainly available only to big corporations."

However, Ruiz-Cámara says market dynamics have begun to shift with alternative markets, such as the Mercado Alternativo Bursátil in Madrid, emerging. Other trends include high-yield bond financings as well as new entities offering funding solutions directly to SMEs. This was partly due to tougher capital requirements placed on banks by the European Central Bank and regulations such as Basel III, which increases the cost of capital for long-term loans. As such, a number of banks

prefer to lend on relatively short tenors.

"Debt funds do not have the same capital requirements as banks and have entered the lending market," Ruiz-Cámara says. "Funds are also keen on providing debt for the long-term to receive a stable, regular income, so provide tenors on loans of 15 years or more."

This approach is especially popular with non-recourse debt, with funds choosing to provide finance tied to specific assets or business streams, rather than traditional corporate loan mechanisms. Although the price of such debt is higher than that offered by banks, it provides law firms with the opportunity to be innovative when drafting financing agreements.

Even so, though there are more organisations lending money to businesses, Ruiz-Cámara says traditional banking market is not dead. "Spanish banks have had to adapt to new market conditions but new entrants to the lending arena provide more options to clients, including SMEs – that can only be a good thing for the market."