LOAN SYNICATIONS

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Syndicated credit agreements are those in which more than one bank agrees to provide a common borrower a credit facility on common terms and conditions. Syndicated lending is among the largest and most flexible sources of capital in the world. There are several types of syndicated credit facilities: revolving credit facility, term loan, bridge loan, standby credit facility, standby letters of credit, hybrid facilities and project financing.

Main factors that influences the credit syndication market are: bank policies (early 1990s banks were under pressure to rebuild capital positions and ensure adequate returns on assets) and cost comparisons (demand for syndicated medium term bank credit facilities is very much driven by comparisons with the cost of alternative source of funding in the public debt markets – bonds issuing). The participants in the loan syndication market are as follows: sovereign borrowers, financial institution, corporations and LBO (leveraged buy out) deal sponsors/funds.

Key words ***:****Syndicated credit, revolving credit facility, term loan, borrowers pricing, bank ,sharing of credit risk.*

DEFINITION: Syndication credit agreements are those in which more than one bank agrees to provide a common borrower a credit facility on common terms and conditions governed by a single legal document. A " bilateral " credit agreement, on the other hand, exists between one bank and a borrower.

As a distinct asset classes, the investor base has now expanded beyond commercial banks to include institutional investors such as insurance companies, finance companies and mutual funds. While commercial banks remain the dominant players in originating, structuring and distributing bank credit facilities, syndicated credits are now being arranged by investment banks (and borrowers themselves in same cases). Given the additional liquidity of bank loans, investors are now better able to evaluate relative –value among investment opportunities as such distinction between public and private debt securities and bank loans is blurring.

TYPES OF SYNDICATED CREDIT FACILITIES

Revolving Credit Facility :A credit facility which offers a borrower a specific commitment but under which amounts may be drawn, repaid and re-borrowed during the life of the agreement. The commitment may be structured to reduce over the life of the credit facility (amortize).

Term Loan :Term loans are usually drawn down in one lump sum or in various amounts (tranches) over a specific period of time (drawdown or availability period) and mature in more than year. Repayments may be scheduled at various intervals, in varying amounts, or with a single payment at maturity (bullet maturity). Unlike a revolving credit, once repaid, amounts may not be re-borrowed. Bridge LoanBridge loans can be used as part of acquisition financing to provide short term funding, if necessary, during the tine gap when an acquisition closes and the sale of bonds in the high yield bond market. Investment funds are now often set up for this purpose.

Standby Credit Facility:Standby credit facilities are similar to revolving credit facilities but are expected to remain undrawn, in reserve, in order to provide liquidity enhancement. The facility is typically used to support commercial paper or medium-term note financing. If the issuer is unable to roll over his commercial paper, for example, he could drawdown under his standby credit facility.

364-day facility:Standby credit facilities with an expiration date of not more than 364-days fall outside the Bank for International Settlements (BIS) capital adequacy guidelines requiring banks to hold capital against undrawn commitments of one year or more. As a result, for investment grade borrowers, these credits are often priced with lower fees than for a longer term commitments. Capital required on amounts outstanding is the same, regardless of term, so pricing in recent years on 364-days credits is now more in

line with multi-year facilities. Multi-year standby commitments backing commercial paper, however, allow for the commercial paper outstanding to be classified as " Long term Debt".

Swingline:Standby credit facilities can also be "swinglines". Swinglines are typically authorized as sub-facilities within the overall commitment used for very short term funding needs, i.e. less than 30 days.

Standby Letters of Credit:Standby letters of credit (SBLC's) can serve to enhance the credit of the borrower in relation with a third party by adding the credit rating of the banks in the syndicate to support that of the borrower. It enables the borrower to get funding from sources that are not prepared or are unable to accept the credit risk of the borrower on his own.

Examples:

Uses of SBLC's for credit enhancement include private placements and commercial paper programs. Standby letters of credit are also used in project financing and in export financings to support bids, performance and work completion, as specified in the underlying commercial contracts.

