Post-Regional Banking Crisis Market Update[1]

By Robin Ladd and Holly Loftis

This panel discussion focused on the lead up to and aftermath of the regional banking crisis of 2023, with viewpoints from sponsors and regional bank lenders. After briefly recapping the beginnings of the bank failures and their initial reactions thereto, the panelists opined on current trends, uncommitted credit facilities, and the role of regional banks in the broader financial market.

Post-Crisis Trends. Panelists noted that some bank lenders had already planned to exit syndications and focus on bilateral relationships. The general consensus was that bank lenders were looking to pursue full relationships with clients, including depository relationships. Accordingly, these bank lenders chose not to pursue relationships with larger private equity funds that had high usage rates but did not have benefits related to depository relationships and instead lean into venture capital funds. One panelist noted that although pricing has increased, the increase has not been as large as in times past, and the market feels settled. However, another panelist noted that there appears to be a tale of two markets emerging, due to the pricing disparities between top tier and mid-tier managers.

Another trend panelists discussed is that the bar for new business has been raised, with bank lenders now requesting more fees and deposits. From the sponsor side, one panelist noted a change in its suite of bank lenders' reactions to renewal requests, with some bank lenders wanting to condition renewal upon the sponsor making large cash deposits. Additionally, panelists commented on personnel changes across banks, with many former employees of lenders that failed moving to different banks, creating a "same face different bank" relationship.

Uncommitted Credit Lines. One panelist noted that their institution was already trending toward providing uncommitted credit lines, due to internal repositioning, before the regional banking crisis. While clients took time getting comfortable with the model, all borrowings were fulfilled, and the economics of not passing on an unused fee were seen as beneficial. The panelists disagreed on the utilization of uncommitted lines for subscription secured facilities. One panelist noted that, from their perspective, demand continued to be focused on committed lines, and where they do see uncommitted lines, it is mostly for separate tranches. Another panelist agreed, noting that for uncommitted lines, there is not a huge capital charge difference, and that a bank would need infrastructure to respond to borrowing requests.

Role of Regional Banks. In the fund finance space, regional banks play an important role; they have a competitive advantage in their creativity and ability to provide funding for SMAs, smaller facility sizes, and funds with more nuanced borrowing bases (including high net worth investor pools). Sponsors often find that these types of

[1] Panelists included Jeff Feinberg, Senior Vice President at City National Bank, Trevor Freeman, Managing Director at Axos Bank, Ashley McCoy, Vice President at Crestline Investors, Shana Ramirez, Partner at Katten, Michael Sinclair, Senior Managing Director at M&T Bank, and Brad Smith, Head of Fund Finance at Banc of California.

facilities perform better with regional banks. In addition to creativity with bespoke products, client service is a differentiating factor for regional banks. As they work to build out and expand relationships, regional banks can provide more flexibility and responsiveness to sponsor needs. Broader relationships can lead to GP line work and funding for legacy funds, and regional banks can also help with diversification of lenders. Panelists noted, however, that fees have increased, and regional banks will often look for more support from the investor side (such as investor letters). Additionally, one panelist noted that they are seeing initial capital call requirements for facilities where the borrowing base is unique or smaller.

Future of the Market. Subscription secured credit lines are still seen as beneficial, particularly for urgent cash needs, and the panelists did not foresee a diminishing use of these credit facilities. One panelist noted that the requirement for deposits will continue, and lenders will continue to focus on having a full relationship with sponsors. It will take time for the market to relax the deposit requirements or allow a depository relationship to exist outside of the applicable bank. Generally, panelists have seen higher pricing, tighter covenants, and more emphasis on relationship. New entrants into the space may end up playing a role as market disruptors. Non-bank lenders, for example, are solely focused on the lending business and do not care about deposits.

Another panelist predicted that there would be a diversification in successor funds due to limited partner demands. Financing costs may lower in the latter half of the year, and more financing will be given to SMAs and retail investors.