Life outside jumbos

Loan coverage in recent issues of *The Treasurer* magazine perfectly illustrates the state of affairs in the international syndicated loan market: everybody is talking and thinking about jumbo transactions. This is not surprising as jumbo deals continue to compete in establishing new milestones, by testing the market's liquidity, its appetite for large exposures and pricing elasticity.

But is there life in the loan market outside the jumbos? We would say a resounding 'yes'! So far this year, 581 deals were completed in the Euromarket raising in excess of $412bn (Source: Capital Data Loanware). 13 jumbo transactions above $5bn contributed $157bn to this volume. By excluding these deals and small transactions under $50m, we get the average size of 'standard' deals during this year to be $540m; far from jumbos, but still substantial. The main sectors that the standard deals have supported are not surprisingly financial institutions, telecommunications, utilities, brewing and distilling, and electronics.

Different strategies

So, apart from the obvious distinctions in terms of the size, what are the differences in syndication strategies that the two segments of the market command? In contrast to the jumbos, standard deals tend to have more precise sub-underwriting/co-arranging stages, as they cannot accommodate the major oversubscriptions characteristic of jumbo deals.

A good example is the recent the £1.6bn facility for Blue Circle, which supported its successful defence against a hostile cash-based takeover, the first triumphant defence of a FTSE 100 company in nearly 15 years. Out of 20 sub-underwriters invited, 19 committed. Standard deals do not have to pay a pricing premium if they have strong banking relationships, future ancillary business opportunities or scarcity value.

The recently completed €3.0bn Banque PSA Facility succeeded in achieving a strong oversubscription while maintaining the same level of pricing as the last deal. Without relationships and ancillary business prospects, a pricing premium is advisable not only to enable the banks to meet their ROCE requirements, but also to attract attention away from competing transactions.

Across the spectrum of borrowers, instrument types and usages, the loan market continues to satisfy successfully clients' objectives for flexibility and efficiency as well as bank asset requirements. Despite continuously moving benchmarks established by jumbo deals and the changes occurring in terms of pricing and covenants, jumbos and standard deals continue in active co-existence. ■

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INTERNATIONAL LOANS

These are a selection of loans announced recently. The details, updated to the middle of last month, were supplied by *IFR Securities Data, London* and other sources.

Borrower	Type	Amount (m)	Term (yrs)	Margin Libor+ (bp pa)	Fees Commit. (bp pa)	Fees Front-end (type)	Fees (bp)	Arranger (s)
Cordiant Communications	RC	USD225	5	(a)	(b)	Co-Arr	(c)	Bank of New York
	RC	USD175	364 days	(a)	25	Lead	(d)	HSBC
Syndication in general phase. Comment: (a) 100bp over Libor. (b) 50% of margin or minimum of 42.5bp. (c) 45bp for USD15m. (d) 37.5bp for USD10m.								
European Metal Recycling	TL	GBP68	5	(a)		Sen Lead	(b)	HSBC
	RC					Lead	(c)	
Syndication in process. (a) 125bp over Libor out of the box. (b) 35bp for GBP10m. (c) 30bp for GBP5.								
Iceland	RC	GBP150	5	(a)	(b)	Co-Arr	(c)	Barclays
	TL	GBP400	5	(a)				Royal Bank of Scotland
Syndication in sub-underwriter phase. Comment: (a) 125bp over Libor, dropping to 100bp over Libor when the loan is GBP400m and then to 75bp over Libor when it reaches GBP250m. (b) 50% of margin. (c) 30bp on underwriting plus 35bp upon final take.								
Scottish & Newcastle	(a)	EUR2,830	5	(b)	(c)	Arr	(d)	Barclays
	RC	EUR1,625	5	(b)	(c)	Arr	(e)	Royal Bank of Scotland
						Arr	(f)	UBS Warburg (g)
Syndication complete. Comment: (a) Letter of credit, converting to term loan. (b) 70bp over Euribor out of the box, ratcheting thereafter in line with debt-to-EBITDA grid. (c) 35% of applicable spread. (d) 20bp to underwrite EUR160m, further 25bp on final take. (e) 20bp for EUR50m. (f) 15bp for EUR25m. (g) Mandate arranger.								

RC = revolving credit, TL = term loan, REV = revolver, M = mezzanine, LC = letter of credit.