Hybrid Facilities:Various funding options are included in one credit facility, available for use at the borrower's discretion. These facilities have included: bankers' acceptances, multi-currency options, " competitive bid option" short term notes, all of which can be offered under longer term commitments. These come under acronyms such as MOF's (Multi Option Facilities), and NIFs (Note Issuance Facilities).

Derivatives:A complex form of financing where expected cash flow from a completed project is looked to as the source of repayment, with no or limited recourse to the project sponsor, so as to have minimal impact on the sponsor's balance sheet or creditworthiness. The cash flow and assets of the project are usually supported by direct or indirect guarantees via instruments such as take-or-pay contracts, tolling contracts, or long term operating contracts combined proven underlying assets.

Sponsors and lenders:Project or " off balance sheet " financings are often sponsored by companies in capital intensive industries such as utilities, transportation, heavy manufacturing, construction, and energy production and processing. These companies have a variety of motives for segregating a financing as a project financing – credit, accounting, tax, expanded sources of financing, etc.

Banks and institutional investors who have the analytical and technical expertise to understand and evaluate a project's risks are in best position to structure the project financing necessary to meet the objectives of the sponsor, lenders and/or leasors, and equity investors. Project credits can be either funded and/or unfunded.

Projects with strong undertakings and explicit guarantees of investment grade sponsors or other third parties have a broader array of capital markets (public and private) instruments available to them than do transactions without this support.

MARKET CHARACTHERISTICS

Syndication lending is among the largest and most flexible sources of capital in the world. In the United States, syndicated credit volume has grown from only USD 137 billion in 1987 to USD 1.O17 billion in 1999, up from USD 872 billion in 1998. As a comparison, in 1998 syndicated loan volume in Europe was about USD 300 billion.

The market has been moved from being driven by LBOs in the 1980s to being dominated by investment grade borrowers refinancing existing credits, arranging commercial paper back up credit facilities, and for financing acquisition-related deals in the 1990s. However, investment grade opportunistic refinancing died in 1998, leveraged lending and acquisition finance picked up much of the slack.

In the early 1990s, banks were under pressure to rebuild their capital positions and ensure an adequate return on assets on any new lending. Consequently, banks tightened lending policies and pricing went up. In an environment, of strong capital bases and high liquidity, banks aggressively seek loans and the volume of new deals increases, with severe pressure on loan fees and margins, lengthening of maturities and relaxation of covenants. Capacity to make loans can dry up quickly in the face of a global crisis such as occurred in the half of 1998 or more recently the sub prime crises occurred in 2007.

Demand for syndicated medium term bank credit facilities by higher-quality borrowers is very much driven by comparisons with the cost of alternative sources of funding in the public debt markets. Bank credit

facilities tend to be more expensive, therefore are often used for bridge acquisition financing and as standby facilities when attributes like speed and flexibility may be considered more important than cost.

Investment grade companies also normally obtain short term financing in the commercial paper market more cheaply than from a ban loan. However, concerns about the risk of rolling-over maturing commercial paper usually make the support of a medium term committed bank standby facility a prudent part of corporate treasury management. Therefore, as the need for working capital increases, the need for bank lines increases.

Acquisition and LBO-related loan transactions are dependant on the overall volume of M&A activity and institutional investor demand for debt of non – investment grade issuers, i.e. the high-yield bond market.

PARTICIPANTS IN THE LOAN SYNDICATION MARKET

Users of Syndicated Credits

Sovereign borrowers

1.Governments

2.Government agencies

3.Supranational borrowers

Financial institutions

Corporations

LBO deal sponsors/funds.

Credit Quality

Borrowers can be investment grade, below investment grade, or non-rated. The market was dominated by large LBO transactions in the late 1980s but is now dominated by investment grade borrowers rated A or BBB. However, discretionary refinancing by high quality borrowers dropped in 1998, leveraged loan volume increased from USD 194 billion in 1997 (17 % of the market) to USD 273 billion in 1998 (31 % of the market). Perceived credit quality varies within the ratings categories.

