

Credit Markets May see Further Tightening

Outlook Fall 2007 - Bond Capital is forecasting a stable business prime rate (base rate) with rising risk premium spreads over the next 6 months for Western Canada. Moreover, this view is supported by the Bank of Canada's recent prediction of interest rate stability through 2009. Credit worthy borrowers in Western Canada will continue to have access to debt

albeit with a premium attached to the risk spread while the capital markets attempt to shake off the US housing and sub-prime mortgage

woes over the coming months. Highly leveraged transactions will get done with more mezzanine debt and equity and with less senior debt as the credit markets seek to increase the reward for risk in a less liquid capital market. Bond Capital feels that the impact will be the lenders base rate plus a borrower specific risk spread premium of 25 bps up to 250 bps for senior debt coupon rates, and 250 bps to 500 bps for mezzanine debt coupon rates respectively. Borrowers should consider locking in their coupon rate for longer terms where possible. If

the availability of credit continues to tighten, this will increase the cost of capital which will lead to the erosion of enterprise values in Western Canada.

Bond Capital advises businesses in Western Canada to review their capital structure. Your next fiscal budget should include an increase in safety capital. In the absence of safety capital it would be prudent to seek more diversity in the corporate capital structure. Business owners should recognize that a lower weighted average cost of capital relative to

that of their competitors is a competitive advantage. Credit worthy businesses should look to gain market share through

creative payment terms and more flexible customer credit strategies and or consider the acquisition of competitors with weak balance sheets and diminishing access to credit.

(Source: Bond Capital, Bespoke investment group)

About the Bond Capital –Bond Capital provides capital for growth, succession and equity withdrawal strategies to small and medium sized enterprises in Western Canada. Bond focuses on mezzanine lending for expansion, M&A, MBO and LBO's.

