

ABFJ EXCLUSIVE: EXECUTIVE INTERVIEW

The Theory of Natural Selection: An Interview With Bob Arth

BY HOWARD BROD BROWNSTEIN, CTP

For this year's fall conference issue, Howard Brod Brownstein chats with Bob Arth, the recently appointed president of Bank of America Business Capital. Brownstein asks Arth a question that may be on the minds of asset-based lenders: How do they do it?



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HOWARD BROD BROWNSTEIN: You've recently become president of Bank of America Business Capital (BABC). How large is Bank of America's ABL business in terms of commitments, loans outstanding and organization?

BOB ARTH: We are one of the largest asset-based lenders in the world, consistently ranked at or near the top of the asset-based league tables both by volume and number of deals, with more than 20 offices serving the United States, Canada and Europe. We pride ourselves on a dominant market share in both sole lender deals and large, syndicated transactions, and serve both the middle-market and large corporate marketplaces with flexible products that are in demand by prospects and clients. Our managed commitments total more than \$50 billion, with committed lines of credit well in excess of \$25 billion. Our team includes more than 350 associates with very deep and broad experience in asset-based lending and capital markets.

HBB: What are your goals for Bank of America Business Capital for the next year, and for the longer term?

BA: We remain extremely focused on serving our clients and prospects by maintaining and developing the necessary products and skills to meet standards of excellence — ours and theirs. Like many of our competitors, we want to grow, but we won't do so at the expense of our credit standards and asset quality, recognizing that we operate in a highly competitive environment that isn't always disciplined. Additionally, although we are currently lending internationally, in the long term we want to further expand our capabilities into more countries as we assist our clients' strategies. While we have made significant strides in this regard, we can further develop these practices by doing our homework up front to provide solutions that make sense.

HBB: What are the key experiences in your career that prepared you for your new position, and how would you characterize your leadership style?

BA: When I began my professional career I benefited from two nearly year-long management programs that enforced a family credo: hard work does pay off. These programs challenged me to work endless hours while investigating paths to accelerate my career growth. I started out in the retail stores — an experience every banker should have, as it allows face-to-face contact with the public every day. After several quick promotions, I was challenged by my managers to get training to become a commercial lender — something we did very little of in stores, but which was viewed as critical for leadership roles in a commercial bank. Another important lesson early in my career was that if I wanted to advance, I should know my manager's job well and start doing that job before the position became available. The theory was to be the natural selection for your manager's job when the opportunity presents itself.

My leadership style is to be clear and concise, inclusive versus exclusive, and to work as hard and fast as I can. I'm a firm believer that I should lead by example so the entire team knows and understands our expectations of them. Our mantra is that to remain the industry leader, we must continue to meet and exceed our clients' and the bank's expectations and goals each day.

HBB: How is Bank of America's approach to the ABL business different from what you have seen elsewhere in the marketplace? What makes Bank of America distinctive?

BA: Bank of America Business Capital uses a partnership and team approach within our bank to ensure the client's needs are paramount in everything we do. If we're working with middle-market clients, we partner with our commercial bank so we can combine their relationship skills with the sharp credit and monitoring skill of our Business Capital team to deliver client satisfaction. Conversely, if we're working with large corporate clients, we partner with our investment bank in a similar manner. But since these clients' needs can be more international, time sensitive and complex, we expand the team to ensure we have the most appropriate skills available.

Our partnership structure enables us to move seamlessly among our product sets, so that when a financing opportunity presents itself — cash flow or ABL, bank or bond — the right team is already discussing multiple financing solutions with the client. Our partnership approach enables Bank of America to differentiate itself from most other institutions. In the marketplace, we frequently see various lending units within the same organization competing against each other, which is often confusing for the client and doesn't provide the advisory and consulting service that we deliver at Bank of America. Lastly, we are indifferent to which lending unit or products the client chooses, as long as it is the best way for them to achieve their objectives and drive their satisfaction with our bank.

HBB: We've been through the worst economic downturn since the Great Depression, and indications are it may not be over yet. In the face of such challenges, how has Bank of America continued to go to market and serve its customers during this difficult time?

BA: Bank of America Business Capital has been able to operate without missing a beat, as we have remained liquid and capable of assisting our client's needs. We have a big balance sheet that we are using to ensure we can win and maintain client satisfaction, when many of our competitors can't. We recognized this was a differen-

tiator, and that not all of our competitors operate as seamlessly. We have demonstrated to our clients that ABL is an appropriate solution, as they work towards having flexibility to manage their businesses through all economic cycles. For us, 2009 was our most successful year ever, and if the first eight months are an indicator, 2010 will be even better. We're accomplishing this success by serving our existing client base with amend-and-extend transactions, recapitalizations and dividend distributions. We've also won new middle-market and corporate relationships where our agility, speed to market and proven track record for delivering on what we promised are of paramount importance.

