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AND DISTRESSED
BUYERS ARE FACING
EVER-SHORTER
WINDOWS TO
SALVAGE A
COMPANY

PLUS

CAN FLAWLESS
EXECUTION SAVE
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INFRASTRUCTURE PLAYS
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ROUNDTABLE: TAKING
STOCK OF HEALTHCARE



Canvassing the Commercial Lending Landscape

The state of the commercial lending landscape is one of the questions that has been on everyone's mind. A recent panel in San Diego aimed to address this issue and others.

Photographs by James Aronovsky

The financial sector survived a challenging first half in 2008. Banks have faced numerous problems including significant write-offs, balance-sheet constraints and increased reserves for underperforming loans. The emerging result of these issues has highlighted the importance of capital in this type of environment.

A panel convened in San Diego recently to address several questions involving commercial lending. Jim Stewart of J.H. Cohn LLP moderated a panel on commercial bankers that included Jay McCabe from Bank of America, Dino D'Auria of San Diego National Bank, Chris Ramos of Comerica Bank and Maureen Sullivan of U.S. Bank.

"The capital to lend is available but competing on the basis of price is no longer the priority."

At the outset, the discussion gravitated to the question: How has the credit crunch affected lending practices? Of course, a corollary of that is whether or not the banks are lending now.

Considering all the turmoil seen in today's economy, the commercial banking environment has definitely changed since the period of credit euphoria several years ago. Most banks in this environment are seeking to increase reserves and strengthen their balance sheets to protect against potential losses. As a result, banks are being much more selective when reviewing deals and are looking for sound cash flow and revenue streams or, alternatively, solid assets to



Attendees mingle during a break in the lending panel.



ACG San Diego President Jim Stewart introduces the panel: (L to R) Dino D'Auria of San Diego National Bank, Jay McCabe of Bank of America, Chris Ramos of Comerica Bank and Maureen Sullivan of US Bank.

lend on. However, the panel went on to say the lending market is still very competitive.

The panel also largely agreed that some of what is being seen and heard in the media is not a completely accurate portrayal of the commercial lending market as they see it. Longstanding commercial lending institutions that have been

“Communication is a key component of the relationship between the bank and its borrowers.”

through multiple economic cycles and maintained a disciplined approach to underwriting have not been completely caught up in these issues. Although they still likely have to deal with their fair share of problems that are inherent to a struggling economy, many of these in-



A sold out crowd listens intently to the panel.

7 x 4.75

stitutions are still actively looking to lend.

Financial institutions experiencing a severe liquidity crunch, however — possibly from losses on exceptionally aggressive structures — have been scaled back drastically. These reports of trouble may lead to the misconception that banks' desire or ability to continue lending has dried up. To be sure, though, there are deals getting done, just not in the same fashion as before.

To exhibit the fact that lending is still taking place, each panelist presented to the audience a recent deal they had each completed, including an SBA 7a financing package for a working capital and tenant improvement loan; a lending facility to build out energy reduction plans; and a mezzanine debt transaction for an acquisition.

Lenders do recognize that each situation is different. For companies experiencing operational difficulties, the panel stressed that communication is a key component of the relationship between the bank and its borrowers. The last thing the lender wants is a surprise. If they know what is coming, they will be more likely to assist a company having troubles.

Just as much as a bank works to understand the challenges of various businesses, businesses should work to share information with their bank. This type of communication promotes a strong relationship, which will ease adjustments to the inevitable bumps in the road.

Finally, the panelists recommended borrowers should maintain a similar relationship with one to two other back-up banks as well. This will help ease the process should a transition to another bank be deemed appropriate, particularly if a primary lender is one that is experiencing strong capital constraints.

Given the uncertainty of the timing of the economic turnaround, the banks' lending practices have changed. The capital to lend is available but competing on the basis of price is no longer the priority.

As the economy improves and the problems in the financial markets subside, increased competition will push pricing back down, but not likely to the overly aggressive levels of a year ago.



Panelist Maureen Sullivan (right) discusses some highlights with attendees.



ACG San Diego President Jim Stewart (2nd from left) looks on as colleagues network.



Blake Allen, Jim Stewart and Tom Erickson during the reception.