



Introduction to LMA Syndicated Lending

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Disadvantages of Bilateral Lending

§ **Imbalanced – too much exposure to:**

§ Client

§ Sector

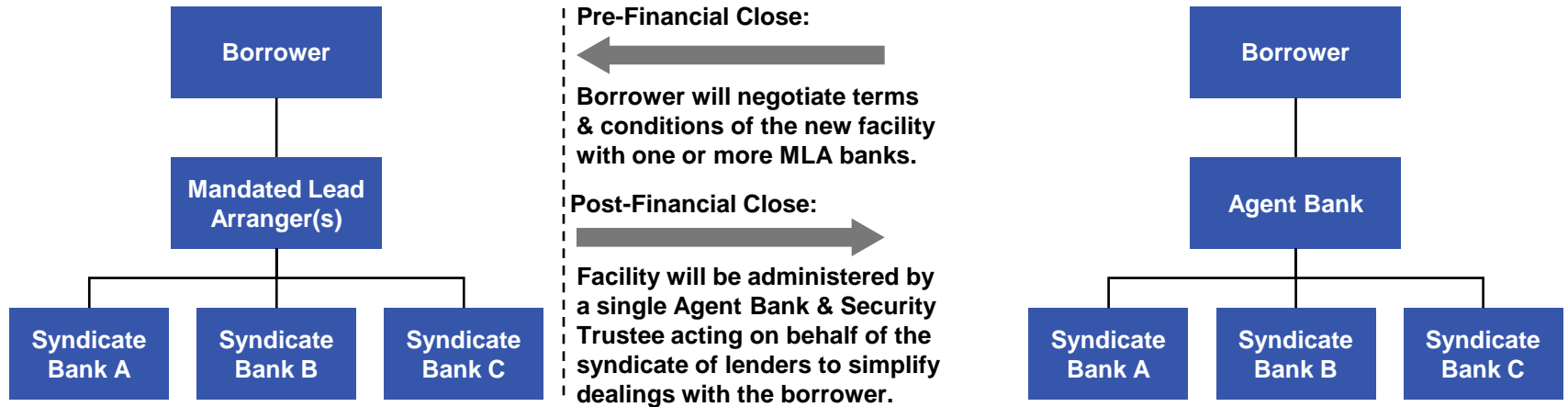
§ Industry

§ **Too much emphasis on relationship lending**

§ **Poor risk management – no risk sharing**

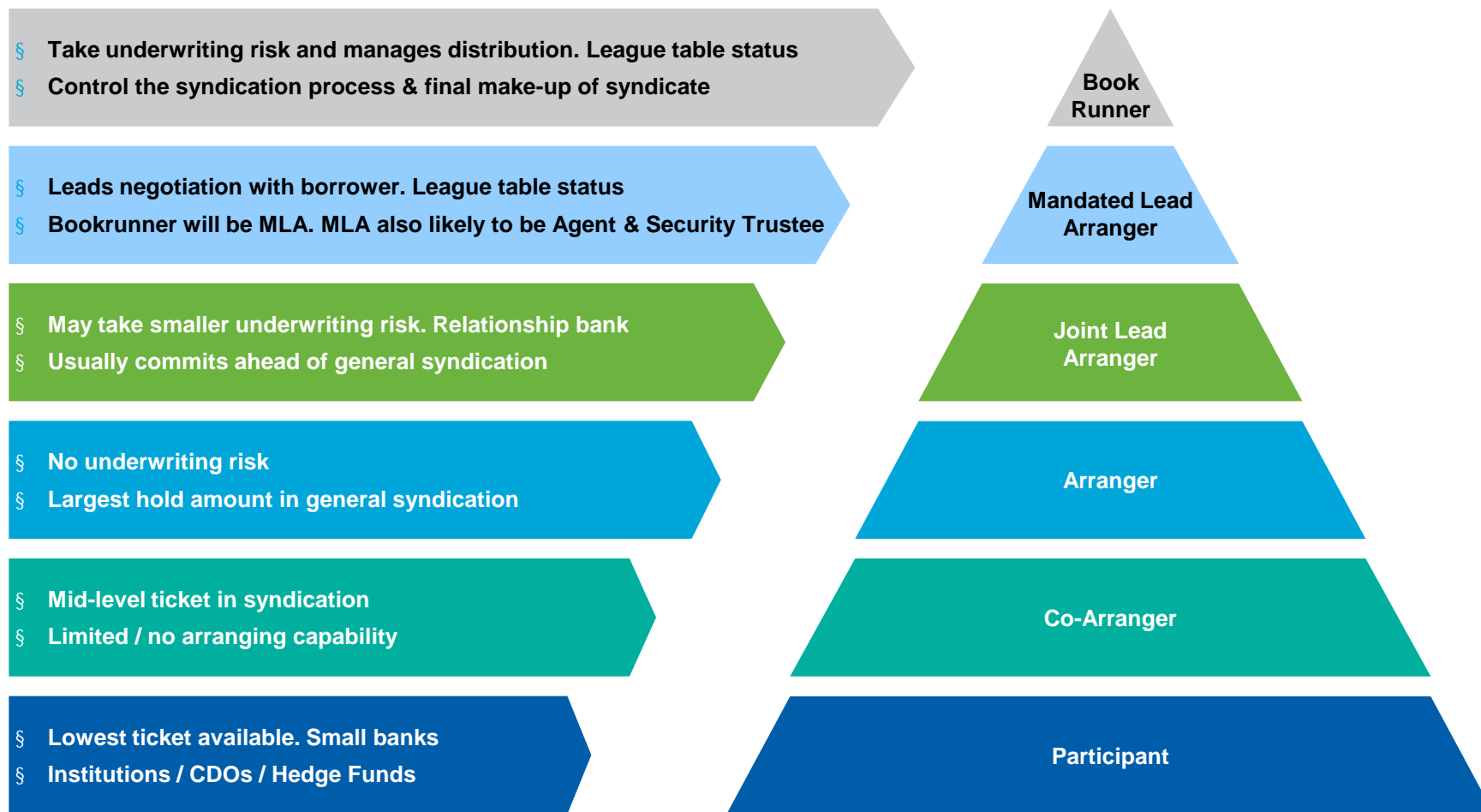
§ **Led to development of Bond Market and Syndicated Lending Market... ..**

