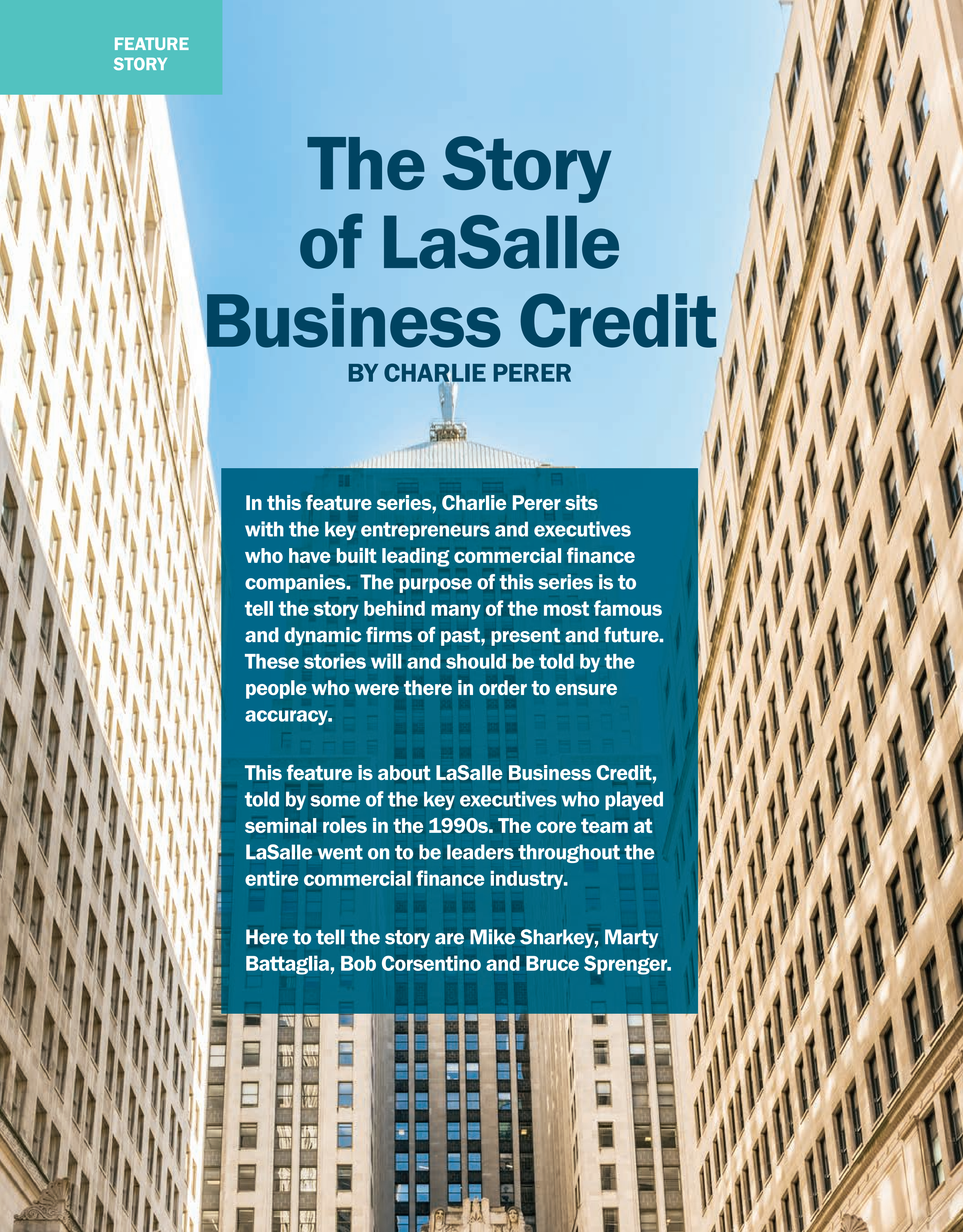


FEATURE STORY

The Story of LaSalle Business Credit

BY CHARLIE PERER

In this feature series, Charlie Perer sits with the key entrepreneurs and executives who have built leading commercial finance companies. The purpose of this series is to tell the story behind many of the most famous and dynamic firms of past, present and future. These stories will and should be told by the people who were there in order to ensure accuracy.

