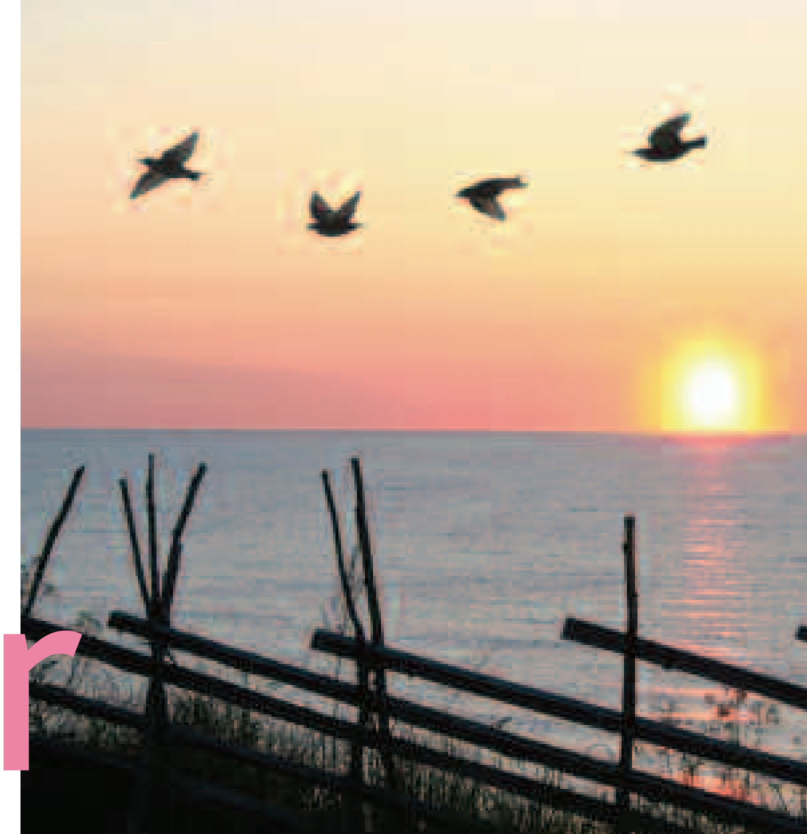
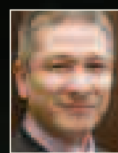


Return to order

Executive summary

- There may be less credit around, fewer suppliers of credit and higher pricing, but the mood of treasurers is that syndicated lending is slowly returning to better health.



PETER MATZA REPORTS FROM THE LMA'S RECENT SYNDICATED LOANS CONFERENCE.

Bankers are not necessarily celebrated for their wit but whoever planned the LMA's first syndicated loans conference in the depths of the post-Lehman banking market in 2008 was certainly taking a darkly humorous view of the world. However, this year's event, held recently in London, was noteworthy not for its Stygian gloom but a semblance of a return of an ordered market, albeit one dramatically changed from pre-crisis bounty.

The event was extremely well attended by the industry amid a general acknowledgement that London remains far and away the world's leading centre for syndicated bank lending. A number of themes were developed during the day which were considered from the viewpoints of the primary market, the secondary market and the regulatory/governmental framework.

There can be no argument that primary volumes have fallen to a level that is around two-thirds what they were at their peak. There are any number of reasons for this but among those considered most serious were a fall in cross-border lending across Europe (with a particular impact on mid-market borrowers), the approaches taken by individual central banks and domestic regulators as well as longer-term changes in regulatory frameworks such as the Capital Requirements Directive.

The implications for borrowers in these markets are clear: less credit, fewer suppliers of credit and higher pricing. In fairness, one of the delegates suggested that there were some positive signs such as the recovery in secondary pricing, a modest return of tenors to five years (from crisis-reduced terms of three years or even less) and the improved perception of the health of the global economy.

The relatively better news for borrowers, especially investment-grade customers, is that the bond market has been exceptionally strong in 2009. There has clearly been an inflow of liquidity from investors into this market and lenders and borrowers have both welcomed the positive development of spreads since late 2008 into 2009. In an echo of London Fashion Week, bonds could even be considered the new loans!

However, Marco Antonio Achon, head of credit markets, Europe, at Santander, spoke for many in repeating his view that the loan market would remain the bedrock for corporate financing. A healthy loan market needed a take-out in the bond market and while there were ebbs and flows in each product's relative position, the wider economy needs both markets to function healthily.

