SPECIALTY LENDER

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Capital timing

John Delaney's commercial lending company likes this credit cycle.

Setting for himself the lofty goal of making his new CapitalSource Holdings LLC "the premier U.S.-based commercial finance platform," CEO John K. Delaney envisioned three or four separate, highly focused sectors for the Washington, DC-based company when it was launched in October.

In March, however, CapitalSource surpassed Delaney's original expectations with the formulation of five industry-specific lending units — Structured Finance, HealthCare Finance, CapitalPartners, Retail Finance and Telecom & Media Finance. The goal is to produce loans that have better risk-adjusted returns. "Through a focused approach, you can do that," Delaney said in a recent interview with SNL Securities LC.

Seven months ago, CapitalSource introduced itself as a commercial finance company that concentrates on financing growth, acquisitions and recapitalizations. The direct lender offers on-balance-sheet financings of from $1 million to $40 million, for growth-oriented small to midsize businesses. It will syndicate loans for larger amounts.

"As an independent, commercial finance company, we do not have the lowest cost of capital," Delaney said, "so what we have to do is seek areas where we can earn higher returns. But we don't want to take any greater risk. You have to find areas through focus and execution and expertise and relationships."

It is these five areas that Delaney feels will fuel CapitalSource. "It gives us a unified and organized approach to the market, which is important," he said. "I want people to know what CapitalSource does so they don't call us for things that we don't do and they really identify with us for things that we do."

Delaney's plan is about what you might expect from the founder of HealthCare Financial Partners, a firm that was sold to Heller Financial Inc. in July 1999 for $482.3 million, said David Sochol, an analyst at Legg Mason Wood Walker. "It definitely leverages off Delaney's background and expertise," he said. "In general, when you're not lending to blue chip clients and, therefore, you are taking more risk, you try to offset by charging more. The key way to really manage the risk is to know the industry, to know the company, to know the collateral better. That can really only be achieved through industry focus."

Focus is everything to Delaney. "We set up business units because, at the end of the day, we think we will make better loans," he said.

Not that he advocates specialization for specialization's sake. "You can go overboard with specialization to the point where you want to do deals to justify your specialization — whether they're good deals or not," he said.

As far as timing goes, CapitalSource couldn't ask for better, said Delaney. As banks tighten commercial credit, "We're fortunate," he said. "What's nice is we can really focus on new deals and new businesses, and we can do it in a market where it's not as competitive as it was."

Sochol agrees. "They really did time it very well," he said. "If you had to ask what kind of economic environment would best benefit you, this is probably it.

"This sort of market, where it's difficult but not disastrous, is probably almost made-to-order for CapitalSource and what Delaney's trying to accomplish."

—Kerri Johnson
kjohnson@snl.com