This feature is about LaSalle Business Credit, told by some of the key executives who played seminal roles in the 1990s. The core team at LaSalle went on to be leaders throughout the entire commercial finance industry.

Here to tell the story are Mike Sharkey, Marty Battaglia, Bob Corsentino and Bruce Sprenger.

Charlie Perer: Gentlemen, please briefly introduce yourselves.

Mike Sharkey: I have been involved in numerous ABL groups over the years. In 1980 I went to Manufacturers Hanover Commercial Corp. (MHCC) with some senior folks from GE Capital to help them start up an office in Chicago. With Manny Hanny's reputation and resources, we quickly established a strong presence in the market. From there I went to Standard Chartered where Martin Battaglia helped me to start up Stanchart Business Credit, which we ended up running for 10 years before we sold it to LaSalle. At LaSalle we grew the company into a national powerhouse until it was sold to Bank of America. Cole Taylor was the easiest startup of them all. We already knew the national market inside and out and we knew who to hire. We had built a national reputation for fairness and reliability, and we had an approval process with former LaSalle bankers that gave us a strong story to tell. We started up in 2009 when there was no liquidity in the market and we had fresh capital. It was a great time to start up an ABL. Virtually the entire market looked like one big ABL opportunity.

MARTY BATTAGLIA
Eclipse Business Credit

BOB CORSENTINO

MIKE SHARKEY

BRUCE SPRENGER

Marty Battaglia: Currently, I am CEO of Eclipse Business Capital. My ABL career spans over 40 years. I have successfully started, nurtured and grown several ABL platforms in the past, both bank, non-bank and foreign. The opportunity presented itself again several years ago to create a non-bank national asset-based lending platform. This very successful business, Encina Business Credit, was recapitalized in 2021 by Barings, Mass Mutual and participation by all senior management. Now known, as Eclipse Business Capital or EBC, the team continues to grow and expand capitalizing on the non-bank ABL market which continues to realize double-digit annual growth.

Bob Corsentino: I am co-head of CIBC's U.S. Asset Based Lending Team and have 40 years of industry experience. In this role, I'm responsible for developing and co-managing the national business efforts for the team. In 2009, I initiated the startup of the team with Bruce Denby.

Previously, I served as the chief credit officer for the president and CEO of LaSalle Business Credit. I was also group senior vice president at LaSalle Bank managing a team with offices in Chicago, Texas and the Pacific Northwest. Prior to that, I created a new restructuring Lending Group at LaSalle Bank which focused on new lending opportunities, including DIPs, exits and B/S restructurings.

Bruce Sprenger: My experience in ABL spans 40 years. I joined LaSalle after departing as president of First Wisconsin Financial (FWF). I met Mike Sharkey via the CFA, now SFNet, FWF was an ABL startup following the sale of a small ABL in Milwaukee, called Civic Finance. Civic sold to Aetna Insurance, which was not in ABL, but was interested in the business. (Note: Aetna Business Credit was formed.) Staff departed shortly after the Civic sale/Aetna purchase and FWF was founded. Another staff of Civic, John Nickoll of Foothill fame started Foothill, also from the roots of Civic Finance West.) After 20 years at FWF, my joining role at LaSalle was to open a new region office in Milwaukee. That office rapidly grew, adding additional locations and evolved to a full service (sales, audit, account management) covering 19 states. My responsibilities also included the start-up of LaSalle Cross Border lending team in cities of Western Europe and Canada.

How would you tell the story of LaSalle Business Credit?

Sharkey: LaSalle was a dominant ABL lender in the U.S. managed by individuals with deep roots and experience in the fundamentals of ABL. Virtually every officer and manager had an impeccable background in ABL, including field exam which allowed us to aggressively serve the market while walking a fine line between service to our borrowers and the safety of our portfolio. Our backgrounds allowed us to work with our borrowers through both good times and bad without overreacting or taking unnecessary aggressive action. This led to a reputation of fairness and cooperation. That reputation led to a loyal referral and customer base throughout the U.S and Canada.