Views on developments in the secondary arena were more mixed than on some other issues, with some participants viewing trading as intermittent, with difficulties in price discovery – not helped by volatility and uncertainty in the credit default swap (CDS) markets. Other comments, however, were positive regarding new money interest being shown by pension funds and long-only asset managers, generally perceived as being slow to commit but appreciated as buy-and-hold investors. New secondary investors are being handled with care as they are taking up slack from the fall in primary market liquidity – which must feel puzzling and pleasing to those investors!

The impact of the crisis on the leveraged finance world was also considered; as expected, the views expressed were downbeat. One of the delegates noted that many stakeholders are fire-fighting to maintain their investments through the downturn. In many situations private equity sponsors are engaged in delicate negotiations to maintain control at minimal cost where they believe the business remains attractive in the long term. Lenders are more concerned about whether out-patient care is sufficient for now or whether they are prepared to take ownership of the company to effect a more drastic surgical procedure to restructure the balance sheet.

There was considerable discussion about the direction of this market, with some suggestions that a lag effect will see more borrowers in distress even if a mooted economic recovery occurs in 2010. This in turn will put pressure on sponsors and investors to be creative in their financing but also to be flexible in their negotiations with banks to preserve value.

As with the primary and secondary markets, price discovery is extremely difficult, reflecting uncertainty over the cost of funds, cost of capital and cost (or even understanding) of risk. There were even hardier souls expecting a return of leveraged M&A, albeit at three or four times levels, rather than six or seven!

In a debate of more relevance to corporate borrowers, there was a lively exchange about the investment-grade/mid-market space. The strength of the corporate bond market (albeit at absurd spreads) clearly alleviated liquidity pressures in late 2008/early 2009. The question now is what happens next. Will banks be able to revert to a relationship model? And would it be justified by their service offering to corporates? This could become a critical issue if the fall in cross-border lending continues and/or is not at least partially reversed.

One area of divergent opinions concerned a recent favourite: forward-start loans. Average facility tenors have fallen from 3.3 years in 2007 to 2.5 years in the first half of 2009. Although larger corporates can lengthen their maturities via the bond market, the forward-start options have provided a solution to lower-grade corporate credits. Many delegates felt that a return to reasonable liquidity and longer tenors would make these types of facilities redundant. Others felt that corporates appreciated the ability to plan, especially in managing the needs of ratings agencies for demonstrable credit availability.

Naturally there was agreement that "risk had become mispriced" but less appreciation about what would be appropriate for the future under Basel II (or any successor regime). It has to be said there was little evidence that banks' approach to understanding or measuring risk had changed during the crisis but there was some self-criticism that one size no longer fits all.

Overall, this fascinating conference confirmed that syndicated lending has been chastened through a huge downward adjustment in volumes, a searching self-examination in terms of credit and liquidity, and intense public and political scrutiny. It is to all our benefit that it emerges positively and in good health.

Peter Matza is head of publishing at the ACT.
pmatza@treasurers.org

With special thanks to Clare Dawson, managing director of the LMA.
www.lma.eu.com/default.aspx

TREASURY, RISK AND FINANCE PROFESSIONALS
ACT

Essential Events and Conferences from the ACT

Non-Bank Lending – Seizing the Opportunities
ACT breakfast briefing

17 November 2009, London
Sponsored by M&G Investments

This ACT breakfast briefing will provide timely insight into alternative lending options for mid-sized corporates and the current health of the banking market.

Financial Reporting in a Changed World
ACT half-day conference

25 November 2009, London
Hosted by Norton Rose

Providing a practical update on the world of financial accounting and reporting, key topics will include:

- the IAS 39 replacement – what do corporate treasurers need to know?
- IFRS 7 – how far should you go when disclosing your risks and financial instruments?
- lease accounting – is bringing operating leases onto the balance sheet a good idea?
- pensions accounting – how should you be planning for future changes?
- usefulness – are your accounts providing the right information for your investors and shareholders?

ACT Annual Cash Management Conference
Making cash pay

10-11 February 2010, London
Sponsored by Barclays Commercial

Corporate treasurers and leading industry professionals will provide practical guidance on how to make cash work harder for the business and insight into key cash management trends for the next 12 months.

ACT Annual Conference
Shaping the future

27-28 April 2010, Manchester

The ACT Annual Conference is our flagship event bringing together treasury, risk and corporate finance professionals from across the UK, Europe and the rest of the world.

For further information on all ACT events visit our website www.treasurers.org/events. To contact the events team email events@treasurers.org or phone +44 (0)20 7847 2589.