Lead Left Interview – Cheryl Carner (Part Two)

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This week we continue our conversation with Cheryl Carner, managing director of Crystal Financial LLC. Based in Boston with offices in Atlanta and LA, Crystal Financial is a commercial finance company that originates, underwrites and manages secured debt. Their clients are middle market corporations that operate in a diverse set of industries. ***Second of two parts – View part one***

The Lead Left: You also define risk differently.

Cheryl Carner: We're accustomed to "process risk" as well as "credit risk." So if the wheels come off, we're not afraid of bankruptcies or restructurings. It's all about behavior and transparency on all sides. We're very comfortable with going through the process if we have to.

TLL: Are there macro-economic factors that you worry about?

CC: From a regulatory perspective, banks exiting from leveraged lending will benefit us. Certainly some of the specialty finance companies and BDCs have helped to fill the void. Our competition has increased, but not as much as the middle market cash flow space.

TLL: How do you price risk?

CC: That's usually a big topic of discussion at our investment committee. And no doubt we've seen spread compression over the last 12 – 18 months. We're not much different than others who position themselves as an alternative lender – generally upper single digits over Libor.

TLL: It sounds like some of the situations you look at are almost equity-like risk.

CC: If you're lending at 1.5 x to a newspaper company and you're comfortable these properties will trade at four or five times – is that equity risk?

TLL: Do you take equity in your deals?

CC: We don't ask for it. If something warrants getting equity, then it's probably not for us. We don't want to be playing in the same game as our clients.

TLL: I know you have raised an SBIC. Where does that fit in your strategy?

CC: It's just another lending platform – there's no difference in the loans we underwrite for that vehicle. The defining difference is whether it qualifies to be in a SBIC.

TLL: How did your portfolio fare during the Great Recession?

CC: It did well. There were a few transactions that went through bankruptcy, and we also had some ABL facilities that got liquidated. In both cases things came out well for us.

TLL: Our standard last question is what has been the biggest surprise for you?

CC: I've been surprised how long we've been in this "Goldilocks" period.. And as a result there's been a lack of true restructuring deals. Given the environment, it's hard to see when or if "classic restructuring" comes back.

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