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GE Energy Financial Services uniquely positioned to acquire assets from troubled banks

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Matt O'Connor, a managing director and leader of the Financial Institutions Group at GE Energy Financial Services, based in Stamford, Conn., sat down with SNL to talk about GE's recent deal to buy nearly $1 billion of senior secured energy project finance assets from the Bank of Ireland. Struggling since the economic downturn, Ireland's finance ministry forced the bank to quickly deleverage by selling €5 billion of loans to a number of financial institutions. GE's EFS group signed a deal to buy the bank's energy portfolio Oct. 14.

The entire book of business was sold at an average 9% discount to par value, according to the bank. The loans sold to GE were for conventional and renewable energy projects and averaged about $35 million each. They were originated in over 12 countries in North America; the United Kingdom; continental Europe and the Middle East.

What follows is an edited transcript of that conversation.

SNL Financial: The Bank of Ireland had originally said they wanted to sell the energy book as part of a going concern to get as close to par value as possible. Can you say anything about what type of return GE is getting on this transaction?

Matt O'Connor: It was a good deal for both GE and the Bank of Ireland. The discount they have referred to in the press [9%] is largely in line with their higher quality assets. We did get the portfolio at a discount, it does provide us with a good return on our investment, and we believe, a fair price to the Bank of Ireland.

We bought substantially all of their energy assets; the original portfolio was a little higher in dollar value than what we got. There were certain of their loans that were excluded from the purchase. We did not acquire the people.

Why was GE EFS on the shortlist of bidders from the start?

In the almost five years that I have been here, we have built the lending business up to handle projects both in a [wide] geographic area and across market sectors. We have branched out our lending business to include oil and gas; midstream; pipeline construction, and gas storage. This was a unique opportunity in that the Bank of Ireland was looking for someone who was looking to play big, and GE Capital traditionally has been a player of size in the senior secured space; and also [the bank needed] someone who was experienced enough to diligence and understand the assets in a relatively short window of time.

It was reported that the Bank of Ireland was soliciting bids in May 2011. What was GE's timing?

The initial bids started sometime in that time frame. Then we had less than 60 days from the time our bid was put in to place, to the time we had to submit a commitment. That was pretty important to the bank in their process. They wanted to maximize their proceeds and minimize the amount of time it would take to get it done.

Do you expect to see other opportunities like this for GE as more banks are forced to deleverage during this economic downturn, not just in Europe, but possibly in Asia as well? Is this a unique period for well capitalized investors?

I think the answer is yes. We are obviously reading the same news [as everyone else]. We have a lot of banks in Europe and in Asia that we are partners with in transactions. They are actually lenders to us in our equity business, so we are close to a lot of the banks that participate in our sector. We know their teams, and are in active dialogue with them.

When you hear that deleveraging is in process, or about to happen, rest assured we will be a participant in that process, and looking for ways to create value for GE, and for whoever is selling. It is complementary to our origination capabilities with our clients. It is a way to get new clients and new relationships that come along relatively infrequently. We are going to be monitoring the situation and making sure we are a participant in the process if anybody runs with it.

Are you seeing any renewables sector fallout from the DOE loan program review after the Solyndra bankruptcy?

We just announced a few deals in the renewables space where we are continuing to invest, particularly in solar. I think our opportunities in renewables are definitely robust. We see a pretty good pipeline of activity. I don't think you are seeing a shift on our part away from renewables into other technologies. We are supportive of the renewables industry, and I think our investment thesis hasn't changed in that regard.

Much of GE's industrial business is now located overseas. Is that true for lending?

If you look at EFS as an entity, we are predominantly in North America. We play in the developed markets. So where GE on the equipment side has gone much more into the global markets, we focus on certain geographies. We have a strong presence in Australia, India, across continental Europe, in Latin America, and North America. Those are the principal geographies, where we tend to find opportunities that make sense for us, but we are always looking for new markets.

Do you anticipate significant growth in EFS' $20 billion investment portfolio next year?

We continue to get great support from the GE system to grow our asset base. For us it is more about finding those assets that fit the profile we are looking for — that are safe and secure, have good returns, and good partners. We generally have capital to put to work for those opportunities. We enjoy terrific support from both GE Capital Corp. and [parent] General Electric Co. in investing over the course of any given year.

It is our mission to grow our asset base in a way which is consistent with how we have in the past, which is to invest in long-lived assets, strong stable contracts, and great markets. *i*