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Moving with Speed and Discipline

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"Where we differ a little is that CEO Jerry Dunn and the investors have intentionally focused on the small and middle market," MacManus says.

SAN DIEGO—At the Mortgage Banker Association's CREF/Multifamily Housing Convention & Expo running here through Wednesday, A10 Capital's Tom MacManus will share the stage with experts from Blackstone and TPG in a panel discussion of "The Evolution of Private Debt Funds." A10's own story—a nimble lender specializing in the middle-market segment, but backed by some of private equity's heaviest hitters—is something of a standout in the current lending environment, not to mention a juxtaposition with the likes of Blackstone. President, strategic accounts with A10, MacManus gives GlobeSt.com the rundown on what makes it tick.

GlobeSt.com: Tell us about the private equity firms that have chosen to invest in A10.

Tom MacManus: A10 has a mix of some very high-quality institutional investors, including HIG Capital, which made an initial investment back in 2012. Subsequently, there were additional investments by BlackRock, Thomas H. Lee's affiliated credit group, as well as KKR, which made an investment in early 2016. That private capital has enabled us to compete against the conduit lenders and differentiate ourselves as a portfolio lender.

GlobeSt.com: For private equity firms, why do this through A10; what advantages are there to not just deploying the capital directly?

MacManus: These firms have various methods of deploying capital with different platforms. Some are investments in operating companies like ours. I think the advantage we bring to someone like that is a very seasoned management team, and a skilled, risk-adjusted approach to the business.

What's good about our platform is that we have as much capital as we need, but by the same token, we are extremely disciplined with our risk assessment and extremely focused on generating attractive risk-adjusted returns. We don't want to be in the position of funds that sometimes are so focused on getting the money out that they're less disciplined about how it gets out. That's a noteworthy difference we have compared to some other types of platforms, as well as investing in regulated companies where they have other types of constraints imposed upon them on how to deploy capital. We can be a bit more entrepreneurial.

GlobeSt.com: What types of solutions can A10 offer versus more regulated companies?

MacManus: There are times when regulated banks or institutions have to be concerned about a concentration risk, for example. Maybe they have too much concentration in real estate and not enough in C&I business loans or consumer loans. They may have concerns about their process, in terms their timing on how they can execute on the transaction. They may have certain risk-based capital rules, and even though we can be prudent, we just don't have those outside forces, whether it be timing or balance sheet composition. We do what we think is appropriate and prudent; I believe the firm can say we've never had a loss on a loan.

Having been a banker myself, I can say that sometimes it's very frustrating for banks. The good news is that they have a cheap source of capital; the bad news is that government regulation comes with it. We have a more self-imposed discipline, if you will.

GlobeSt.com: There have been many so-called alternative lenders that have come into the space in the past few years. How does A10 differentiate itself from them?

MacManus: There are a lot of good competitors out there, and we respect our competitors. Where we differ a little is that CEO Jerry Dunn and the investors have intentionally focused on the small and middle market. A number of these debt funds, and private equity groups that create these funds, have a lot of capital to get out and have a tendency to go large with transactions on an individual loan basis. We're in that $2-million to $35-million loan space, whereas the debt funds often start at $30 million and go up.

We often find ourselves representing a very sophisticated solution to the small and middle market, bringing the same types of solutions that the larger clients would consistently get from the debt funds. We do larger transactions on a portfolio basis, but not on an individual property basis. So size is a differentiator, and while a lot of those debt funds are adept at moving somewhat swiftly, we're consistently moving swiftly. It has to do with our track record and how we approach the market.

GlobeSt.com: Looking ahead into 2018, what are some of the key priorities of A10's clients and potential clients? What types of solutions are they looking for?

MacManus: In a rising rate environment, certainly everybody hopes that the economy grows, which just means more business and opportunity for everybody. However, depending on how fast the rates rise, there could be a little disruption in the market, and certainly no one wants that. But if there is, I would anticipate that we'd be in a good position to take advantage of some of that with people that need to move quickly. We we were very successful in the last market downturn, where people were looking, for example, to buy notes at a discount to ultimately get to the real estate. We'll continue to do what we're doing in a stable market, but we would be prepared to take advantage of some market distress, even if it's only temporary, for people who want to have it at an advantageous price and need to move swiftly.

Check back this week on GlobeSt.com for onsite coverage of MBA CREF/Multifamily Housing Convention & Expo.
