Lead Left Interview – Mary Katherine DuBose

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This week we chat with Mary Katherine DuBose, Co-Head of Asset Backed Finance and Securitization, Asset-Backed Finance, Wells Fargo Securities. ABF provides direct structured lending as well as the underwriting and distribution of asset-backed securities for over 500 clients and a risk portfolio of approximately $120BN across consumer, commercial, residential and corporate debt sectors.

The Lead Left: Mary Katherine, thanks for making time for us. I saw you on a great panel at the recent Milken conference, so wanted to continue that dialogue. What's your view of this market?

Mary Katherine DuBose: Given the tightness of liquidity in the broadly syndicated loan market, we're seeing folks migrating into the larger middle market, even the traditional middle market. These are companies with $15-40 million dollar ebitda. We are witnessing higher leverage combined with weaker covenant packages than we have in some time.

TLL: We agree with that observation. Does this worry you all at Wells?

MKD: The market is diversified and fragmented, therefore the middle market encompasses a large opportunity. However to see middle market borrowers with excessive leverage and weak to no covenants at this stage of the recovery cycle it is concerning and we are watching. We are more cautious today.

TLL: What about new entrants of middle market managers? Does some of their lack of experience in the space concern you? What do you look for in these teams?

MKD: We always look for teams that have worked together for a long time. We look for them to have strong private equity relationships. It's also preferable for them to have a superior origination model, versus a pure acquirer of loans. The latter strategy we believe produces weaker structures. We look for teams with excellent track records, of course.

It also helps to have different types of investors, and different types of investments. For example, we've looked at teams that invest in early stage venture capital. We know our asset approval process won't line up well with that kind of strategy.

We have done some new platforms, although as with the case of Churchill, it's with managers we know well. Very similar to the way you all have built your asset management model. We are spending more time in this market doing more with current clients.

TLL: You mentioned on the Milken panel that Wells is building a business around providing products that non-banks don't want to provide. Could you expand on that?

MKD: We at Wells have found a regulatory compliant way to lend to the asset class. Most of our collateral are pools of leveraged loans and we provide a day one assigned value and advance creating an attractive leverage position at the asset level for Wells.

TLL: What about new middle market CLO formation?

MKD: We are very bullish about activity in that space. Year to date, we've launched more middle market CLOs than in any previous year. The growth of investors in the space is something we are following closely.

The number of CLO investors is growing. There are two reasons for that. First, it's the performance of the asset class; and second, the track record and performance of the top managers. Overall Wells Fargo as a placement agent is positioned well and comfortable about our size and scale.

To be continued the week of July 3

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