

Oilers pay higher rate with credit

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The Edmonton Oilers borrowed \$99 million late last month to fund the purchase of the team by new owner Daryl Katz in a transaction that underscores the new realities of sports borrowing in a tight credit environment.

The interest rate yield the team paid was far higher than in sports deals past. The club also agreed to terms, or covenants, that had not been a part of many loans during the more-robust credit environment of a year ago.

An interest rate yield is the number of interest points that a borrower pays above a benchmark rate.

“When the market was overly frothy, we lost some deals because some of the competition was being very aggressive with covenant-lite deals,” said Gordon Saint-Denis, managing director at the lead lender, CIT Group. “The market has changed.”

A typical covenant, as appears in this deal, is that the owner agrees to back up the loan in the event of a team default. Before the credit market turned south last summer, teams were borrowing without needing to put up these guarantees. Such deals were dubbed “covenant lite” and became synonymous with easy money. Now, money is harder to come by.

The Oilers are paying 325 points over the Bankers Acceptance rate, a Canadian interest rate benchmark. The rate was at 3.12 percent last week, meaning the Oilers’ rate was 6.37 percent. The rate does not reflect other fees paid to bankers.

CIT fully syndicated the loan to other banks, meaning those institutions bought pieces of the debt.

By comparison, a loan to the Minnesota Wild earlier this year had to be repriced to 225 points over the London Interbank Offered Rate, another benchmark, from 200 points over that rate. The bank for that deal, Citigroup, said that loan was fully syndicated, but banking sources contend that is true only because Citi held

onto a large piece of the loan. Either way, even after the repricing, the costs rose substantially from the Wild's deal to the Oilers' deal.

"The Wild needed to fail before everyone became convinced we were in a new pricing paradigm," said one banker who requested anonymity because his bank bought a piece of the Oilers loan. By "fail," the banker meant that the original Wild pricing had to be recalculated higher in order to syndicate.

Katz closed on the Oilers at the end of June, completing a \$198 million deal. Katz owns Rexall, one of the largest pharmacy chains in Canada and naming-rights sponsor of the Oilers' home arena, Rexall Place.