TFA Monthly Newsletter

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It's a Good Time to Be a Borrower

By David Howard

With the strength of the financial markets and historically low interest rates, it's a good time to be a borrower. Presently, TFA is very active in both the bank and bond markets. Below, we provide a brief update on the status of the two primary capital markets available to Indian Country.

U.S. Secured Overnight Financing Rate

Source: Wall St. Journal , Federal Reserve Bank of New York

Bank Market

The commercial banking market has steadily improved since the depths of the pandemic in 2020, when new lending was effectively put on hold. A recent report from the FDIC on commercial banks' Q2 2021 performance revealed that FDIC-insured institutions reported a 281% increase in net income over the same quarter in 2020. Deposits are now 29% higher now than in 2019 and banks need to put that money to work. Loan growth and credit availability have also improved. Excluding PPP loans from the prior year, loan growth was up 1.2%. However, banks are continuing to see downward pressure on net in-

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IN THE NEWS

5 Things You Need to Know this Week
10/4/21 – indianz.com

Projects Get Sizeable Cut of Outdoor Act Funds
10/17/21 – indiancountrytoday.com

Unrestricted Online Gambling is Set to Begin Tuesday in Connecticut, Ushering in Broadest Expansion in Decades
10/18/21 – courant.com

Casino Revenue Rebounding in Oklahoma
10/18/21 – mcalesternews.com

US Supreme Court to hear Ysleta del Sur Pueblo gambling case in fight against Texas
10/18/21— elpasotimes.com

Wyoming Aims to Expand Sports Betting by End of Year
10/21/21— trib.com

White House announces new tribal nations summit date
10/27/21 – indiancountrytoday.com

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terest margins. The average net interest margin contracted 31 basis points to 2.50%, the lowest level on record. Overall, commercial banks are well capitalized and ready to lend (overall equity capital rose 2.5% from Q1 2021 to Q2 2021).

Because of the recent success of many tribal gaming operations, banks lending to Indian Country have seen their outstanding loan balances go down, credit spreads reduced, and future lending prospects diminished as tribes are prioritizing debt reduction. Many clients are on the verge of being completely debt free within a few years.

The big trend we are seeing is the strong competition amongst the banks right now. Many are willing to increase their loan position significantly and at very aggressive rates. Other lenders are willing to look at higher-risk transactions and non-gaming opportunities which may produce higher interest margins for them. As an example of this lender appetite, one tribe we are working with on a large non-gaming loan request has seen several banks pitch them a fully underwritten deal (with no participants required to close), with greater than 50% balloon structures, modest tribal liquidity requirements and pricing of roughly 3%.

Bond Market

Bond market activity also remains strong. Overall corporate bonds rated BB and B have seen their yields drop by 110 and 128 basis points, respectively, since last year. The riskiest bonds, rated CCC+, have seen their yields drop by over 3.0% since 2020. With the 10-year treasury rate increasing over the past year by 0.65% , this means bond investors are accepting more risk at reduced returns. This is very good news for new issuers of high yield bonds.

Yields on corporate gaming bonds have also been reducing with almost all domestic gaming companies' debt trading below 5% and many below 3%. Bond investors are searching for high-yielding assets. We have seen traditional bond buyers seek to take down large loans before they even go to market by offering attractive rates and debt structures. This translates to good news for any tribal bond issuer.

Similarly, the municipal market remains borrower-friendly, particularly in the higher-yielding non-investment grade area as investors again trade increased risk profiles for yield. As tax rates are widely expected to increase in the near-intermediate term, this market should continue to be active.

Take-away

Many tribal councils are debating the best use of the recent cash inflows from ARPA to create economic diversity or to improve their communities with longer-term, closer to home initiatives like housing, broadband, infrastructure and healthcare. For the right project, coupling ARPA funds with well-structured debt may be a way to stretch those funds and create a greater impact. It's a great time to be a prudent borrower!

TFA
201 Continental Boulevard
Suite 110
El Segundo, CA 90245
tfacp.com

KRISTI JACKSON
CHAIRMAN
310.341.2335
kjackson@tfacp.com

DAVID HOWARD
CEO
310.341.2795
dhoward@tfacp.com

FOLLOW TFA ON:

WILLIAM NEWBY
PRESIDENT
310.341.2796
wnewby@tfacp.com

WILLIAM CRADER, CFA
MANAGING DIRECTOR
310.341.2336
wcrader@tfacp.com

BRAXTON SATO
VICE PRESIDENT
310.341.2339
bsato@tfacp.com