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Remember the good old days (i.e. two years ago) when you judged deals by how well they fit into your credit box? And for the tougher deals, we as lenders would get creative and think 'outside the box'. Well, after two years of economic chaos, nothing fits the box anymore. Everything seems outside the box, and maybe the reality is that there is no box anymore. It appears that we have also said goodbye to our friends "the wheelhouse", "the standard", and "the norm".

For the last two years, businesses have had to face the reality of declining revenues and profits. And for those businesses that were slow to react and sluggish in cutting expenses, big losses created upside-down balance sheets, resulting in a deterioration of the company's net worth.

Specialty lenders everywhere have seen increased financing opportunities. But the ever-increasing number of opportunities has been tempered by decreasing credit quality. What do you do with a deal that does not fit the standard advance rate box, or when traditional metrics do not provide the usual level of comfort? Simply thinking outside the credit box is not a solution anymore. Today, the metrics are different. Each deal has its own story, its own drama, and its own challenges.

Successful asset-based lenders now have to look beyond the traditional metrics and standard structures, which requires more sophistication and greater expertise. It means that we have to "get under the covers" and look at the intangible metrics, such as the quality of the management team, the expertise that they bring to the table, and their ability to execute a strategic plan.

Therefore, lenders have to approach transactions in a number of different ways. At Presidential, traditional collateral and financial review is only the beginning. We also include the following measures:

- **Request and review cash flow projections:** When collateral ruled the day, projections were not a critical component of the financial package. Today, it is a crucial measurement of the company's ability to plan, manage and succeed.
- **Understand the strategic plan, and strategic vision, of the borrower:** What does the management team hope to accomplish? What is their measure of success? Are they hoping only to survive, or do they have a strategic vision of what the company's success looks like? Do they have the expertise and capacity to accomplish the plan?
- **Strength and capacity of the capital partner:** Whether a company is owned by a single shareholder, multiple shareholders, or supported by private equity, it is important to understand the ability of the company to obtain additional capital or sub-debt, should it be required by future circumstances.
- **Relationship:** We view our relationship with the client as a partnership, and we seek clients that value the partnership aspect of what we do. When this is done well, it facilitates proactive communication, which leads to new opportunities as well as helping to avoid stressful situations. Our interaction with the management team, and the emphasis placed on their knowledge and expertise, is a deciding factor in determining which deals we pursue.

These are the foundation blocks to structuring a successful transaction. Confidence in management, built upon a strong relationship, creates an environment where strategy and structure can be successfully defined. Without these, it is difficult to overcome the various components that define an outside-the-box transaction.

All of this is done with an eye toward the future, because the closing is just the beginning of success. Money out the door may make for a successful transaction, but the execution of a partnership, in spite of the drama and challenges, is what will make us all successful lenders. TSL

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