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# Middle-Market Loan Provider Has 10% Yield

By PATRICK CAIN, INVESTOR'S BUSINESS DAILY Posted 05/11/2010 06:19 PM ET

For a company that lends money, **Fifth Street Finance** (FSC) has a clear advantage: accessible capital.

Many of its peers don't have much capital on hand, meaning they have to borrow it somewhere, then lend it out at a higher rate. Fifth Street does a little of that, too, but it has its own cash on hand to lend out.

One big thing working in Fifth Street's favor is $150 million of its nearly $400 million credit line, says Gilford Securities analyst Casey Alexander. That big chunk comes from the Small Business Administration.

When a small to midsize company ð that is, a business worth around $100 million or less ð needs a loan, Fifth Street is an option.

The business development company can provide the capital, along with any private equity the borrowers can muster.

For Fifth Street, there's an element of speculation. It's betting that the borrower is worth the risk. If the bet fails, that's bad for Fifth Street.

But the SBA credit line is government-insured. Only SBA-approved companies can get to that money, so if the gamble doesn't work out, Fifth Street gets the money back, Alexander says.

When bets not backed by the SBA fail, middle-market lenders such as Fifth Street can get into trouble.

Fifth Street is the kind of company that could thrive if the economy's recovery continues. Small businesses often rely on middle-market lenders to fuel their expansions.

"Because they can raise the capital and keep the dividend yield high, I'm very confident suggesting this to my clients," the analyst said.

Fifth Street's dividend has an annualized yield of 10%.

Analysts don't expect the company's earnings to grow again until the fiscal year ending in September 2011, when earnings per share are expected to top 2009's profit.