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Wealthy Investors Back Bank Surrogates

Private money, much of it put up by ultra-high-net-worth individuals looking for transparency and direct involvement in their investments, is coming in to fill a void left by lending-shy banks.

William Farancz

U.K. capital-raising firm Equility Capital has launched the U.S.-based Equicap Preferred Mortgage Fund to make money available to "quality" consumer and commercial borrowers.

"The fund and its brand will roll-out across the [U.S.] with a view to filling the gap left open in the lending market by finance companies that were absorbed, mis-managed or mis-configured by the large banks and financial services companies that purchased them," Equility says in a press release.

The fund is raising an initial $70 million from ultra-high-net-worth syndicates and hedge funds to make mortgage loans to top-tier borrowers.

Equility says that private-wealth-derived capital is already fueling a "new economy," especially in the "property- and construction-related investment and loan stratum" where deal values north of $100 million come into play.

Meanwhile banks, still weighed down by residential- and commercial-property defaults, remain reluctant lenders. According to a Wall Street Journal study published in April, 19 of the 21 biggest beneficiaries of the U.S. Treasury's Troubled Asset Relief Program lent $174.2 billion in February, down 23% from the $226.3 billion they put out on loan in October 2008.

And this week Sheila Bair, chairman of the Federal Deposit Insurance Corporation, complained that banks still aren't lending enough.

Although Gotham Private Equity Partners, a private-wealth-backed startup focused on middle-market companies, isn't dependent on banks' lending habits, the fact that they aren't lending much right now expands its pool of potential investments.

"Companies looking for capital have fewer options today," says Gotham's managing principal, David Benyaminy, one of a team that began in CIBC's Leveraged Finance and Merchant Banking Group and then helped establish Trimaran Capital Partners, a $1 billion private equity fund. "But our strategy in establishing Gotham is to continue what we've been doing for many years."

That's in terms of developing companies across a range of industries. In terms of funding, Gotham, which is part-owned by a group of ultra-wealthy individuals and families, seeks investments solely from private, as opposed to institutional, investors.

“These are investors that are looking for investments they can really play a role in - in terms of helping to develop enterprises in fields they’ve had success in,” says Benyaminy. “And this can lead to the transparency that’s lacking in other investments.”