For example, the BB-rated, near investment grade, market segment is a broad category. It can include companies which have high leverage but good cash flow as well as non-leveraged companies with strong capital positions but volatile earnings, small size, or even negative net worth. As in all rating categories, pricing within a particular rating varies by industry or by individual companies within any industry. For example, media or communications companies may fall into a higher risk category (along with leveraged recapitalizations) than an industrial with similar leverage and fixed charge coverage ratios.

The major rating agencies have initiated a system of rating bank loans. Unlike bond ratings, this is not intended to rate the risk of default but the risk of ultimate loss. Most banks, however, have been using numerical ratings systems and is not clear that institutional investors have strong demand for the service.

BENEFITS OF LOAN SYNDICATIONS FOR BORROWERS

Deals can be tailored to a specific borrower's needs, arranged and committed in a matter of weeks, even days. Type of transactions can include standby and working capital facilities, acquisition financings and project financings, and be funded in one or more currencies. Different tranches can have different maturities and repayment schedules.

It is relatively easy to arrange and negotiate with an agent bank to structure one comprehensive credit agreement rather than separate bilateral agreements with many individual banks, especially with complex or " story " transactions. No lengthy SEC registration is required.

More competitive pricing, terms and conditions (that might be available from bilateral agreements) may be obtained. In an environment where banks are aggressively seeking new loans, the cost of credit facilities may also compare favorably with other capital market products.

Bank credit agreements usually have more rigorous financial covenant than public debt issues. However, generally more of a relationship exists with bank lenders than with institutional or retail investors, making the initial structuring and any subsequent amendments to the transactions easier (than a private placement, for example).

Substantial amounts of committed funding can be obtained in the bank loan market, on relatively short notice due to the many participants in the market. It may also be the primary or only source of medium term capital available to non-investment grade borrowers.

BENEFITS FOR LENDERS

ENHANCE RELATIONSHIP

A bank may use its ability to arrange syndications to enhance its relationship with a borrower and cross-sell other business opportunities. To finance an acquisition, a bank may, for example, provide a leveraged loan syndication, a bridge loan, a high-yield bond underwriting and the derivatives for managing the interest rate risk, i.e. " one-stop shopping ". Top tier banks get most of a client's business.

SHARING OF CREDIT RISK

The overall size of a transaction may be too large to book within one institution or a bank simply wants to limit its concentration of exposure to any borrower, industry or country. A top tier bank usually must make the largest underwriting commitment, this is only possible if the bank has good secondary market distribution capabilities.

YIELD ENHANCEMENT

A bank may be looking to enhance return on risk assets by arranging the transaction and taking a disproportionate share of associated up-front fees, relative to the amount of the credit facility or loan retained on its books.

SOURCE OF EARNINGS

It may be a source of earning assets to a bank or other investor that may otherwise be unavailable for them.

FINAL CONSIDERATIONS

In the western mature markets, syndication lending represents one of the largest and most flexible sources of capital (funding) in the world. In Romania, only a few syndicated loans were raised so far. In general the issuers were very large companies, either with local ownership or local subsidiaries of large international corporations. The local subsidiaries of foreign companies we re the most active players in this field as they are already familiar with the benefits associated with syndicated loans.

In the coming years, the local market will see more and more syndicated deals, both with local (the participants are only banks that are active on the local market) and international (banks without local presence will participate as well) execution. The main driver behind this development is the local companies.

Local companies (domestic players) have grown tremendously in the last years. Some of the major local companies have reached levels of business that require a more sophisticated approach in managing their capital structure. Their needs for funding are quite high and the best solution for them is to seek syndicated loans rather than negotiating bilateral credit agreements with several financial (bank) institutions.

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