

Syndicated loan appeal

Fred Fisher of bfinance explains the advantages of going down the syndicated loan route and points out the milestones on the way to a successful deal.

A syndicated loan facility offers a number of advantages to a treasurer. It can be considered necessary for a variety of reasons, including the amount required, which may be beyond the capabilities of the borrower's core relationship banks or the bond markets, or because of time constraints, when the treasurer does not have time to arrange sufficient bilateral facilities or funds from other sources. They are frequently used for acquisition finance, when both the size and the timescale may preclude other options. In addition, syndicated loans can be attractive to borrowers looking to expand their network of bank relationships.

Once an arranger bank has been chosen, the majority of the work involved is delegated to this bank – albeit at a cost. This compares with the considerable burden that can result from pursuing the bilateral route involving the negotiation of terms and documentation with a number of lenders.

The arranger bank will have bid for the facility and, in awarding the mandate, the treasurer will have considered a number of factors including the strength of the relationship with the winning bank, the pricing of its bid and the ability and experience of its syndications team.

The treasurer may wish to award a number of strong relationship banks with joint arranger status, although this number will depend upon the size of the proposed transaction.

structure a syndicated loan as a revolving credit if that suits the borrower's requirements.

It is not unusual to see a syndicated facility encompassing both revolving and a fixed tranches.

Tenor

A facility can be arranged on a fully drawn, part drawn or standby basis, or with tranches incorporating a combination of these options. In addition, it is possible to have a single maturity or multiple maturity options, and a number of tranches with different maturities can be incorporated under one facility. It is therefore possible for a treasurer to spread the maturity profile, which can avoid a potential refinancing problem that may occur with a single maturity facility.

The range of maturities available in the syndicated loan market can be an attraction for some borrowers, but this does depend on market conditions. Currently, maturities of more than five years are in short supply, although usually seven years is common.

Choosing an arranging bank

The arranging bank is usually chosen from the company's core relationship banks and it is possible to include a number of arrangers or co-arrangers for a syndicated facility. However,

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Additionally, it is possible to award co-arranger or senior lead management status to lesser relationship banks. This approach can be useful for large transactions or for those which may be considered to be more difficult credits and, in these circumstances, the pre-placement of a substantial part of the facility can send a positive signal to the market and possible participant banks.

Syndicated loans can be restricted to the borrower's group of relationship banks, if this would generate sufficient funding, or can be used as a means of widening the borrower's banking group.

Flexibility

Syndicated loans have had the reputation of being inflexible and, to a certain extent, this is true. They can be cancelled at any time but the substantial facility and legal fees mean that early termination is an expensive option.

However, early repayment is not usually envisaged at the outset and the cost of the fees paid to the arranging bank (or banks) must be balanced against the time saved by the treasurer that would otherwise be spent in arranging bilateral facilities for a comparable amount. Of course, it is possible to

because of the kudos involved, the treasurer must exercise care when selecting arrangers; it is easy to upset banks that consider themselves to have core status, but have not been considered for the bidding process. It is equally easy for the treasurer to invite too many banks to submit bids for the syndication and, similarly, to injure the pride of those banks if their bids are not selected.

In these circumstances, it is not unknown for such banks to decline participation in the transaction, despite a strong relationship and good ancillary business.

Fees

The arranging bank, or banks, will charge the borrower a fee for arranging the facility and, while the arranger will retain the lion's share, the remainder will be distributed to the participant banks, usually on a sliding scale which is dependent on the amount of their participation. However, there have been occasions when large multinationals have obtained syndications without fees on the *quid pro quo* of ancillary business for the participant banks.

In addition to the arranging fee, there will be legal fees for the banks' and borrower's lawyers. It is a wise precaution for

the treasurer to ask for these fees to be capped at the beginning, as it has been known for these charges to escalate substantially in some circumstances.