By the way, we embedded our key objectives into an acronym, which we referred to in all of internal communications: GOALS.

- Grow profit per customer
- Operational efficiency
- Asset Quality
- Loan Growth
- Syndicated transactions

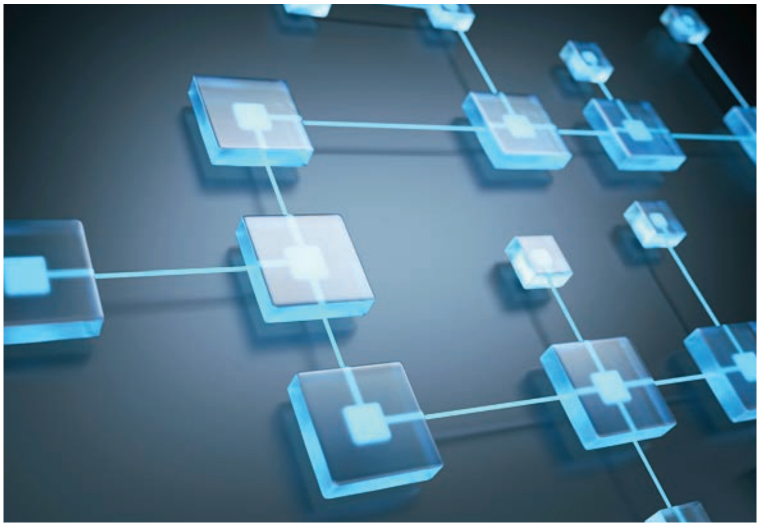
We had a high-performance-based culture which rewarded success and did not tolerate lackluster results. While that may seem harsh, it was recognized and respected by our employees and resulted in minimal, if any, undesired turnover over many years.

Corsentino: LaSalle Bank was led by Norm Bobins from 1990 to 2007. As a great president and CEO, he truly understood the ABL business, and supported its growth patiently while working with borrowers in troubled times. We had a great reputation for not overreacting. It allowed us to tell a good story and grow tremendously from the early 90s until we were purchased in 2007.

Battaglia: LaSalle was the culmination of several different groups with different cultures. The two main groups were the original LaSalle Bank asset-based lending unit formed by Walter Macur and StanChart Business Credit, which became part of LaSalle in 1993. Mike and I were part of the StanChart organization.

These units operated separately under the LaSalle banner for several years and were ultimately merged by around 2000. A couple other add-on entities became part of this franchise along the way although were not as significant as the original LaSalle ABL unit or StanChart.

Sprenger: LaSalle consisted of great dedicated professionals who grew the scope and size of our business of 18 domestic offices through outstanding focused staff and several tuck-in acquisitions of other ABLs. We segregated the business around teams of traditional ABL, Cross-Border finance, Corporate Restructuring and Retail Finance.



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Can you describe the culture?

Sharkey: My previous answer touches on culture, but the grasp of fundamentals cannot be overstated. Our employees from top to bottom had a thorough grasp of the ABL techniques and levers that could be employed and pulled to deal with most any situation. This allowed us to play safely in the rough and tumble world of small ABL where we tended to make our home. At the end, with over 14 billion in commitments and 650 customers in 43 states, we had 450 customers that borrowed under $15 million. We had to go up market to continue our rapid growth, but we never abandoned the lower end of the middle market.

