PRIVATE DEBT INVESTOR

German bank lending will ‘likely end badly’

The cheap capital being offered by traditional financiers in the country will harm them in the long run, according to views expressed at a Certior Capital roundtable.

By Andy Thomson 26 March 2018

Debt funds stand to benefit from the problems that are likely to strike German banks, according to participants at a European SME private credit roundtable staged by Helsinki-based fund of funds manager Certior Capital at the SuperReturn International event in Berlin.

“I think banks in Germany will only get more restrictive in their activities,” said Matthias Mathieu, a managing partner at Frankfurt-based fund manager Bright Capital. “They are lending without covenants, far too cheaply and it will most likely end badly. He added: “Banks won’t be big players in the sector for a variety of technical and regulatory reasons and the first downturn will most likely hit them very hard.”

Daniel Heine, a partner at Lausanne-based fund manager Patrimonium, said: “In Germany there is a definite pricing dichotomy: if you make it through the strict ratings process at a bank you can obtain very cheap capital at maybe 120bps. There is no way this is risk-adjusted or justifiable.” As a result, Heine pointed out that SME-focused fund managers are in a good position to invest in companies which have failed to make it through the banks’ credit systems. Heine added that the SME direct lending opportunity in Germany is around five years behind the UK and 20-25 years behind the US. He says some mid-sized pan-European players which have raised large funds are lowering their deal thresholds and that competition from London is being seen on deals over around €30 million. However, he insisted that “the market is big enough for everyone”.

David Bateman, a senior managing director at Harbert European Growth Capital – which provides speciality debt financing to the technology, life science and environmental sectors – said there was “lots of room” in his firm’s part of the market despite Harbert having achieved 20 percent IRR with a 12-14 percent contractual element and an equity kicker.