

Press Release

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MUFG CITES KEY TRENDS IN ASSET-BASED LENDING

As Credit Cycle Matures, Bank's Head of Asset-Based Finance Business Advises Prudent Risk Management, Greater Distinction Between Middle-Market and Large Companies

NEW YORK, MAY 7, 2019 – Mitsubishi UFJ Financial Group (MUFG), Inc., the world's fifth-largest financial institution by assets with approximately \$2.7 trillion, cites a number of current trends in asset-based lending as observed by **Ed Gately**, Head of MUFG's Asset-Based Finance group.

Mr. Gately, a Managing Director, outlined the trends to a group of financial journalists at a recent session of **MUFG Explores**—an issues-based series featuring MUFG subject-matter experts—at the firm's New York offices on April 30.

Asset-based lending (ABL) is a method of providing companies with working capital and term loans that are secured by various forms of collateral such as real estate, inventory, machinery and equipment, and accounts receivable.

Mr. Gately said the following trends are becoming increasingly apparent at what is now—10 years after the economic downturn of 2008–2009—a mature stage of the credit cycle:

- **Structures and advance rates:** Structures continue to loosen and advance rates are becoming more aggressive as we near the peak of the credit cycle.
- **Commoditization:** Certain loan structures are becoming commoditized in usage. This commoditization is notable among large corporate transactions led by private-equity sponsors, who are replicating structures they've already deemed successful in previous transactions with similar companies.

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- **More FILOs:** Over the past few years, there has been a rise in the use of first-in, last-out (FILO) loans, which contain an advance against the most aggressive form of collateral. Mr. Gately estimates common advance rates in asset-based lending at approximately 85%, whereas the advance rates of FILOs can reach 90% or even 95%. Moreover, higher advanced rates are increasingly being used for all different types of collateral that present greater risks.
- **Looser covenants:** It is increasingly common to find more relaxed contractual covenants—even to the point where companies can be on the verge of bankruptcy before they ever default on an asset-based loan.
- **Aggressive lending in the middle market:** Asset-based lending is becoming more aggressive among middle-market companies, many of which don't have the depth of capital and resources to withstand an economic downturn as strongly as their larger counterparts. Although not all types of collateral will necessarily perform in a similar fashion when the economy softens, Mr. Gately advocates for a more careful distinction between middle-market borrowers and large borrowers.

“Recently we have seen a number of lenders seek to expand their business by employing aggressive strategies,” said Mr. Gately. “However, with lending standards loosening, these plans are often too risky and don't take longer-term consequences into consideration. That's why it is critical for lenders to maintain rigorous credit and underwriting guidelines as they pursue growth opportunities.”

He adds that ABL used to be stigmatized as an option of last resort for corporate borrowers that found it difficult to qualify for a traditional bank loan or line of credit. “This is no longer the case,” Mr. Gately said. “ABL has become more acceptable for consideration nowadays—even by investment-grade borrowers—because of its accommodative structures that require little or no covenants.”

MUFG took a significant step in enhancing its asset-based finance business with the hiring of Mr. Gately in February 2017. With 35 years of experience in asset-based lending, he oversaw a number of enhancements to the group, which now has underwriting portfolio management and loan-origination support on both U.S. coasts, embedded in MUFG's regional and wholesale banking businesses.

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About Mitsubishi UFJ Financial Group, Inc.'s U.S. Operations including MUFG Americas Holdings Corporation

The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's leading financial groups, has total assets of \$337.4 billion at December 31, 2018. As part of that total, MUFG Americas Holdings Corporation (MUAH), a financial holding company, bank holding company and intermediate holding company, has total assets of \$168.1 billion at December 31, 2018. MUAH's main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides a wide range of financial services to consumers, small businesses, middle-market companies, and major corporations.

As of December 31, 2018, MUFG Union Bank, N.A. operated 352 branches, consisting primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia, as well as 22 PurePoint® Financial Centers. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, private placements, collateralized financings, securities borrowing and lending transactions, and domestic and foreign debt and equities securities transactions. MUAH is owned by MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. MUFG Bank, Ltd., a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc., has offices in Argentina, Brazil, Chile, Colombia, Peru, Venezuela, and Canada. Visit <https://www.unionbank.com> or www.mufgamericas.com for more information.

About MUFG

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with over 1,800 locations in more than 50 countries. The Group has over 150,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world.

MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges. For more information, visit <https://www.mufg.jp/english>.

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