



Corporate Finance

## Raising Debt in the Mid Market

Even a hermit in the depths of far flung Papua New Guinea will have heard of the “Credit Crunch”. The existence of the credit crunch is undeniable and all business is being affected by it, directly or indirectly. So, what are the implications for those looking to raise funds?

The first thing to appreciate is that the banks are virtually unable to raise funds on the wholesale market. Therefore they are relying on reserves, profits and deposits to provide them with the liquidity required to enable them to lend. Credit functions in the banks are therefore digging deeper into the detail of due diligence to prioritise those transactions with the best risk profiles.

Secondly the banks do not like to hold too big a slice in any one company’s unsecured debt. For the mid market this is currently about £25-£30 million of debt. In the past this has not concerned banks, which would underwrite sums totalling hundreds of millions of pounds and then sell down tranches to other banks after the deal had completed. Since there are far fewer active players, this secondary market has almost completely dried up. In order to deliver the levels of funding required for larger transactions, banks are therefore forming clubs with other banks prior to the deal being completed.

So if the banks are unable to raise capital or sell on debt, how are the markets functioning?

The answer is slowly. More detailed due diligence appraisals from credit committees mean they are spending far longer (often over a week) before finally agreeing to a transaction.

In addition to the credit function a few of the banks have also instigated liquidity committees. These look through all the applications made to credit and then apply the funds to the deals with the best risk reward ratio. I.e. the least risk of failure with the highest fees and interest rates.

Notwithstanding the above, the banks are open for business and looking to lend to high quality companies involved in good quality deals. Yes, the debt multiples have dropped, but only back to where they were 2 or 3 years ago. The key difference is the time taken, with banks looking to agree terms with their club partners before completing the transaction.

To put it mildly, the boot is firmly on the other foot in relationship between the borrower and the lender. What was previously a relatively straightforward task has now become complex and more relationship based; very often requiring external advisors to guide you through the quagmire.

Whilst aggressive negotiation with a local representative may achieve a better offer, there is a need to understand whether the bank as a whole can deliver on the offer. Never has it been more important to know when to take the bird in the hand or take a visit into the bush.