

Story cites Oak Street's success amid tough economy

What Financial Crisis? Oak Street Still Lending to Producers
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While international credit markets are squeezed to the point that some banks aren't even lending money to each other, a small financial institution in Indiana is offering loans to insurance agents and brokers who pledge their future commissions on policy renewals for repayment.

Oak Street Funding, a subsidiary of Bridge Finance Group, closed on a \$20 million credit facility from Indianapolis-based M&I Bank in May, bringing the amount of capital available for loans to insurance brokers and agents to \$270 million.

So how has Oak Street remained in the lending business when the nation's major banks are in such dire shape they need a \$700 billion federal bailout?

"In July 2005, we made a strategic decision that we don't want to be a sub-prime lender to this industry," said Oak Street founder and Chief Executive Officer Richard Dennen. "If we didn't do that we'd probably be out of business along with everybody else."

Dennen said such "sub-prime" loans carried lucrative interest rates of up to 18%. Now, Oak Street focuses on less risky business loans and typically offers as terms the prime rate plus 2%, which translates into an annual interest rate of about 7% in today's market.

"When we made that decision to get out of the sub-prime market and not over-leverage our customers, we lost some growth volume," Dennen said. "It's paid off greatly for us."

One payoff came in June 2007, when Bridge Finance Group in Chicago purchased Oak Street in a transaction valued at \$75 million. Dennen, who founded Oak Street only six years before, stayed on as chief executive officer of Oak Street, which remained in Indianapolis. The company employs about 40 people, Dennen said.

Dennen said his company continues in the niche he carved out for it in 2001 offering brokers and agents loans on their future commission renewals or outright purchases of those renewals. He said Oak Street offers a scarce service for insurance brokerages that may lack hard assets, such as real property, to use as collateral.

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He said his company has loaned \$160 million to agents and brokers since its inception. To qualify, borrowers must write for carriers rated A or higher by A.M. Best or Demotech, a financial analysis firm.

Dennen said the financial analyses give borrowers the peace of mind of knowing the real value of their business books. The upfront money they get through Oak Street is often used to purchase other brokerages or provide working capital to build up staff or pursue more aggressive marketing, he said.

Wall Street's troubles aside, Dennen said he believes lending money to agents and brokers will remain a profitable line of business. He said a significant number of producers are 55 to 60 years old, meaning there will be a steady stream of agency acquisitions as they retire.

In the meantime, he said, insurance companies are working toward an "80/20" model, meaning they prefer to do 80% of their business with 20% of their agents. That means industry consolidation will continue, Dennen said.

Producers that specialize in workers' comp are prized customers because they typically have a very stable book of business, he said.