

FINsights: Non-bank lending driving innovation

Demand for capital coupled with tighter lending conditions from major banks is driving the growth of alternative sources of lending. We explore how borrowers and investors are taking advantage of innovative lending solutions to access capital.



FACTORS DRIVING GROWTH OF NON-BANK LENDING

- Increased capital requirements on major banks
- Tight credit parameters for major banks
- Rebalancing of institutional bank loan books away from property construction loans and land-banking
- Decreased risk appetite vs demand from borrowers for higher leverage

KEY BENEFITS OF ALTERNATIVE LENDERS:



KEY DIFFERENCES TO BANK LENDING

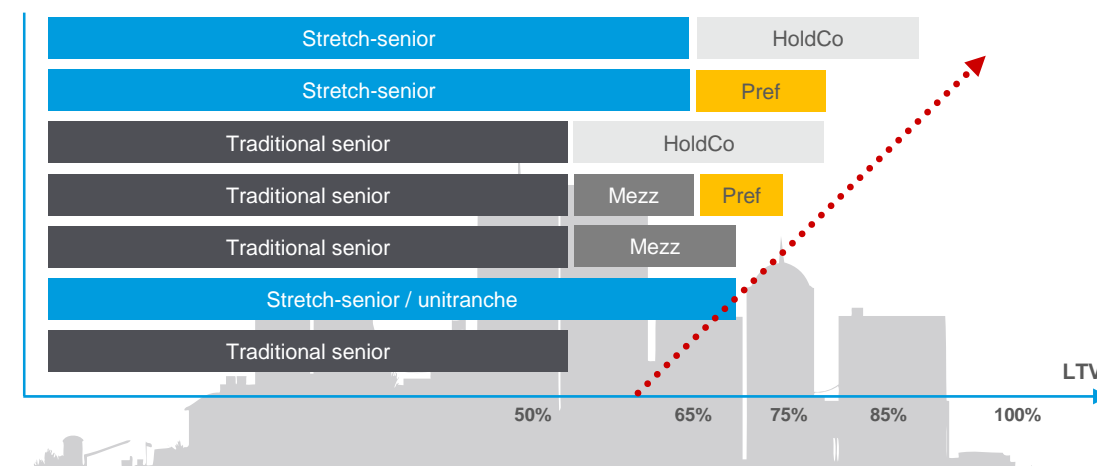
- Access to debt across all levels of the capital structure (senior, second mortgage, stretch-senior/unitranche, mezzanine and preferred equity)
- More flexibility on structure and terms (LTV, LTC, covenants, headroom, cash sweep, equity release, fixed rates)
- Increased speed of execution (shorter credit processes, increased access to decision makers)
- Potentially larger-hold capability
- Active monitoring of loans or underlying projects during the life of the loan

ISSUES TO CONSIDER

- Generally unable to provide revolving facilities or ancillary services (hedging, transactional banking etc.)
- Higher returns required for increased flexibility

INNOVATIVE DEAL MODELS

Borrowers and investors are looking at more modern forms of capital packaging by partnering with banks and pushing new finance structures beyond traditional senior debt and equity models:



RECENT DEALS INVOLVING INNOVATIVE STRUCTURES

Upstream leverage facility of A\$150m allowing a non-bank lender to make an A\$550m downstream unitranche construction facility.

Establishment of A\$1bn of real estate debt funds, established to make stretch-senior loans on residential construction projects.

A\$122m stretch senior facility from a non-bank fund lender for residential construction project.

A\$280m stretch senior facility from non-bank lender for residential construction project.



Leigh De Jong

Partner

T + 61 2 9921 4662

M + 61 413 052 741

E leigh.dejong@minterellison.com



Armin Hosseinipour

Associate

T + 61 2 9921 4717

E armin.hosseinipour@minterellison.com