



Opalesque Exclusive: As illiquidity is cited as the greatest risk for further economic crisis, asset based lending funds step in to provide liquidity for firms caught in the credit pullback – Part Two

Kirsten Bischoff, Opalesque New York: As we enter what the BIS has determined is the sixth stage or, "the crest" of the credit crisis it remains unclear "whether liquidity supply and risk appetite [have] recovered sufficiently to help maintain this improved credit market environment on a sustained basis." ABL funds have come to provide some of the few options for companies looking to raise capital for growth, or to survive temporary profit downturns. Opalesque recently spoke to Josh Zegen at Madison Realty Capital and Dennis Pollack, Senior Managing Director at Laurus-Valens about the ABL space and the changes they have seen over the past few months as bank credit options have dried up and the opportunity set for ABL funds has grown immensely. See Part One here.

In fact, during the past year hedge funds have become so integral to the capital raising needs of corporations that businesses such as Business Capital, a San Francisco based provider of commercial turnaround services, announced this month the opening of an office in Westport Connecticut. Business Capital's managing director noted specifically the strategic importance of being in close proximity to a major hedge fund base, "Hedge funds are looking to fund deals that banks tend to stay away from. We're getting money from hedge funds." (Source)

Maneuvering the opportunities in commercial real estate financing

Madison Realty Capital, has \$250m in equity under management and provides short-term bridge financing (1-3 years) on commercial real estate. Zegen, who co-founded Madison Realty with partners Brian Shatz and Mark Bahiri, oversees a team of 35 real estate and financing professionals. It's their size and liquidity that give Madison an edge and allows them to maneuver through the flood of opportunity that has hit the ABL space as banks have tightened their lending.

Madison provides financing on short term opportunities with a specific eye towards deals that are time sensitive during which a transaction needs to be closed within a 2-4 week time frame. "We are like a SWAT team that goes in to work on a transaction. WE use the same information a bank would use to making lending decisions, but we can do it on an expedited basis and make quick, efficient decisions" Zegen said.

Focused on the \$1-\$50m loan space across the US, the firm has overseen approximately \$700m in loans since 2005. The difference in opportunities as a result of the credit crisis is best highlighted by the jump in MRC financings, which occurred from 2007 when they provided \$400m in loans to 2008 which YTD has seen the portfolio grow to \$460m in loans outstanding. "Despite markets today and the lack of liquidity available to most lenders, we are actively lending and hold everything on our balance sheet. Given the fact that many of the banks have pulled out of the



market, we are seeing more opportunity today than we have ever seen, and some very good sponsors are coming to us, who may not have a year ago."

The small pockets of liquidity in commercial real estate lending

"You are generally not seeing large transactions being done, because the financing takes a syndicate of lenders rather than single lenders. So the mega-transactions that you saw last year at this time, you don't see today as that market was generally funded by the securitization lenders." While many investment banks and conduit lenders are no longer providing financing for the larger investment deals, savings banks, opportunity funds, and insurance companies have stepped in to fill the void. Because of this, the market area that Madison focuses on (loans sub \$30m) for short term financing still has a good amount of liquidity, allowing them to take advantage of those times when for various reasons financing falls through at the last minute. "There is liquidity in that part of the market because savings banks had historically been active in it. We've seen about \$100m of our portfolio pay off in the first 6 months of the year, and that has been the result of lenders taking us out of our positions – and that has been savings banks." No online Source.