



## **“Our Deal Pipeline is Rocking”: Fifth Street Secures New Facility**

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Fifth Street Finance Corp., one of the few business development companies that's making new loans these days, has secured a new credit facility to deploy on sponsored transactions. It's notable, since middle market deal volume has yet to bounce back the same way the mega-market deals have in recent weeks.

For several years Fifth Street, which went public in 2008, has been steadily creeping up from the small market to a position that is solidly lower middle market. The new facility, underwritten by Wachovia, is a \$50 million live of credit with an accordion feature that allows expansion to \$100 million. The new facility follows the termination of the company's \$50 million line of credit with Bank of Montreal, which expired December 29, 2009. The Wachovia facility has a three year lifespan.

I spoke briefly with Fifth Street's CEO Len Tannenbaum about the deal and the state of middle market lending.

**So this facility will be used exclusively for new deals. In what time frame do you hope to deploy it?**

We have some deals in the pipeline that we were waiting for this to go through before completing them. We will be able to draw it down in six months.

**Why did you choose Wachovia over Bank of Montreal?**

Wachovia has the capacity to lend up to \$200 million. Bank of Montreal was capped out at \$50 million. It was not easy to secure the money and it was based on the relationship. Wachovia underwrote our IPO, and this is the start of a long term relationship.

**There are new mega-market deals in the news every day. Have you seen signs that middle market lending is starting to turn around?**

I thought it would return faster than it has, frankly.

**It appears your fellow BDCs Allied Capital and American Capital have reached creditor agreements on their defaults. What does that mean for your firm?**

Them being out of the market and basically blowing up created a big void in the middle market and there's a market share opportunity in the middle market. The rates are really great, and the equity sponsors are putting in 50% equity. We have been very focused on growing our sponsor relationships and expanding. We hope to get our SBA (Small Business Administration) license in the next couple of months.

**Do you anticipate any of the players which were previously sidelined to come back to the market?**

The first guys to get back will be the big ones because they'll see liquidity first. It's very tough in the middle market right now, because the small companies can't grow and the large companies are focused on deleveraging their companies.

**But do you see a return of M&A deals in the middle market?**

Oh yeah, M&A will increase a lot in the next quarter. Our deal pipeline is rocking.

**Are you still hiring?**

Well, we picked up Casey Zmijeski, who was the number one originator at Churchill Financial. That was important, as it would not have been possible when we were smaller. We still have to add a portfolio management person. All in, we'll be adding around 10 people, going from 21 to 30. Then next year we'll add another 10. We have to build the infrastructure ahead of the deals.