

Deals & Deal Makers

## **Jefferies, Babson Capital Join To Set Up Firm for Client Loans**

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Another Wall Street securities firm is getting into the lending business.

Boutique investment bank **Jefferies** Group Inc. and Babson Capital Management, a division of Massachusetts Mutual Life Insurance Co., are forming a separate company that will offer loans to **Jefferies** clients, primarily middle-market firms.

The two companies, in a deal that could be announced as early as today, each will inject \$125 million into the new company, which will be called **Jefferies** Babson Finance LLC. The investment will allow the new company to lend up to \$2.5 billion over the next three years.

The move comes amid a long debate on Wall Street over commercial banks' use of loan commitments to win other kinds of financing business from their clients. These banks' aggressiveness is often at the expense of securities firms like **Jefferies**, which traditionally haven't offered such loans to their customers, or do so sparingly.

**Jefferies** has carved a spot for itself in areas such as junk-bond financings and stock issuance catering primarily to midsize companies. It had been shopping for a partner to structure this deal for three or four years, and hopes its arrangement with Babson Capital will help it keep more business in-house.

"Right now, we don't have any lending capabilities as opposed to the bigger banks, who can offer one-stop banking services to their clients," said **Jefferies** Chairman Richard Handler. "As a result, we have lost a lot of business to those firms." Babson is an attractive partner because of its strong ability to assess the credit quality of potential loan candidates, he said.

Among investment banks benefiting from these lending arrangements during the bull market of the late 1990s was the securities firm then known as Salomon Smith Barney (now named Smith Barney), which was able to make loans through parent bank Citigroup Inc.

However, some of these loans went sour, like ones made to Enron Corp.

Goldman Sachs Group Inc. is a longtime critic of this type of lending and has argued that banks intentionally underprice loans to win financing business. In early 2003, though, it struck a deal with Japanese bank Sumitomo Mitsui Financial Group Inc. that let it lend more money to corporate clients without taking on as much risk as firms like Citigroup.