Bank Discovers a Niche in Asset-Backed Bonds

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NEW YORK — At a time when many companies are finding it harder to sell bonds, one New York investment firm aims to help turn fashion logos and drug patents into a way to raise cash more cheaply.

Some companies can still sell corporate bonds even if it means paying more to investors to compensate for perceived risk in a post-Enron era. But banking boutique UCC Capital, with the help of a General Electric Co. unit, hopes to help other cash-hungry companies raise money selling bonds backed by income from trademarks, licensing fees and patents.

Using capital from GE EMX, UCC hopes to make as much $500 million in loans to companies that put up as collateral their regular income from patents or from the licensing of fashion logos. It will then bundle the loans into bonds.

The key to UCC's strategy is a practice used in the U.S. housing market over the last two decades in which mortgage lenders raise money by bundling regular home loan payments into bonds and selling them on Wall Street.

"It is the next evolutionary step in intellectual property securitization," said UCC founder and president Robert D'Loren, who sees his company exploiting a unique niche.

"We have filled a void that's been in the middle market lending and investment banking business for the last two or three years," D'Loren said. "Given the recent consolidation in investment banks and finance companies, we have positioned ourselves to fill the gap with a better lending model."

Loans made by UCC are expected to range from $30 million to $50 million but have no set limit.

UCC said it hopes to underwrite $400 million to $500 million in loans by next summer and twice that amount in the following year. UCC may retain the loans, which are expected to have 7-to 10-year terms, or sell them as a so-called asset-backed bonds.

Shoe company Candie's Inc. recently completed a $20-million bond by pooling and selling regular income from licensing its name to handbag and eye-wear makers. UCC structured the deal and it was sold to an insurance company.

Using the asset-backed bond market, D'Loren said, a company can issue debt three to five credit-rating notches above the rating on its own corporate debt.

This is important because a higher rating cuts the cost to a company for raising money, and bonds backed by a regular cash flow can get a higher rating.

For example, a company with a triple-B rating could raise money through the sale of debt rated single-A, saving the company 2.5 percentage points on the loan rate, D'Loren said.

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