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HBB: What do you see for the ABL industry in the coming year, in terms of economic outlook, asset valuations, etc.? How will Bank of America continue to grow and prosper in the next few years?

BA: The economy is showing moderate improvement, but clients remain cautious about the sustainability of this growth. Until confidence grows, we don't expect significant loan utilization improvements. However, we do expect the competitive landscape to continue its recent aggressiveness. We, and many of our peers, have seen contractions in our loan portfolios, so we're working diligently to re-deploy our available capital into earning assets. With regard to asset valuations, we think many sectors have already seen bottom and are now moving upward, but this obviously is very individual to specific sectors, so generalizations can be misleading.

Bank of America Business Capital expects to grow and prosper on our strength of being the leader in the syndicated asset-based financing arena. We will continue to [increase our service to] our middle-market and corporate clients, so that each can readily identify their extreme importance to us. We also will stay active and abreast of the broader capital and loan markets, so that our clients benefit from our seamless delivery of financial alternatives and products. A clear differentiator for us is that Business Capital remained open and available with solutions for our clients during the economic downturn, while many other lenders couldn't provide support. We also know our clients and prospects expect us to deliver market terms and conditions, and by being the leader in syndicated transactions, we think we offer them the most current and thorough evaluation of this information so they can accurately evaluate all of their options.

HBB: What are the greatest challenges facing Bank of America Business Capital?

BA: There are always challenges when you manage businesses with significant scale. For example, we and our top competitors could be challenged to generate the same or higher levels of revenue that

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we've attained over the last two years, if utilizations don't improve with the economy. Fees and margins are clearly under pressure, as we all are looking for ways to grow and maintain our businesses while the economy recovers. Additionally, if the equity and bond markets become erratic, it could be harder to execute on sponsor and M&A transactions, because financing certainty may be difficult to attain. We've also seen significant investor contraction, so executing on larger transactions could become more challenging if the remaining investors aren't willing and able to commit their balance sheets as they've currently been doing, or new investor classes aren't attracted to asset-based transactions.

HBB: How has Bank of America's cost of capital benefited its ABL business, (i.e., providing a possible advantage versus non-bank ABL competitors)?

BA: Bank of America Business Capital benefits from the strength and liquidity of the bank's balance sheet, which few of our competitors can match. Obviously, as a deposit-gathering institution, we hold unique advantages that the non-bank ABL competitors do not. That said, most of our competitors are banks that can also gather attractive liquidity from deposits, so we focus on our other advantages. For example, we have done an exceptional job in managing and reducing the risk in our portfolio during the most recent economic cycle, without abandoning clients or incurring large losses. Our charge-offs have been very tolerable and proportionally less than many of our peers, based on the CFA-gathered data. That helps us manage our reserves and capital costs effectively, and use that as a pricing advantage without sacrificing yield.

HBB: How does Bank of America Business Capital integrate itself within the bank's other services? How do its customers get the full benefits of dealing with such a broad-based and powerful institution?

BA: Bank of America Business Capital is an integrated line of business and product within Bank of America, reporting through our global commercial bank. We are the global ABL financing platform for the entire bank, and as such have access to the full power of our franchise. We are able to leverage all of the industry leading products in our bank to service and benefit our clients, and that enables us to maintain and grow symbiotic relationships into long-term partnerships. Clients benefit by having multiple points of access to our products by utilizing our team and partnership approach, and we never lose sight that most clients want a single point of contact to navigate an institution of our size. We accomplish that by having our client managers make sure all banking and advisory services, including credit, treasury, foreign exchange, M&A and equity offerings, are easily available and accessible to our clients. The Bank of America strategy is to provide a simplified approach to an often complex set of solution needs, using a unified client approach among our internal teams to result in seamless delivery.

HBB: Where does Bank of America get new business?

BA: Bank of America Business Capital's new business funding sources are a combination of new bank clients, existing global commercial bank and investment banking clients and prospects of our bank. Our internal client referral base is strong because we're an integral part of the bank, with our partners well-versed in the industry leading practices and performance of our team. With regard to new logos, our new business development associates and the broader

"BAC marketing machine" source prospects through client referrals, private equity firms, direct inquiry, intermediaries, accountants, lawyers, fund managers, etc.