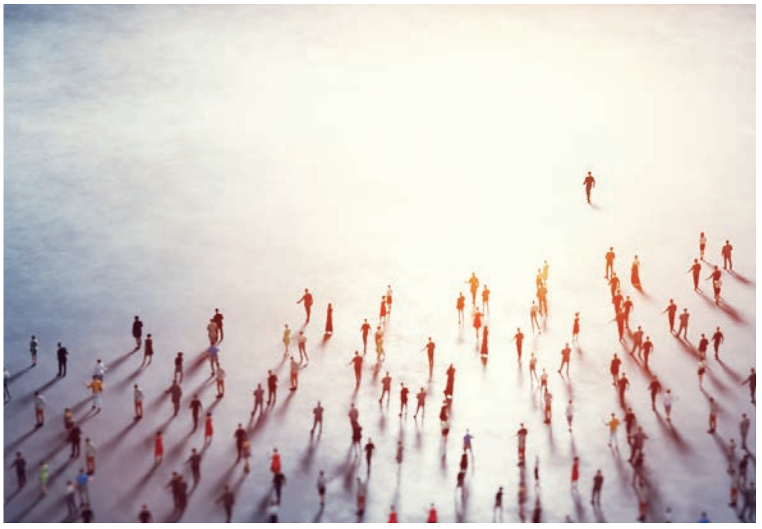
Sprenger: Our brand of "We Close What We Propose" enjoyed great success. The mantra of "No Surprises" (from proposal to closing) was well known in the marketplace. Our culture was built around trust amongst our team and our clients. We took great care to serve and understand our clients and prospects. There was also a "No cookie cutter approach" to problem solving and that creativity was key to how we met the market.

Battaglia: Work hard and play hard. The ABL groups of LaSalle, not unlike the bank itself, were very much relationship focused. We were disciplined in our product offering, basically focusing on a core ABL product focused on the North American market. While we competed with just about every middle-market bank in the country, in many markets our own commercial bank was our most fierce competitor. Unlike banks today, the business credit groups operated autonomously and while we negotiated deal sharing terms with our bank, it was infrequent when this would occur.

Corsentino: We had several team leaders that had the entrepreneurial spirit to grow and compete. Many of those early leaders are running ABL groups today. Because of our reputation in ABL, it attracted good people and it did a good job promoting from within.

What made LaSalle different from many of the other leading firms of the 1990s?

Battaglia: I believe we had a culture of not overpromising, delivering what we proposed and we were relationship focused. Sounds simple, right? Trust me when I say it is not. On so many occasions we would outline deal terms that delivered what a prospect needed and that we knew we could deliver only to be beaten by a competitor offering overzealous terms. Most of the time those competitors would re-trade terms during diligence and end up exactly where we were at the onset.



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Corsentino: At LaSalle, we had the ability to compete on transactions across the entire spectrum, from early- stage turnarounds to strong performing companies that needed an airball component. As a relationship-based institution, we worked through cycles with clients and retained those relationships for decades.

Sharkey: I think what made us different from most other ABL lenders in the 1990s comes down to the senior management of our bank itself. At the time, most ABL lenders were bank owned. Bank ownership came with senior credit officers, examiners, regulators and boards that tended to be fairly risk adverse and reactionary. LaSalle's senior management came out of American National Bank, which, at the time, was owned by Heller. Because of that, Norman Bobins, the president of Lasalle, had a solid fundamental understanding of ABL and a true appreciation for the value of the product and the success it could bring. He ran interference for us, which allowed us to work with our borrowers in a safe, but aggressive, fashion.

Sprenger: Talent, creativity and flawless teamwork. We created opportunity for teammates to personally grow and have understanding of the power in working and winning together. We understood what "lane" was the road to success. Egos were left at the door.

Should LaSalle be viewed as a leading regional or national firm?

Sharkey: LaSalle was an international player with several offices in Canada and the UK. In fact, we were one of the first lenders to bring broad based ABL to the UK, which, at the time, was pretty much only serviced by factoring companies.

Corsentino: I would describe LaSalle Business Credit as a national group as we were in over 40 states. We were very strong in the middle, south and southeast sections of the country. ABL type deals were stronger in those regions and a lot of our energy was focused there.

Battaglia: In the core middle-market segment we played in, I would say yes. These were bilateral deals in the $20 to $50 million range. I would venture to say most competitors at the time operating in that segment would have viewed LaSalle as a very formidable competitor.

We were developing a larger syndicated market group, but, as you can probably imagine, that is a very time-consuming and difficult process. While this group did well and realized several very meaningful wins, it just didn't have the time necessary to fully mature before LaSalle was sold to Bank of America.

Sprenger: We were international in scope, but regional in delivery. Staying close to the client was key.

How you describe the brand of ABL in the Midwest compared to the East Coast?

