



Bauerle's Bank Notes

Extending the Play

September 9, 2015

Banks and bankers, with reason, regularly lament the constraints the FDIC and other regulators place on their business. Today's financial ecosystem is one that reflects extraordinary diversity of products and providers. Although banks enjoy ready liquidity via the Federal Reserve System and insured deposits, the comparative advantage conferred by a banking charter is not what it was a generation ago. Some non-bank competitors access capital at a cost nearly equivalent to the Federal Funds rate. Stricter loan underwriting criteria make it impossible for banks to book business that would have been a no-brainer in an earlier era. Repeal of geographic limits on banking fills every major market with bank competitors. And some of them are sure to spoil the party by mispricing loans in a bid to capture business. It's enough to make one want to quit the business. As a banker said to me recently, "We should just post a sign in the lobby, saying 'All loans, L + 200 bps.' "

As football season arrives, we invite bankers to play their game the way Ben Rothlesberger does as Pittsburgh Steelers quarterback. T.V. announcers regularly gush about how Ben "extends the play." For banks, it is possible to extend their play by selectively embracing specialty finance companies rather than decrying their existence. For our January Black & Gold Financial Team conclave, we hosted Fred Summers, CEO of Vision Financial, who described his company's success in equipment finance, including through partnership with a number of banks in the audience. For our September event, **Wednesday, September 23, at the Cranberry Woods Marriott, beginning at 8:00 a.m.**, we will hear from LSQ Funding a Florida-based provider of working capital to companies that are not financially strong enough to attract bank financing.

Funded in part by our friends at Lovell Minnick Partners in Philadelphia, LSQ is staffed by banking industry veterans. The company has automated lending and collateral monitoring processes in ways that make its business model efficient and easy for customers to use. Cameron Hunt will describe the company's business strategy and its quest for business in Mid-Atlantic and Midwest markets.

Our desire to introduce these companies to our friends in the regional and community banking market reflects several observed phenomena:

- Bankers are turning away deals that make sense to them, but that they fear may be criticized by regulators. The Shared National Credit Examination, in particular, has become a fraught experience for bankers. Rather than risk a rating downgrade, they simply pass on writing the loan in the first place. The result has been a constraint on the real economy that encouraging words from the top of the regulatory house have not overcome.
- One need not embrace the riskiest aspects of the specialty finance industry to make money prudently by working in tandem with sound providers. LSQ is poised to serve companies that are not ready for banking prime time, including turnaround situations, early stage companies and out of favor industries. The OCC's crackdown on banks' oil and gas lending reported last week in the Financial Times is a useful case in point. Bankers consequently are heading for the exits, causing companies run by good operators to be capital constrained. The winners will be those operators that navigate through the trough effectively and have resolute financial providers that stand shoulder to shoulder with them.
- Well run specialty finance companies need banks just as banks need them. Companies can and do graduate from higher priced credit alternatives to conventional bank financing. Companies also use a variety of providers for different types of needs. The days of having 100% of one's financing with a single bank or group of banks are 30 years in the rear view mirror. The fragmented nature of the market can be curse. Or a blessing if one capitalizes on it.

We hope you have enjoyed a restful summer and are ready for the fall rush. We are. We value our relationships with our readers, especially those who attend our Black & Gold Financial Team events. Our September session is one you will not want to miss. We look forward to seeing you then and there.