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ABI Central States Workshop 2008

Business Subprime Lending Issues: Whoa to the Woes

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Blurring Distinctions Among Types of Financing

1

Senior Secured

- Banks
- Other Financial Institutions (for instance, asset-based lenders)
- Full or Partial Liens

2

Senior/Unsecured

- “One Stop Financing”

3

Junior Secured

- Tranche B

4

Mezzanine Lending

- Unsecured
 - Warrants
 - Conversion Rights

Blurring Distinctions Among Types of Financing

5

Hedge Funds

- “Traders” (18 – 24 Months)
- “Holders” (Multiple Years)
- Many Will Take Multiple Pieces of Capital Structure

6

Private Equity

- 5 – 7 Year Holding Periods
- Mostly Leveraged Buyouts

7

Collateralized Loan Obligations

- Loans bundled into single purpose units that are then sold to investors
- Not on banks’ balance sheets

8

Bankruptcy DIP Financing

- In-place lender is often the provider

9

Bankruptcy Exit Financing

- Highly dependent on post-filing performance of company

10

Angel Investors

- Hardest to find
- Usually for equity transactions under \$1 million

Inter-creditor and Subordination Agreements

- Disputes
- Loan Modifications
- Standstill Provisions
- Buy-out Options
- Distributions
 - Out of Court
 - Bankruptcy





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