Battaglia: I think this one is more directed to Mike. My experience is that each geographical area has its own characteristics. If you are referencing the Northeast, New York is the financial hub for the U.S. so by definition deal flow there, particularly in the larger deal sector, is much stronger than other parts of the country. Referral sources, industry knowledge and expertise and deal size vary by sector and geography.

Sharkey: I don't see much difference between the brand of ABL in different parts of the U.S. It is useful in all regional areas, and we are no longer viewed as a lender of last resort as we were in the late 70s and early 80s.

Corsentino: We were focused on middle markets for manufacturing and distribution and many of the deals on the East Coast were focused on large corporate and/or publicly traded companies.

Sprenger: Not sure there was a difference.

Has the nature of relationship banking changed from the days of LaSalle?

Battaglia: Relationship banking? Does it exist today? I would say yes, it has. My view is that today, in many of the larger banks, ABL has become a product. Also, the regulatory environment along with reputational concerns play a more significant role in bank behavior. I also believe most non-bank lenders are more transactional focused and less about relationships today.

Corsentino: More companies in our market are now owned by funds that have numerous lending partners, which tend to place less value on relationship lending. LaSalle had a lot of multi-generational privately owned borrowers, which tell me they appreciated that relationship-based approach. It also seems the regulatory environment changed over time. We were able to work with borrowers longer in troubled situations.

Sprenger: It depends. We served the relationship first and product second. We focused on relationships as key to our growth, especially when it came to serving sponsor clients. If we could bring other skills and products to the client, we did. Cross sales of banking product gave clients a reason to value our approach and service beyond lending. Yet, lending remained our bread and butter.

Sharkey: I am not as involved in the market as I once was, but relationship lending took a big hit when the banks dominated the market. Banks do tend to be conservative and reactionary. I suspect that now with the resurgence of independent finance companies, relationship banking may be more prevalent.

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How difficult were the ownership changes and what were the effects on culture?

Battaglia: My experience is an ownership change where one competitor buys another always results in disruption and culture shock, usually having a more significant impact on the acquiree. I think LaSalle's acquisition of StanChart was handled very differently and was probably one of the better transitions I have seen or experienced. Cultures were, for the most part, similar and for the most part, the markets we served did not have a tremendous amount of overlap.

When B of A acquired LaSalle, cultures were very different and there was complete overlap.

Sharkey: When we sold Stanchart to LaSalle, the effect on culture was nil. Given the fundamental knowledge of ABL that these ex-Heller veterans had, we didn't miss a beat. In fact, our capabilities increased in many ways dramatically. When LaSalle was sold, we found new homes at essentially two banks where LaSalle senior management landed and took control, so once again we had an easy transition. The same goes for our sales to MB and then Fifth Third. All in all, I would say we were very fortunate that our careers and ability to do business were not impacted too dramatically by the acquisitions.

Sprenger: Loaded question. Each change was unique; LaSalle to BofA, then our startup at Cole Taylor, CT sale to MB Financial and then MB sale to Fifth Third. Each created new challenges, market overlaps, issues with credit policy, market segments (large vs small), etc. but we stayed with our brand promises that served us well in transition. As expected, there were bumps in the road, but our performance kept us in the game; the transitions worked well when we could establish trust; only two of these control events, trust was challenged, and that often kept us up at night

Corsentino: For me there was very little difference. I started at Exchange Bank (acquired by LaSalle Bank in 1990), and for 40 years I have worked with most of the same senior management teams throughout different institutions.

Aside from technology, how would you describe the lending atmosphere in the 1990s with the first wave of true non-bank ABLs being created?

Corsentino: Non-banks were willing to finance a higher level of risk on a more aggressive structure. They did deals with aggressive covenants and more availability than we were comfortable with. They also provided a great conduit to allow borrowers who were struggling to find more time to restructure and repair their businesses.

Sharkey: Technology change has been incredible since I entered the market in 1978, truly incredible, so it is hard to discount that and its effect on efficiency. Having said that, I don't think that the fundamentals of the business have changed at all. Right up until the end, we loaned money based upon tried-and-true ABL techniques. The landscape is littered with ABL lenders who tried to jump on the band wagon of different fads over the years. We never gave in to that temptation and did well because of that.

