

Headline News:

1/30/11: Puyallup Tribe achieves prosperity through gambling
(www.thenewtribune.com)

1/27/11: Arizona state Legislature puts stop to planned Tohono O’odham Nation casino in Glendale (www.azfamily.com)

1/26/11: Coushatta Tribe of Louisiana building new hotel
(www.kplctv.com)

1/19/11: City leaders in Fall River, MA pull offer for land for Tribal casino.
(www.necn.com)

1/5/11: Snoqualmie Casino’s bond rating upgraded by both Moody’s and S&P
(www.SnoValleyStat.com)

Select TFA Mandates:

California Tribe: TFA is engaged as Financial Advisor in connection with an amendment to the Tribe’s existing debt agreement.

Northwest Tribe: TFA is engaged as Financial Advisor and Placement Agent to raise approximately \$200mm of capital.

Mid-West Tribe: TFA is engaged as Financial Advisor in connection with all of the Tribe’s financings, including gaming and natural resources.

Understanding How Lenders Make Credit Decisions

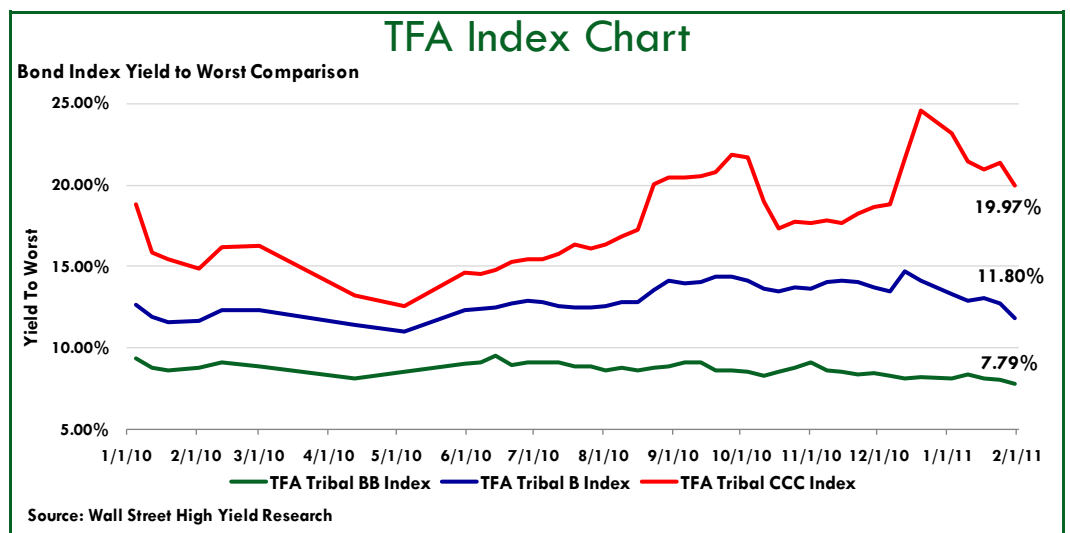
By Kristi Jackson

Do you know that many of the large banks outsource their basics of credit training to third party firms? One firm in particular provides key training to Wall Street’s 10 largest banks. That’s right, most banks teach their new employees the very same principals and fundamentals of how to analyze and evaluate a borrower and a deal. By knowing some of the important elements of these common credit fundamentals, you as a borrower can approach a bank and a lending situation with more confidence and control.

With respect to a Tribe’s enterprises or business ventures, while some loans are made based upon the value of certain assets or businesses, these are less common in Indian Country as Tribes certainly

cannot sell their trust land or some of their more prominent businesses – most notably gaming. Therefore, many of the loans made to Tribal businesses are based on cash flow. The level, timing and quality of the cash flow is the center of a lender’s focus. (Note, here we are referring to business loans; however, loans at the Tribal government level and backed by taxes or other cash flows are analyzed in a similar manner. Loans backed by taxes will be assessed for quality by demonstrating historical consistency, an ability to increase taxes or both. A number of nuances related to government-backed, Tribal municipal financings exist, which we plan to address in a future article.)

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While a lender's understanding of big Tribal issues – sovereignty, governance and stability – is clearly similarly important to any decision to extend credit, the quantitative part of the decision will be driven by this cash flow analysis.

More than the revenues or net income of a business – lenders focus on “EBITDA” (earnings before interest, taxes, depreciation and amortization). Equally as important, particularly given lenders' increasing attention Tribal distributions, is the concept of “free cash flow”. That is, after making all payments required by the business and Tribal owner – including distributions to the Tribe – what is the remaining cash that can be used to service debt? While there are various definitions of free cash flow, the most common definition for lenders is EBITDA minus your maintenance capital expenditures minus Tribal distributions. This basic definition is important to know – it is where lenders start when they assess your ability to repay debt.

Notice that in the common definition of free cash flow, Tribal distributions are subtracted. The higher the Tribal distributions are – the less cash flow is available to service debt – and the lower the amount the lenders will allow you to borrow. As practitioners of tribal finance – our job is to understand these cash flows, and what is most important to the Tribe. Protecting a certain level of Tribal distributions is paramount in any analysis.

Now comes the subjective part of their analysis

– they will assess not only the level of free cash flow, but also how risky they think it is. What are the risks to your business and to your ability to continue to generate this level of free cash flow? For example:

- Is there new competition on the horizon?
- Is your compact maturing and could a new compact include higher revenue sharing payments?
- Do you need to invest significant amounts of capital expenditures to keep the property fresh and attracting customers?
- How about the local economy – is it dependent upon a certain industry, are more people moving into the area, what is the unemployment rate, etc. – is it able to support your business forecast?
- With respect to Tribal distributions, what amount is earmarked towards per capita payments and other programs that the lender may view as being discretionary?

Every business has risk – your ability to help lenders understand the mitigants to these risks will improve your success in getting a better deal. Positioning the Tribe in the best light as it relates to these questions can dramatically improve your access to financing – and the terms offered by lenders.

The more you know about the lenders' process and what they consider to be important, the better you can position yourself in your next financing conversation to attract the most attractive capital.

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