

A Strong Team In A Turbulent Economy

Michael Szwajkowski

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Michael Szwajkowski, 42, is President of the Structured Finance Business of CapitalSource, Inc., a multi-faceted commercial lender that provides middle market firms with debt products in health care, corporate, and real estate sectors. He has been with the company since its inception in 2000. Szwajkowski's group focuses on commercial real estate and asset based rediscount lending accounting for 37% percent of CapitalSource's \$11.9 billion of assets.

“The capital markets today are in disarray, more fundamentally challenged than most of us in the industry have ever witnessed,” Szwajkowski says. “By comparison, consider the early 1990s and the birth of the Resolution Trust Corporation. A meaningful market dislocation occurred then in terms of valuation but the basic plasma of the market—liquidity—remained reasonably plentiful. It was not the systemic, world-wide credit crisis we have seen unfold since mid-2007. The confluence of events we're witnessing at the present time is historic and will have far reaching impact on the global marketplace for years.”

“What started as a sub prime housing crisis in the United States quickly ignited fires all around the world,” Szwajkowski says. “What was once a market driven by greed is now a market paralyzed by fear. The psychology of the market is important because it's not just about numbers anymore; it's about people's subjective views of where the markets are headed.”

Conventional wisdom dictates that a deep recession is followed by a steep recovery. Szwajkowski believes the recovery from this downturn will be a much more gradual slope because the damage to the financial system is profound. “We will have to rebuild almost every aspect of the financial infrastructure,” he says. “We won't return to the markets of 2005-2007 for a long time but, rather, take baby steps in a more constructive direction.”

Despite the turbulence in commercial real estate and the credit markets, Szwajkowski is remarkably calm. He is pragmatic and CapitalSource is forward thinking, which is paying off in the market today. Thanks to conservative practices, CapitalSource is one of the few companies continuing to lend. In fact, they have closed 13 loans with commitments in excess of \$213 million so far in 2009.

“There are not many truly active lenders in the market today which makes it a very interesting environment for those firms with a balance sheet who can provide capital and are willing to search a troubled landscape for viable transactions,” says Szwajkowski. “There will be incredibly attractive lending opportunities that will draw debt back into the market, but it's going to take some time before there is meaningful improvement in overall liquidity.”

“You can't just focus on everything that's wrong around you and assume that the recent past is indicative of the longer term future,” he says. “You have to figure out how to chart a course and have the conviction to seize the opportunities that the market presents. The market is a tough place now—but this is the strongest capitalist economy in the world and we will recover.”

CapitalSource is navigating through today's financial turbulence thanks to a strategy it pursued several years ago informed by management's experience in previous challenging periods. Instead of following the herd with lax underwriting and lending spreads that did not reflect the inherent risks, CapitalSource remained conservative with a view toward enhancing enterprise stability for the long term. “Before the credit crisis, our executive team continually assessed what we were doing right, what we were doing wrong, what we could do better and what actions could defend the long term viability of the Company. A key stra-



assessment. I think we did a good job of forcing ourselves to ask those questions and commit to a response before it was actually required,” Szwajkowski emphasizes.

Szwajkowski and his colleagues are sleeping less and working longer hours in order to make sure the existing loan portfolio is managed appropriately and to find good opportunities to make extremely secure loans at attractive risk adjusted yields. “We’re in a position to go out into this market where there is very limited competition and pursue what we believe are very compelling opportunities. We need to do that very cautiously today,” he says. “That’s why we’re turning over four times as many stones to find the one right opportunity. We see far more than our fair share of the debt requests out in the market today by virtue of the fact that we represent so much more of the actual, active lending base in our niches.

tegic initiative that we undertook—well before others—was the establishment of CapitalSource Bank to provide a reliable and attractive deposit based funding source for the firm.”

In July 2008, CapitalSource opened CapitalSource Bank with 22 branches strategically located throughout California and a deposit base in excess of \$5.2 billion. CapitalSource Bank represents a powerful strategic edge today and an expandable, granular, FDIC insured deposit base for future growth. “Without a doubt, the best recent decision we made was creating CapitalSource Bank,” says Szwajkowski. “That will clearly separate us from the pack for years and years to come.”

CapitalSource Bank, the largest de novo bank in the country in 2008, is the centerpiece of CapitalSource’s strategy to operate with less financial leverage, while concentrating on its core middle market lending activities. By focusing on the commercial borrower, this new breed of banks like CapitalSource can improve credit performance and drive higher returns.

“If you have an entity like CapitalSource, which has the cash to lend, a solid balance sheet, a willingness to lend and not many competitors, you would have to say we’re in a pretty good position.”

“Like a lot of things in life, when the wind is at your back, it’s pretty easy to become complacent and not think about things that you should be doing for the longer term. It’s really difficult to do that when there’s nothing forcing you to make that sort of critical

“We’re sitting on liquidity and that’s an exciting message for my colleagues at CapitalSource. Most of our competitors’ employees are going to work and being told that they simply can’t make a loan.”

Many of CapitalSource’s employees have worked together for several years and the core senior management team has been together since inception nearly a decade ago. “Having a strong team that communicates and works well together in a turbulent economy is a key asset”, Szwajkowski says. “We are a tight-knit group that deals openly and honestly with each other while also aggressively challenging each other.” Szwajkowski credits his mentor John Delaney, CapitalSource’s CEO and founder, for the recent strategic moves made in establishing the bank subsidiary. “He’s a great player-coach and a guy who, unless you’re in a coma, you’ll learn something from every day.”

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