Battaglia: I think the only non-bank lenders that created a shift in the market were the rise of second lien lenders. The ABL market embraced their entry as a means of enhancing their competitive offering while keeping their risk exposure in check. By the early 2000s that market had fully matured.

Sprenger: Entrance of non-bank ABLs was long overdue and a throwback to the early evolution of ABL. The CITs, Fremonts, Aetnas, etc. came and went primarily due to higher cost of capital and investor return hurdles for lending as the only product for the non-banks.

Is the market any more or less competitive today than it was in the 1990s?

Battaglia: The market today is very competitive. Deal structures are much looser with more aggressive loan structures. These are structures where the senior lenders are assuming much more risk in structuring deals. The non-bank market has also continued to price down loan spreads. Excluding out of favor sectors, pricing continues to be a constant battle as we continue down the economic race to the bottom. To an extent, in today's environment, the involvement of investment bankers and intermediaries attempting to control loan terms, pricing and now major aspects of our due diligence sure feels like an attempt to turn the ABL offering into a commodity.

Corsentino: There has always been fierce competition. The difference is in the structures and players. Today there are more options to finance risk. Non-bank structures provide borrowers with options for debt structures that they did not have in the past. These structures cut into traditional ABL and allow commercial lenders to compete in our space by doing the revolver only.

Can you talk about innovation at the time and how it's different from today?

Battaglia: Innovation really didn't start to materialize to any real extent until the late 90s. Today I believe most banks have moved away from strict collateral monitoring and, in most cases, borrowers report monthly.

Dominion of cash is not as dominant, so daily and weekly interaction with borrowers has reduced drastically. Great strides have been made to automate collateral as well as financial monitoring as a result of automation. This is also the case with marketing. Marketing efforts today rely more on data and less on a blanket coverage by employees. As I mentioned above, the involvement of an investment banker has become commonplace today where we are being pushed to commoditize and race to the bottom on economics and terms. Today, entertainment is much less a part of the development and ongoing relationship with borrowers and intermediaries.

Corsentino: We started with green bar sheets to track collateral so automating tracking of borrowing bases was a big innovation in the late 80s. There was also a lot of conversation around whether we should take faxed borrowing bases or not. No one would touch a retail deal given the lack of control over the inventory, and we all know how that has changed.

On the customer side, smaller middle-market businesses now have more detailed analysis and we get that info much quicker and in much greater detail. Also, our 3rd party vendors, including appraisers, consultants and field auditors, provide a wealth of relevant information. There is also a great deal of realtime info on all markets, which helps us when analyzing changes to customer results.

Sharkey: The biggest innovations for us were in taking full advantage of technology. If you innovate on the way you lend money and get away from the fundamentals, you can innovate your way right out of business!

Sprenger: I'll say we did some fairly unique things for the time. We used and developed new tools to source deals to increase the size of the sales funnel. We automated many functions in our back room to free up time for client contact and analysis (i.e. trend cards for one).

Why is it so hard to build a successful lending organization like LaSalle?

Sharkey: It takes discipline to build an organization like ours and a full and complete understanding of the fundamentals and techniques for taking and controlling risk. I will give you one example: LaSalle Bank had a very strong training program for college graduates. They rotated throughout the bank, spending 6-month rotations in various areas after which they decided where they wanted to be placed. Our rule was that if one of them wanted to be permanently placed into ABL, they had to agree to spend two years in field exam. While this dissuaded many of them who preferred to keep pace with their peers in the program, it ensured that those who joined us had a true interest in the field and a strong desire to learn the business and its fundamentals. It also led to solid individual performance for the long term.

Battaglia: Most parties looking to enter the ABL market are attracted by financial returns the product can offer. What most don't fully understand or appreciate at the onset is the fact that to be successful you need a full platform at the start with good disciplines and professionals to make that happen. I can't tell you how many times I have seen new entrants without the right credit discipline or staff to properly run an ABL shop, start up and fail. Quite often shops start with only a couple professionals, usually marketers and fail. That or the capital providers don't fully understand the nature of this business or the profile of borrowers it attracts. Almost by definition, many of our borrowers are challenged financially or operationally and are struggling. A fair number will fail, leading to bankruptcies, liquidations and negative publicity. If those backers are not prepared for these outcomes, when they occur, they may elect to head for the hills.

