

Headline News:

5/18/12: City, County sign land use plan to limit development in Spokane, WA (www.kxly.com)

5/18/12: Mashpee Wampanoag and Taunton, MA reach agreement for proposed casino (www.businessweek.com)

5/14/12: Gila River awards \$82 million construction contract to build new casino and hotel outside Phoenix, AZ (www.azobuild.com)

5/9/12: Connecticut Tribes reach new deal with Governor Molloy limiting fees the casinos pay to the State (www.theday.com)

5/7/12: United Auburn Indian Community and bwin.party enter into online poker agreement (www.prnewswire.com)

Are Debt Markets Overheated?

By David Howard

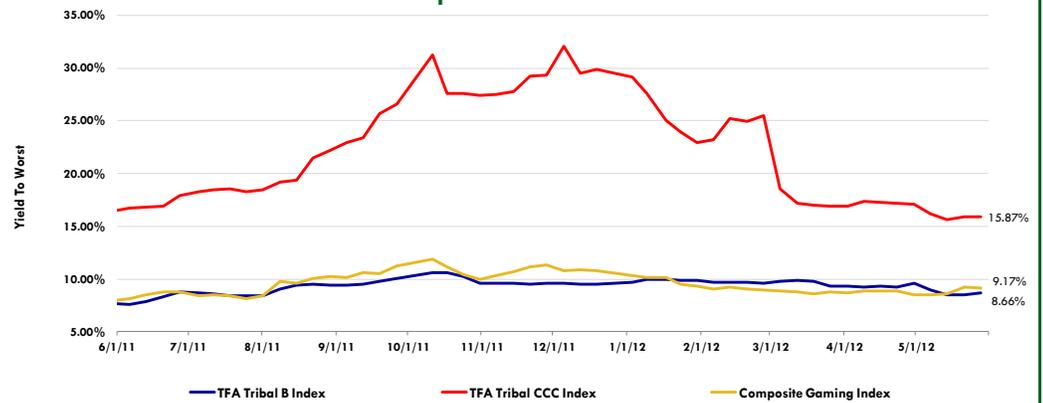
As bankers for over 25 years in the gaming and real estate industries, we have certainly seen our share of credit cycles and overheated debt markets. Subsequently, after each downturn in the capital markets, we hear senior bank officers say “I don’t want to live through that again...we’ve learned our lesson” but lo and behold, five years later, the markets are overheated again. What causes the same actions to occur that typically produce the same results? One reason is banks tend to be reactive, not proactive. As a client once told me, banks want to sell you an umbrella when it’s sunny and they want it back as soon as it begins to rain.

of basic economics, supply and demand: supply being the dollars available to lend versus demand being the need to borrow those dollars. When banks come out of a credit downturn, they are usually licking their wounds from previous bad loans and are more thinly staffed. The credit officers are protecting themselves from more bad loans by implementing overly stringent credit standards and lending only the most creditworthy borrowers – and these loans carry high interest rates. Bond and institutional loan investors on the other hand are more proactive during this period and invest in the more challenged credits with higher coupons to fill the void of

Credit cycles are a product

(Continued on Page 2)

TFA Index Chart: A Comparison of HY Bond Interest Rates



Source: Wall Street High Yield Research
Notes: Yield to Worst represents the current average interest rate on bonds that comprise each index. Composite Gaming Index represents the average market interest rate of over 80 corporate and Tribal high yield gaming issues



(Continued from Page 1)

the lack of bank money.

As the economy begins to recover and their loan deposits grow, the banks realize that they need to make money again and they react... lending is now in vogue. The banks start with aggressive calling on their best customers and start lending again. However, the banks typically identify the same best customers and the competition to win these prize customers increases the availability of bank money which these clients use to repay the more expensive bond money. Ultimately, the competition starts to reduce interest rates as well.

Now the banks and bonds are reacting to strong credit markets and the supply of dollars to lend continues to grow. The demand for the strong credits is full and the lenders begin to look at more risky borrowers with higher leverage, less amortization and more speculative repayment sources. The competition for lending becomes fierce and the only real source of debt repayment becomes the hope that the next lender will provide refinancing.

With most industries that deal with supply / demand issues and market cycles, it is usually a

function of pricing. However, the debt markets have the added component of risk as well as price. When the lending risks begin to exceed acceptable limits, this is usually when the credit bubble can burst and the cycle starts all over again.

The debt markets are clearly strong right now and it is a good time to be a borrower. Interest rates are extremely attractive. However, lenders are cautious and can be tough given their rearview mirrors are still reflecting the 2007 frenzy. Right now in Indian Country, while lenders are being more aggressive, they are not pushing the boundaries of unacceptable risk. For a tribe interested in finding capital in this environment, we recommend approaching lenders when you are fully armed with your alternatives, you know how to mitigate your unique risks, and you are prepared with a model to analyze the nuances that lenders will inevitably present. Be cautious before you capitalize on an offer – the market is hot but not overheated. This is a good thing for Tribes as capital should remain available.

Tribal Financial Advisors

Kristi Jackson
(310) 341-2335
kjackson@tribaladvisors.com

David Howard
(310) 341-2795
dhoward@tribaladvisors.com

Jeffrey Heimann
(310) 341-2518
jheimann@tribaladvisors.com

William Crader
(310) 341-2336
wcrader@tribaladvisors.com

Dan Ziegler
(310) 341-2339
dziegler@tribaladvisors.com

Ellie Escamilla
(310) 341-2338
eescamilla@tribaladvisors.com

TFA Tribal Board of Advisors

Rick Hill
Chairman, Tribal Board of Advisors
(310) 341-2796
rhill@tribaladvisors.com

David Greendeer
dgreendeer@tribaladvisors.com

Kip Ritchie
kritchie@tribaladvisors.com

Tom Rodgers
tom@carlyleconsult.com

Valerie Spicer
vspicer@tribaladvisors.com

John Tahsuda
jtahsuda@tribaladvisors.com

Daniel Tucker
ssilva@sycuan-nsn.gov