The issue of margin and commitment fees can be crucial in deciding whether to go for a syndicated facility or bilaterals. Some borrowers may achieve better margins on average by requiring banks to bid for a place in a series of bilaterals. Also, those margins which are achieved, will be confidential. Borrowers accessing the syndicated loan market must expect the details of their facility to become public knowledge.

The prospective change in the regulation of capital adequacy of banks (Basel II) may have some impact on loan margins, although concerns arising from the initial proposals have been allayed to a large extent. At one time, it seemed that borrowers might need to pay for credit ratings of their loans, but more recent proposals have made this much less likely. However, it is possible that margins will become more sensitive to credit rating and banks may seek to include 'margin step-ups' in loan documentation to protect themselves against deterioration of the borrower's credit.

Negotiation and documentation

Once the treasurer has assimilated the bids from the potential arrangers and awarded the mandate, the arranging bank will proceed to send out invitations to potential participants.

Lawyers will also be appointed to proceed with the documentation on behalf of the banks and should negotiate directly with the borrower's lawyers. However, the treasurer is usually closely involved with this process and the negotiation

a walk-through basis at the lawyer's offices, but other venues may be appropriate if the borrower wishes for a memorable occasion and to thank the arranger and participants. For example, The London Livery Halls provide impressive venues.

Unlike a series of bilateral facilities, where the post-deal administrative burden can be considerable, a syndicated facility will have an agent bank, often but not always the arranger, which will deal with all administrative matters.

The borrower will submit one draw down notice to the agent, which will distribute this to the participants, collect and pay the requisite funds to the borrower in one amount and will also deal with the collection and payment of subsequent amounts of interest.

The agent bank may also be asked to distribute the borrower's annual report and accounts to the participants together with compliance certificates or other relevant items. Time saved for the treasurer can therefore be considerable and usually justifies the agency fee.

Transferability

Syndicated loan documentation may include a transfer clause and it has not been unknown for arranger banks to sell their participation within hours of the loan being signed, thus treating the whole transaction purely as a fee-earning exercise. However, this attitude has not endeared these banks to borrowers, or indeed to the market as a whole.

The transfer clause should always include wording to the effect that any transfer would require the prior written consent of the borrower, which would give some control over the name

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of the documentation is frequently the most onerous part of the process. One of the main advantages of a syndicated facility is the documentation.

Bilateral facilities may incorporate different covenants – financial or otherwise – and the treasurer will have to monitor these throughout the lifetime of the facilities. The syndicated facility documentation will avoid this potential problem, although any request for subsequent amendments or waivers will have to be approved by the majority of the participant banks.

The syndicated loan market is increasingly adopting documentation based on the Loan Markets Association (LMA) template. This can save time and expense in negotiating 'boiler plate' clauses, and enables borrowers to concentrate their negotiations on the more critical areas. They should not, however, accept 'LMA-compliant' documentation as a standard which is not for negotiation.

The *ACT Guide to the LMA Agreement*, which is available at www.treasurers.org, gives advice on negotiating documents based on the LMA template. Readers are also advised to refer to *The Treasurer's Handbook* for information on the documentation aspects of syndicated loans.

Post-deal communication

A useful way for the borrower to meet and develop relationships with new participant banks is at the loan signing ceremony. In the interests of expediency, this can be arranged on

and credit rating of the new counterparty. However, these clauses often require that the borrower's consent should not be unreasonably withheld, so there is always an element of doubt. (Further advice on this issue is contained in *The ACT's Guide to the LMA Agreement* as mentioned before.)

A question of balance

Syndicated loans provide a useful method of funding for many borrowers. New banks may be introduced to the borrower, although they may demand a share of ancillary business. The arranger bank will deal with the majority of the work involved prior to the loan being signed and the agent bank will deal with the subsequent administration.

The saving of the treasurer's time is therefore considerable, although this has to be balanced against the overall cost of the syndicated facility.

Borrowers should be aware that these are public transactions and details of the pricing and structure will be public knowledge. Frequently, however, the borrowers involved in these facilities welcome any publicity which may be involved. ■

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