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# Start-Up Finds Brisk Business In Midmarket

## Lender Mining Midmarket reports Solid First Year

**BY GEETA SUNDARAMOORTHY**

The uptick in commercial lending, a key profit driver for many banks during the past year, is also lifting specialty lenders that provide complex packages.

Timothy Conway, the former FleetBoston Financial Corp. professional who helped found and is now the chief executive of the Boston lender NewStar Financial Inc., says the privately held company's employee base includes roughly 70 bankers, most of them from big, traditional banking companies.

NewStar, which caters to middle-market borrowers with complex needs, looked at 850 possible financing deals in the year since its inception in July 2004 and completed 45 valued at almost $500 million, said Mr. Conway, who left Fleet in 2002 to form his new company. Another 15 deals are being finalized, he said in an interview last week.

Though many banks have expressed an intense interest in middle-market lending, Mr. Conway says he does not see them as his primary competitors for the kind of credits NewStar favors, which tend to be complex and often involve packaging different kinds of loans and equity.

"Banks are less and less focused on deals which require flexibility and understanding complex underwriting," and because they are more focused on developing relationships, they are less likely to deal with "one-off transactions," he said.

As an example, he cited a recent transaction where NewStar provided funding for the purchase of the Gainesville, Fla., media and advertising company Naylor Publications Inc. by a joint venture between the Los Angeles private equity firm Clarity Partners LP and the New York consulting firm ZelnickMedia Corp.

The $50 million credit facility, announced Aug. 9, included a six-year, $5 million revolving loan and a six-year, $45 million term loan. NewStar was the lead arranger, and other participants included Goldman Sachs Specialty Lending Holdings Inc. and Great American Insurance Co.

**We'll take it:** Conway says banks shy from deals that NewStar accepts.

Not all lenders agreed with Mr. Conway's characterization of the competitive landscape. PNC Financial Services Group Inc. of Pittsburgh said its middle-market arm regularly completes such transactions. James Graham, an executive vice president of PNC's middle-market arm cited a $9.3 million senior secured credit facility it announced last month for E.S. Robbins Inc., an Alabama manufacturer. That package included a $5.5 million credit facility, a $3 million term loan, and a $500,000 capital expenditure line of credit, he said.

However, like Mr. Conway, Mr. Graham said he does not often run into other banks when he is out knocking on doors. Both men say there is plenty of room for both types of players.

Patrick Sullivan, chief executive of Sovereign Bank, Massachusetts, said companies such as NewStar offer complementary rather than competitive services. He said that Philadelphia-based Sovereign Bancorp., which operates in New England, partners with companies such as NewStar. For example, Sovereign might take the senior portion of the debt, and leave other parts that require more flexible terms to specialty companies.

Overall competition has increased in middle-market lending as the economy has improved, and many customers are now recapitalizing their balance sheets or changing ownership structures — projects they had put off during the downturn, Mr. Graham said.

Observers say the ability to make creative transactions, which are sometimes one-time deals, sets companies like NewStar apart from banks. Ioana Barza, a senior analyst at Loan Pricing Corp., said in an interview Monday that specialty finance firms such as NewStar provide complicated financing, while banks tend to stick to one type of product, such as senior debt.

Companies like NewStar have the risk-reward capacity to provide an entire financial package — senior and subordinated debt as well as some equity, she said. Banks may not be interested in such deals, either because they prefer to confine their business to senior debt lines or because the loans are not relationship oriented and offer less opportunities for cross-selling, Ms. Barza said. PNC said it tends to focus on customers with whom it can build a long-term relationship and offer a multitude of other products. "We are looking for more than just credit," Mr. Graham said.

The average size of NewStar's facilities is about $50 million, and it typically holds about $12 million to $15 million on its balance sheet. About 60% of its business is geared toward the middle market, with the rest focused equally on asset-based lending and real estate financing.

It recently increased its lending capacity to about $1.9 billion, including access to $1 billion of warehousing funding provided by Citigroup Inc., Wachovia Corp. and IXIS Securities. NewStar also has $360 million of private equity from investors including JPMorgan Corsair Partners.

NewStar's bankers come from a number of big companies, including some that have been involved in recent consolidation, such as FleetBoston, Bank of America Corp., JPMorgan Chase & Co., and Citigroup Inc. NewStar has opened offices in Darien, Conn., and Charleston, S.C., and it plans to open one on the West Coast and one in the Midwest.

One pleasant surprise, says Mr. Conway, was how quickly originations materialized. "We thought we would be more reliant on the retail market, which means buying from other banks, but that is only bought 10% of our business," Mr. Conway said. "We are way ahead of our plans in terms of our ability to lead deals and directly originate deals."

NewStar's strong deal history earned it a CAM 2 debt rating from Fitch Inc. — a high rating for a leveraged loan asset manager, and one usually reserved for companies that have a track record of at least three to five years.

Said Rafat, a senior director at Fitch, said he was impressed with NewStar's level of staffing and its "well-thought-out" business plan.

"It didn't strike us as a company that was opportunistically entering the market without consideration for the infrastructure needed to execute," Mr. Rafat said; instead, it looked like a company with a commitment to staying ahead on the growth curve. ■

NEWSTAR FINANCIAL

**About NewStar Financial, Inc.**

NewStar Financial, Inc. was formed in June 2004 by a group of senior banking and capital markets executives from leading financial institutions, including FleetBoston Financial, Citigroup and JP Morgan Chase, and leading institutional investors. NewStar is focused exclusively on providing customized financing solutions to mid-sized borrowers in three dedicated lending groups: Middle Market Corporate, Commercial Real Estate, and Structured Products. For more information, please visit www.newstarfin.com or contact the appropriate individual below.


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