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WEEKEND EDITION

Bank consolidation makes finding energy capital more challenging

By Mella McEwen STAFF WRITER

Energy companies needing capital are finding it still available but more challenging to obtain.



Jeremy Bishop

“I do think capital is still there, despite fewer institutions. The outlet is there. If you have a solid business plan, a prudent idea, there’s ways to fund it,” said Jeremy Bishop, regional president for Prosperity Bank in Midland.

Participating in the Oilfield Strong webinar presented by OTA Environmental Solutions, Bishop said there has been consolidation in the banking industry over the last couple of years. Not only has the number of banking institutions declined due to smaller banks being acquired by larger banks, but it’s become harder to start a bank, he said.

He attributed that to changes in banking regulations and capital requirements.

“That’s No. 1 — there’s not as many new banks,” he said. “Additionally, consolidation — mergers and acquisitions — are having an impact on the number of banks in the country. That means less institutions out there to fund debt.”

He used his own experience as an example of a possible benefit of those mergers: FirstCapital Bank, which he served as president, was acquired by Prosperity Bank last month. That means, he said, the bank’s ability to fund deals has risen from the \$30 million cap at FirstCapital to several hundred million at Prosperity.

Grant Swartzwelder, president of OTA, observed that there are other obstacles to banks lending to oil and gas companies, from concerns about environmental issues and ESG — Environment, Social and Governance — initiatives to the cyclical nature of the industry.

“You need to understand the energy industry to lend to it, and that’s more what happened — banks got out of the energy space when the downturn happened and now it’s hard for them to get back into it,” responded Bishop. “Folks like us have been in it, we know the energy space, we’re comfortable with it.”

Another issue, he said, is regulators who are unhappy with the energy industry's volatility and scrutinize banks who issue credit to energy customers who then experience difficulties due to commodity prices. They're also raising concerns about environmental impact and ESG, he added.

At Prosperity, the bankers want to see evidence the operators are following best environmental practices, he said.

"Go inspect it," he said. "The saying in real estate — go kick the tires — related to oil and gas. Go out with the operators, do a spot check. We want to ensure the environmental care is there. It needs to be done and we don't take it lightly. We do really consider it part of the package when we look at funding and credit."

Bishop also addressed current concerns about regional banks in the aftermath of several bank failures, including Silicon Valley Bank.

"I will tell you, with what everyone has heard about regional banks and the few that failed, I will tell you Prosperity is a very healthy bank," he said. "What happened — a lot of folks don't know or understand we were in such a low interest rate environment for so long, a few banks that got in trouble really stretched for some yields. Every dollar in deposits we get we turn around and loan — energy loans, restaurant loans, you name it. If we don't loan funds, we have to get a yield and with such low interest rates bringing such little income, some banks went further out on the yield curve."

Now that interest rates have risen so far so quickly, that has created a liquidity crunch and prompted lenders to bring in underwriting metrics and getting more conservative to ensure the loans they're making are that much stronger, he said.

"It circles back to why there may not be as much credit — the deal has to be stout with a lot of equity, a strong deal, to get done. If someone wants to start fresh, drill wells or start a service company, it's going to be harder to get financial backing. That's why we're seeing less of a senior debt market for energy, the market's tightened and we're ensuring deals are credible and bankworthy."