HBB: When borrowers stumble, ABL groups have historically been different from other groups within lending institutions in that "ABL does its own workout." Is this true at Bank of America, and will it continue to be so?

BA: It is absolutely true, and we will continue to operate and manage our own workouts given our stellar track record of preventing losses. We also see this as a competitive advantage, in that our clients and investors tell us they want client manager stability throughout their dealings with our bank. We also know and hear from clients that some competitors move challenged customers to workout groups within their firms, and that generally leads to customer dissatisfaction. Our workout strategy enables us to keep relationships healthy. The client gets the benefits of continuing to work with the same team that understands their operations intimately, and we benefit from better decision making.

HBB: It is said that, "When the water level drops, the rocks appear." Has Bank of America seen an increase in fraud and other borrower wrongdoing during the downturn? How does Bank of America guard against such risks?

BA: Fortunately we have not experienced an increase in fraud from our clients. In fact, we have been impressed by how many have effectively managed their businesses to stay liquid and solvent, so that our problem loans have remained very manageable. That said, we know we're not impervious to fraud, and we're always on guard. We constantly monitor the marketplace, and use our field examination staff of more than 100 associates and our operational staff of more than 150 associates, in conjunction with outside appraisers and professionals, to remain diligent, alert and abreast of early warning signs. For example, if we see operating performance trends deteriorating, we initiate stricter "blocking and tackling" adherence. Reporting timelines will be shortened, appraisal and field examinations frequencies will be increased and reporting timeliness will be mandatory — all so that our collateral is being more than adequately protected.

HBB: It is said that, even in the banking business, the "real assets" — your employees — go home every night. How do you find and retain top talent to help Bank of America meet its goals?

BA: Bank of America has more than 280,000 associates globally, and provides a variety of benefits and flexible work programs to help them balance work and life. The bank offers competitive health and wellness benefits, as well as a pension and 401(k) with match. We have other unique benefits, such as a \$3,000 reimbursement for a hybrid car purchase and \$8,000 in adoption financial aid. We have a very strong performance planning and career development process, and associates can take more than 10,000 courses to strengthen business acumen and gain additional skills. We want to continue to be a best place to work and an employer of choice. Therefore, we focus on attracting and retaining top talent, and growing from within our organization.

HBB: What sort of training, including ongoing education, do you encourage in your organization?

BA: Through the bank's learning program, there are several career development modules, including Web-based training as well as instructor-led training. The bank also has nearly 40 rotational programs for undergraduate and graduate hires coming into the bank. These programs vary by line of business and in length. Additionally, we have standard yearly compliance, regulatory and code of ethics training that all associates are required to take. Furthermore, we're organized in teams within our line of business, so junior associates can benefit from working and interacting with seasoned professionals to accelerate their development as well as gain critical mentoring to help career growth. Lastly, in an ever-changing technology environment, we are committed to ensuring our associates remain abreast of the most current tools they need to complete their tasks effectively and efficiently.

HBB: What role does Bank of America Business Capital play in the community, (e.g., through CFA and other organizations, community service, etc.)?

BA: Our senior leaders are extremely active with the CFA, TMA and ACG organizations. They frequently participate in panel discussions, and conferences are well attended by Bank of America Business Capital associates of all levels. Associates receive two paid volunteer hours a week, and we encourage associates across the bank to give back to the community. We also have a matching gift program that associates can leverage. Bank of America remains very focused on

community services, and the organization is a major contributor of time, talent and capital to a broad cross section of charitable organizations across the globe. Our organization made a ten-year, \$1.5 trillion commitment to the communities where we do business, and through that we're active in many ways to try and help communities and businesses prosper alike.

HBB: What words of advice would you give to someone coming out of business school or college today and joining an ABL firm?

BA: Bank of America is a place where you can have a career, not just a job. The company really cares for its associates, and provides incredible benefits and other supportive programs to help them balance work and life. As a global organization and one of the largest financial institutions, we offer new hires multiple opportunities to work on real initiatives that impact the business. They also meet with senior leaders and subject matter experts to grow their skills and showcase their expertise. In regards to the market, I would say: Be cognizant that it is a challenging economic environment. Competition is increasing without significant signs of economic improvement. Graduates should evaluate their areas of interest, and learn about the companies they want to join as whole institutions, not just the area of their specialty. Understand a company's culture, core values and businesses. This will help the graduate understand if the organization is a good fit for them and meets their desired career path. [abfj](#)

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