

Building Value — From the Ground Up

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An Interview With Howard Chernin, Senior Vice President, Quantum Corporate Funding

Industry estimates place the number of U.S.-based construction firms somewhere around 700,000 — representing more than \$1 trillion in annual receipts. Add in \$286 billion in federal infrastructure projects earmarked by the recently passed highway bill, and you have an industry poised for phenomenal growth.

But despite this vast potential, the construction industry has historically garnered little attention from commercial finance firms and asset-based lenders. For New York-based Quantum Corporate Funding, this presents an opportunity simply too good to pass up.



Today, the company provides client funding ranging from \$25,000 to \$5 million in a wide array of industries, but its primary focus remains factoring to the construction industry.

Quantum's Senior Vice President Howard Chernin explains: "Our focus is old line factoring where we're looking at the account debtor as the most important thing out there. Our clients are not typical bank clients, they're below the radar. They are cash-strapped and they picked up a job needing money to fulfill the job, to keep payroll going, and they can't wait 30, 60, 90 days to get paid. They're looking for money for growth and survival."

Construction, not unlike agriculture, has traditionally been a "hands-off" industry when it comes to asset-based finance. Legal issues such as bonding and lien laws create complications. A seemingly unending network of subcontractors conspire to create a complex atmosphere that is often thought to be more trouble than it's worth.

Serving the Underserved

Launched in 1991 to provide factoring services to a variety of manufacturing and service industries, the company soon began focusing on the under-served construction contracting industry.

Quantum finances thousands of receivables from both the commercial and government sector, advancing up to 70% of the face value of invoices with the remainder distributed upon Quantum's receipt of payment for the invoice. Quantum charges a fee, starting at 4%, which is further determined by the number of days that elapse before an invoice is paid. In addition to contractors, recent factoring transactions have included financing to a staffing company, a high-fashion apparel designer and a cosmetics distributor.

In 2000, Quantum introduced its asset-based lending unit in order to broaden its ability to help the small- and medium-sized business market. The division specializes in making collateralized revolving advances on accounts receivable, inventory and equipment. More recently, Quantum launched its real estate lending unit, a specialty mortgage lending company that offers short-term bridge loans on commercial real estate. The real estate lending unit was created as an adjunct to Quantum's asset-based lending unit, which already had been underwriting business-purpose real estate as part of an overall client financing package.

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“Construction is probably the hardest type of factoring business to do,” Chernin declares. “It involves working with progress payments and working with contractors in different states with different lien laws and bonding issues. You really have to know your stuff.”

“But when you look at opportunities,” he adds, “just look around the country, you know the government has just passed a huge infrastructure bill for highways, you got Katrina, there’s just a lot of opportunity.”

Chernin singles out a system of progress payments as the primary challenge presented by the construction sector and one that has hampered many a financier.

“The progress billing part of the whole thing, whether the work was done, performed and accepted, you know that’s really the big thing, that’s the biggest challenge,” he says.

Bill Rubin, Chernin’s cousin who is involved in business development for Quantum, elaborates: “We’re working on an executory contract that’s never really consummated until it’s finished. It gets really complicated, it’s different than the typical, say, garment-center contract where a guy has an order for 2,000 coats and it’s over and done with when he ships the garments and they are accepted. For our guy, if the job is \$1 million and he only did 20% of the work, he’s only getting \$200,000.”

And yet, by all accounts, infrastructure development and commercial and residential construction are expected to grow, making it one of the most viable sectors out there.

“It’s booming but the banks don’t like to finance the subcontractors who are working because of the progress billing nature of their contract,” Rubin explains.

“You know, we see an industry where there’s so much money on the street and so few deals and we’re seeing six banks chasing one deal. The market has been cluttered with players and everyone is looking for their own space.”

All in the Family

Founded by his brother-in-law, Craig Sheinker, Quantum was a natural progression for Chernin. After receiving his MBA in management from Fairleigh Dickenson University, he began his career with the Airco Division of the BOC Group, a provider of industrial gases. He went on to work for several other Fortune 500 companies and spent time in corporate planning for JC Penney, and medical sales for G.D. Searle in Philadelphia. Chernin joined Quantum Corporate Funding in 1993 as a vice president of new business development and quickly integrated himself into the world of asset-based finance.

For Quantum, offering value to the customer means working under parameters that many other factors avoid. Quite simply, says Chernin, the client wants to know that there is flexibility and that you’re going to work with them.

“We’ll work with someone on a short-term basis, and that’s really not around anymore, everyone wants a one-year contract,” Chernin says. “A lot of factors actually send me business because they don’t want to take a client on a spot basis.”

Another big part of Quantum’s unique service package is a quick turn-around time, with initial funding often in place within five days. According to Chernin, many clients simply can’t afford to wait the two months it takes for larger finance companies to complete their due diligence.

At 48, Chernin maintains a network of industry relationships that allow him to stay ahead of the curve. He is a member of the Commercial Finance Association, the Subcontractors Trade Association, and the Mortgage Bankers Association. He also serves on the board of the Construction Financial Management Association.

Industry-wide, Chernin predicts competition will continue to force companies like Quantum to innovate and find ways to stay relevant and one step ahead.

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PROFILE:

Quantum Corporate Funding, LTD

Company Headquarters:

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16th Floor
New York, NY 10036
800-352-2535

Number of Employees: 15

Target Market:

Small- to mid-sized businesses
(\$500K to \$10MM)

Products Offered:

Factoring, Asset-Based Lending
and Real Estate Lending

Executive Management Team: Geographic Scope:

Craig Sheinker, *President*
Howard Chernin, *SVP*
Jim Rubinacchio, *Director/Operations*
Frank Madonna, *Director/Asset-Based Funding*
Tody Wilkins, *VP of Sales*
National