



Building CapitalSource Corporate Asset Finance – 'The Right Place at the Right Time,' Boulden Says

BY CHRISTOPHER MORAFF

Once again the industry took notice when in the final days of 2009, CapitalSource announced that 30-year leasing veteran Laird Boulden would launch the company's new corporate asset finance division. Less than two months into the endeavor, the *Monitor* spoke with Boulden about his vision for the new venture, his departure from Tygris and the rationale behind the bold initiative.



LAIRD BOULDEN
President, Corporate Asset Finance,
CapitalSource

Near the end of 2009, John Delaney, the founder and chairman of Maryland-based commercial finance company CapitalSource, took what amounted to a giant leap in broadening his firm's horizons when he asked Laird Boulden, a 30-year veteran of the commercial finance industry, to do what he does best: launch a new division. As envisioned, the new unit would focus on providing equipment leasing and financing services to a broad range of clients across the United States, becoming an integral part of the CapitalSource product platform in the process.

Boulden not only took the offer, joining CapitalSource on February 1, 2010, he brought a dozen of his most respected colleagues with him. Less than two months into the endeavor, the *Monitor* spoke with Boulden about his vision for the new business, his departure from Tygris Commercial Finance and why now is the time to launch such a bold initiative into the market.

Under John Delaney's direction, CapitalSource spent the decade following its 2000 founding building a solid reputation as a lender in the middle market — with a strong focus on the healthcare industry — by offering senior debt in the form of loans, typically ranging from \$5 million to \$100 million.

Three years after its launch, the company went public, and in 2006 converted to a real estate investment trust (REIT) as a means of "remaining competitive in a highly liquid market," due to the tax benefits of REIT status. CapitalSource ended 2006 with net income of \$279.3 million, up 70% over the prior year, while total commercial assets under management grew to \$11.1 billion.

But trouble loomed on the horizon. By 2007, with 24% of CapitalSource business locked into residential mortgage-backed securities, the nascent housing crisis was beginning to take a toll. The next two years would prove tough ones for the firm. The company lost \$220 million in 2008 and another \$869 million in 2009 as the government stepped in to right the U.S. economy with an unprecedented infusion of public money. Through the worst of the crisis CapitalSource persevered and managed to keep on track; and it holds the distinction of doing so without the aid of federal bailout money.

By the end of 2009, the company was confident enough to proclaim a "transition year," noting that over the prior 12 months it had successfully addressed "several significant challenges and opportunities."

Much of the optimism is attributable to the establishment of CapitalSource Bank and the gradual wind-down of its healthcare real estate portfolio. In 2008, the company had acquired a California-based industrial bank, and applied for and received commercial bank status.

"This acquisition of branches and assumption of deposits will give CapitalSource's new bank access to a significant base of deposits with strong growth prospects," Delaney said of the move at the time.

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On January 1, 2009, with the CapitalSource Bank in full swing, the company pulled its REIT status and in November inked a deal to sell roughly its entire healthcare net lease portfolio to Omega Healthcare Investors.

In its year-end earnings report, James J. Pieczynski, one of CapitalSource's two co-CEOs, said he was "confident" of the company's ability to "increase new funded loan production in 2010 to a range of \$250 million to \$350 million per quarter, 25% to 50% higher than our 2009 production levels."

That year, the company listed its three main segments as health-care finance, leveraged lending and structured finance, with more than half of its portfolio now in secured loans as it continued to wind-down its real estate portfolio. The next step, in Delaney's eyes, was the fulfillment of long-held desire to launch an equipment leasing unit.

According to Boulden, Delaney expressed his interest in an equipment leasing venture as far back as 2001, but it wasn't until the launch of CapitalSource Bank that the funding profile fit.

"He approached me to build an equipment group for CapitalSource when it was just being formed [when CapitalSource] financed itself through REITs, through securitizations and through the debt markets," Boulden explains. By contrast, he says, "In 2010, 100% of the go-forward funding will be through CapitalSource Bank. So the funding model and the markets have changed. What might have been aspiration in 2001 becomes almost mandatory in 2010."

