



Availability of DIP and Exit Finance

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In this tough business environment corporate earnings have plummeted along with asset and collateral values, and consequently credit quality has diminished. The September Shared National Credits Review where the government assesses loans shared by federally supervised institutions, signaled a significant deterioration in credit quality for large leveraged loans. Overall, it showed non-accrual or non-earning loans increased nearly eight fold from \$22B to \$172 billion. **(figure 1)**

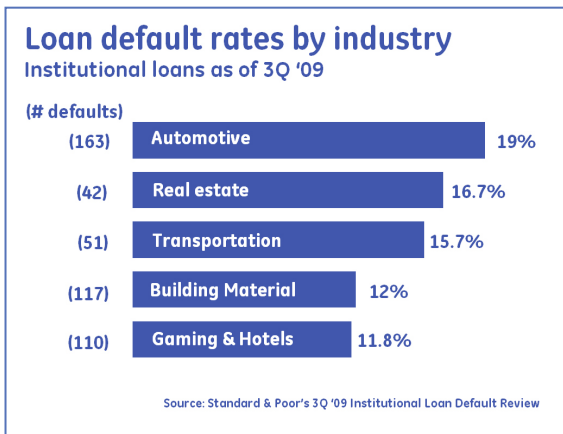


figure 2

Over the last year, the supply of capital has been impacted by lender consolidation which in turn has resulted in increased risk exposures for large borrowers, making larger syndicated deals more challenging. The significant increase in criticized assets is resulting in higher reserve requirements. This means lenders are less apt to increase exposures and availability to these criticized borrowers.

(figure 3)

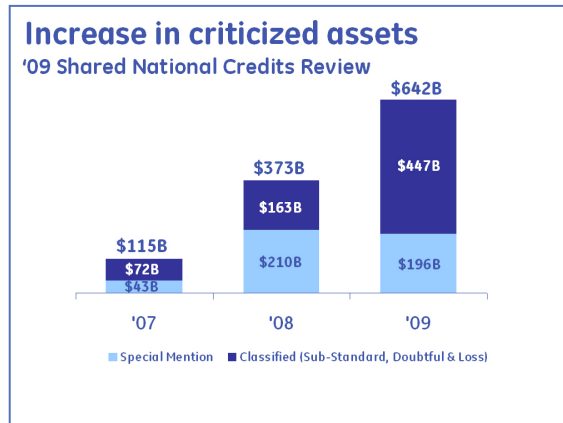


figure 3

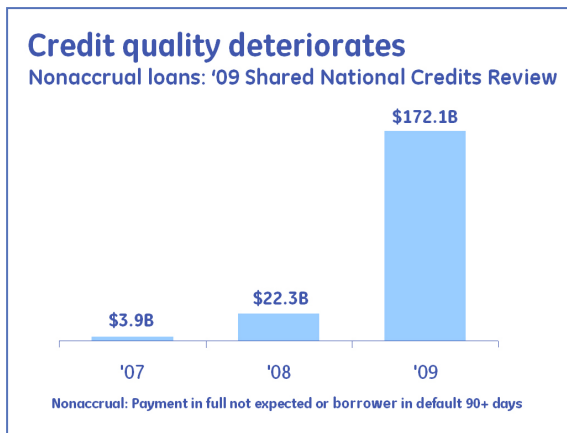


figure 1

Industries most impacted include **(figure 2)** automotive, building materials, transportation and gaming.



Some have said that there is a lack of DIP and exit financing in the market, but the truth is, the creditworthiness of highly-leveraged borrowers has diminished quickly and they have fewer assets to secure loans. The rapid growth of second lien debt has left many with less unencumbered collateral than needed for a successful out-of-court refinancing or DIP financing. In those instances, pre-petition lenders, have been forced to take a defensive posture to protect their interests and lend further to a given situation.

Despite complexities and other market challenges, DIP financing is available for good companies with unencumbered or underencumbered collateral. And exit financing is certainly available for companies undertaking a sensible right-sizing of their balance sheet.

On the other hand, over-levered companies with bad business models will likely have to sell assets, merge with a competitor or liquidate. Successful restructurings will be undertaken on a pre-packaged or pre-arranged basis, and will require a team of strong professionals working in concert with a knowledgeable lender. Lenders are active and eager to allocate DIP and exit financing where it makes good business sense.



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