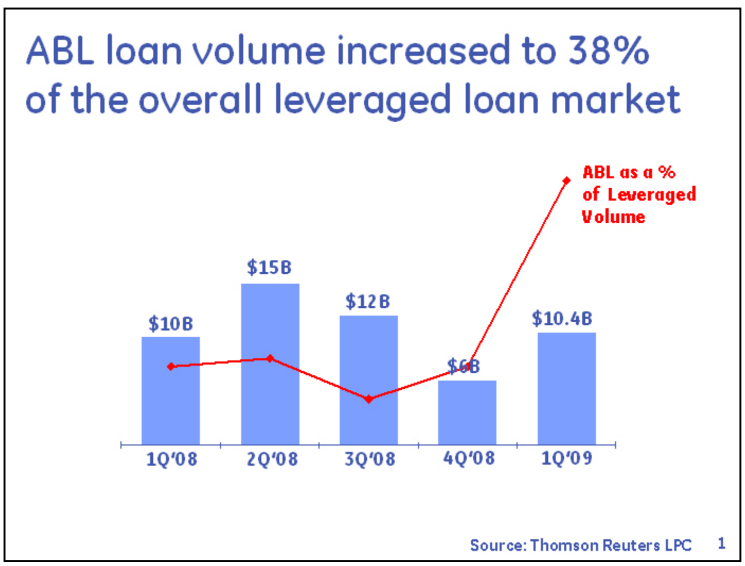
GE Capital

CapitaLens℠ Market Minute

Hello, I'm Salvatore Settineri, managing director of GE Capital Markets.

As the capital markets begin to thaw out of a deep freeze, the asset-based loan or ABL market appears to be leading the recovery in lending. Not only has the market remained open for business, but despite the continuing challenges facing the economy, the ABL market showed signs of improvement during the first quarter of 2009.

You can see from this slide **(figure 1)** that at almost $10.4 Billion in the first quarter, ABL issuance represented a 6% increase as compared to first quarter '08 and a 76% increase from the fourth quarter of '08. ABL loan volume also increased to 38% of the overall leveraged loan market during the first quarter of '09.



(figure 1)

The primary reasons for this improvement include the following:

First, borrowers are increasingly seeking the flexibility of asset-based loan structures **(figure 2)** and in some cases are turning to hybrid securitization to replace maturing conduit securitizations. With hybrid securitizations, receivables are sold to a special purpose vehicle or SPV, set up by the borrower. A syndicated asset-based loan secured by the receivables is then provided to the SPV.

Primary reasons for ABL market improvement…

- More borrowers seeking the flexibility of asset-based loan structures
- Cash flow borrowers now realize that the ABL market may be a viable solution
- Downturn in the economy is increasing debtor-in-possession and restructuring finance
- Increased interest from traditional investors, regional banks and non-traditional investors for loan syndications

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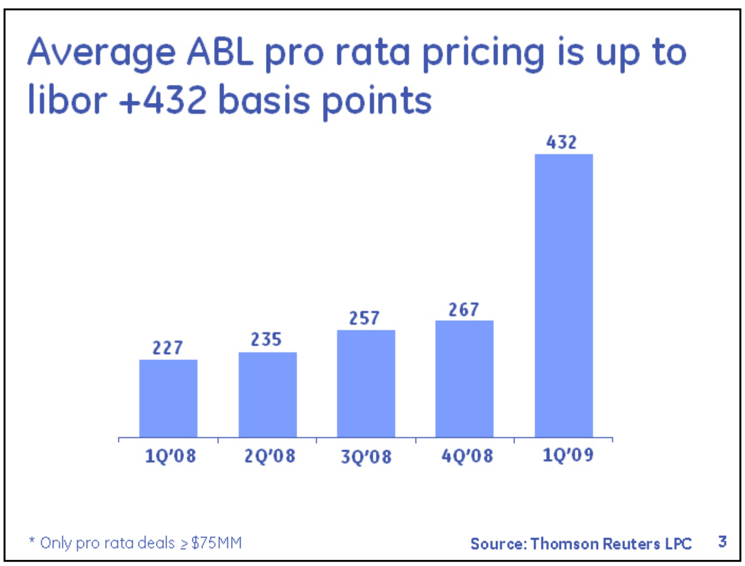
(figure 2)

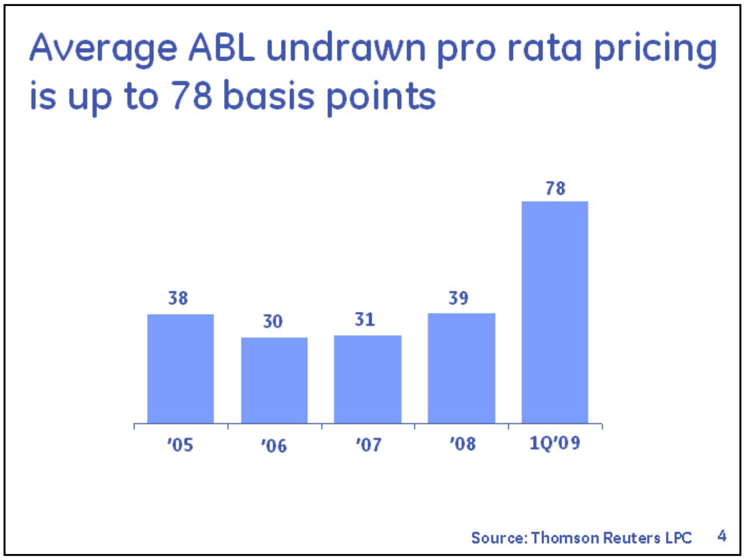
Second, borrowers looking for credit have realized that the ABL market may be a viable solution, and are increasingly willing to consider converting from a traditional leveraged cash flow deal to an ABL structure. The downturn in the economy is increasing the number of distressed companies, and this is resulting in higher demand for debtor-in-possession and restructuring finance.

In addition to higher demand from issuers, loan syndication has also seen some improvement. There is increased interest from traditional investors, regional banks and non-traditional investors such as new bank holding companies.



(figure 3)

Finally, **(figure 3)** pricing has continued to increase making ABL more attractive relative to the risk profile of the company. Average pro rata pricing is up to libor +432 basis points and average pricing on the undrawn portion is up to 78 basis points **(figure 4)**.



(figure 4)

With wider margins available today, both regional banks and finance companies are increasingly participating in syndicated or club deals to improve earnings and build capital. Structures are more conservative and covenants are tighter. Collateral is typically short-term receivables and inventory versus fixed assets, and advance rates are usually no more than 85% of collateral value.

With **(figure 5)** solid structures, strong collateral and good pricing, the ABL market is poised to continue to improve.

(figure 5)

This is Salvatore Settineri, for GE Capital Markets, Market Minute.