Timing is Everything

Boulden has a long history in the leasing industry. In the 1980s, he helped found Heller Financial's Commercial Equipment Finance Group and was subsequently promoted to president of that group. He went on to work for Royal Bank of Scotland as president of RBS Lombard — a group he launched in 2001 — and later as president and CEO of RBS Asset Finance, Inc., a division of RBS Citizens.

At Heller, Boulden worked closely with Rick Wolfert, and would later join his colleague in the 2008 launch of Tygris Commercial Finance. With support from private equity firm Aquiline Capital Partners and investors New Mountain Capital and TPG Capital, Wolfert and his team pulled together \$2 billion in equity for the launch. "Tygris was purpose-built to really fill a void in the market where there had been an exit of many lenders, finance companies and banks," Boulden says. "But [it] was never able to succeed in its ultimate end game — to acquire a bank."

So last year Boulden, Wolfert and the rest of the Tygris founding team sold the company to Florida-based thrift EverBank. Most of the executives still hold an ownership interest, he says. As Boulden explains it, the move represented a natural evolution for the company.

"It's not the end of the Tygris story, it's kind of the continuation of the Tygris story in that now it has a depository under the name of EverBank, something it couldn't achieve under a majority-owned situation with private equity," Boulden says, going on to draw a parallel with CapitalSource's new equipment finance unit.

"CapitalSource is essentially where Tygris was headed, which was to own a healthy bank and to build upon the premise that there was a void in the market," he says. "There's an excellent opportunity here for a clean, well-capitalized bank to move forward as this economy picks up. We're at the right place at the right time."

For his part, Delaney has nothing but confidence in Boulden's ability to complete that story. In a forecast accompanying 2009 year-end financials, Delaney said, CapitalSource is "intensely focused on growth," pointing to Boulden's new unit as a contributing factor.

"I have known Laird for more than ten years, and he is generally regarded as the best in his business," Delaney says. "His expertise is very complimentary to our core commercial lending franchise."

The Empire Builder

As president of Corporate Asset Finance at CapitalSource, Boulden has essentially been tasked with building an empire from the ground up. Both Delaney and Boulden would like to see equipment finance accounting for up to a quarter of the company's balance sheet within three or four years, a monumental goal, but one that both men are confident can be realized.

To do it the company plans to attack what Boulden calls "a very broad spectrum" of the market, with transactions ranging from \$1 million to \$30 million for companies with revenues from \$50 million all the way up to \$5 billion.

When the Monitor spoke with him, Boulden's group consisted of a dozen individuals, most all of them team members he'd brought along from earlier ventures, including Tygris. "The team that I have is a team that's been with me an average of ten years. So these are folks that know each other well, we've worked at several organizations and built several organizations together, and the decision to come to CapitalSource was a collective decision and not an individual decision," Boulden says. "We talked at length about other opportunities and we felt that this was the best suited for us."

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Headquartered on the 35th floor of a 40-story building in downtown Chicago, Boulden reports directly to CapitalSource co-CEOs Pieczynski and Steven A. Museles. "The goal of our business is a pretty aspirational goal. What's important to us is that we will be an integral business within CapitalSource rather than an adjunct product within a larger institution. In some organizations equipment finance is a secondary product, it's not a core product. [But] if you're planning on becoming 20% to 25% of a balance sheet, that's a core product."

The strategy for achieving that, as Boulden relays it, will be an early focus on indirect originations. He says he'd like to start out with 75% of originations indirect — everything from participations to the purchase of loan streams and portfolios — and then flip it, eventually originating 75% of the company's business through direct channels.

"Since this is a brand new business within CapitalSource, we have systems to put in place, credit procedures, we have a lot of things to do, so when you focus indirect it allows us to focus our energies less on the originations and more on the internal side to make sure that the process is well vetted and efficient as we grow the business," he explains.

Eventually he'd like to go after markets that are currently underserved: franchise finance, corporate jets and trucking, to name a few. But then again, Boulden says, "Virtually every market is underserved right now."

At the time of the Monitor's interview, Boulden's new shop had been open for just seven weeks and the company was preparing to fund its first deal. "The pipeline of transactions is already starting to build here," he says. "I'm not here to build a business the same as everybody else's, nor did I in previous businesses. What I'm trying to do is build a business in a market that needs capacity, so we're looking to build a complement, not to create something that's an additional competitor." **m**

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