Corsentino: A bank may face numerous challenges when it comes to building a successful lending organization, such as:

- Effectively managing growth
- Coping with compressed returns
- Adapting to an aging talent pool
- Navigating a complex regulatory environment

Sprenger: We had clear trust and support of our parent and board/directors; no "second guessing" from above. We set challenging goals and were trusted to achieve them and we did.

What's your most memorable deal story?

Corsentino: A longtime customer that manufactured PVC pipes and fittings for the housing and construction market was hit hard by a downturn in the 80s caused by the energy markets and the cost of resin. The company needed to reorganize itself and completed a plan of reorganization with an outside investor who worked with the middle-management operators. As the lender, we did the DIP and exit financing. As a result, the company thrived for 20 years and expanded to five times its original size. Unfortunately, they waited too long to sell and got crushed in the 2007 market as construction and housing cratered. Because of our strong relationship, we worked to restructure again, but that too failed, so we elected to sell the assets. Management and ownership completely cooperated as we had their guarantees. We attempted a State Court process and used an investment banker. Our first attempted auction seemed flawed, as bidders appeared to be colluding and affecting the auction value. I rejected the highest combined offer and they filed a complaint. The judge rejected their claim and reset the auction. We got a better stalking horse bidder and helped an industry player, who was a late addition to the first auction, complete a thorough due diligence process. The industry player was a successful bidder. He kept the operation in place, saved jobs in a small community and paid a higher cash value, which paid us in full. This was the start of a long career for me in handling restructurings in a similar manner.

What do you miss the most about your experience at LaSalle?

Battaglia: LaSalle was a great organization with a great culture. It rewarded hard work and success and exposed individuals to all aspects of the business and provided a fair amount of independence. That is hard to replicate today.

Corsentino: There was always a friendly competitive environment at LaSalle, and we all worked well together for the overall good of the group and the bank. I always felt like we had great support from upper management, too. They were always there to help you succeed. Even if you had a tough year, they supported you and shifted the focus to your upcoming goals.

Sprenger: The people.

What's the best piece of advice you would give to young professionals starting out in ABL?

Battaglia: It takes years to fully understand all the fundamental aspects of ABL. Be patient and absorb all the training and experience you can. The bankruptcy and or liquidation processes will be here for a while and navigating through the process can be a challenge, but is also rewarding. You cannot automate away a problem or have a computer handle a relationship. For those who find this industry attractive, I do believe it will provide a fruitful lifetime career.

Corsentino: Work hard and take every opportunity to learn something new. Get to know your customers' businesses on a deep level and always read what they send you. Don't be afraid to seek and understand industry facts and general economics outside of the your current institution to better manage credits.

Sprenger: Each professional has a unique brand (or should develop one). Promote it as part of the team you work with and at all costs guard it with your actions and words. This brand is portable and will follow your success and lead your career.

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Charlie Perer is the co-founder and head of originations of SG Credit Partners, Inc. (SGCP). In 2018, Perer and Marc Cole led the spin out of Super G Capital's cash flow, technology, and special situations division to form SGCP.

Perer joined Super G Capital, LLC (Super G) in 2014 to start the cash flow lending division. While there, he established Super G as a market leader in lower middle-market second lien, built a deal team from ground up with national reach and generated approximately $150 million in originations.

Prior to Super G, he Co-Founded Intermix Capital Partners, LLC, an investment and advisory firm focused on providing capital to small-to-medium sized businesses. At Intermix, Perer spent significant time sourcing and executing transactions and building relationships within the branded consumer, specialty finance and business services industries. Perer began his career at Oppenheimer & Co. (acquired by CIBC World Markets) where he was a member of the Media Investment Banking Group. He graduated Cum Laude from Tulane University. He can be reached at charlie@sgcreditpartners.com.