Main Parties to a Syndicated Loan: Part 1



The Players: Part 2

Parties to a Syndicated Loan – the Finance Parties



The LMA

The Loan Market Association was formed in December 1996 and is based in London. Initially established to foster a secondary loan market in Europe, it has now established itself as the arbiter of best standards and practices for documentation in both the primary and secondary markets.

Its members number over 250 and consist of banks, law firms, information and systems providers and other market participants.

English law LMA documents represent the vast majority (by value and volume) of cross-border, syndicated loan transactions across Europe. The documentary standards have achieved such broad and deep penetration that many local-law transactions are now done on adapted LMA forms.

LMA Mission Statement:

The Loan Market Association (LMA) has as its key objective improving liquidity, efficiency and transparency in the primary and secondary syndicated loan markets in Europe, the Middle East and Africa. By establishing sound, widely accepted market practice, the LMA seeks to promote the syndicated loan as the key debt product available to corporate borrowers across the region.

LMA Standard Forms

Facility Agreements

§ Investment Grade

- § For “plain vanilla” loans
- § Generally unsecured; no other tranches of debt (e.g. mezzanine)
- § To companies with ratings of BBB or better
- § Parent company borrower

§ Leveraged (Focus of Presentation)

- § For leveraged finance transactions
- § Can be adapted to multiple other complex facilities
- § Target and subsidiaries to accede post acquisition
- § Multiple borrowers and guarantors
- § Intercreditor with Mezzanine and hedging as well as subordinated debt

Other LMA Documents

- § **Mandate documents, confidentiality agreements**
- § **Transfer and assignment documents**
- § **Sub-participations/ risk participations both par and distressed**
- § **Now has Intercreditor Agreement**
- § **LMA working on non-English law precedents such as Spanish law facility**
- § **LMA working on other types of loan agreements such as for trade finance**
- § **LMA working to keep up with market developments, such as intercreditor terms to reflect the advent of secured bonds**

- § **Many international firms have adapted LMA to work under local laws as well**

Syndicated Financing Under LMA

Key Provisions for Participant Banks

Which Tranche?

§ Syndicated loan may consist of:

- § Term A: lowest interest rate, highest position for partial payments, fastest amortisation and earliest maturity
- § Term B: slightly higher rate, bullet repayment, right of refusal of early prepayments
- § First loss: term loan with much higher interest, but subordinate to other tranches
- § Capex/ Acquisition facility
- § Revolving credit facility which may or may not require the ability to issue LCs

How Much?

- § Control of the credit (e.g. enforcement) or blocking stake requires a certain hold
 - § “Majority Lenders” typically $66\frac{2}{3}\%$
 - § Protections for minority in the amendments and waivers clause

Syndicated Financing Under LMA

Key Provisions for Participant Banks

Funding and Yield Considerations

- § Floating rate loans combine interbank rate + Margin + mandatory costs
- § Additional costs (“Increased Costs”) recoverable but prepayment right
- § Interbank disruptions allow participants to claim true funding costs (two-stage process under new LMA)
- § Lenders’ obligations “several and not joint”
- § Borrower must “gross-up” for withholding tax subject to some conditions
- § Currency, other indemnities, costs and expenses

Syndicated Financing Under LMA

Key Provisions for Participant Banks

Typical Prepayments:

- § Voluntary in minimum amounts/multiples (subject possible to refusal right of B)
- § Mandatory of:
 - § Illegality
 - § Change of Control
 - § Cash Sweep?
 - § Insurances
 - § Disposal Proceeds
 - § “Acquisition proceeds” (contractual damages)

Transferability – How to Exit

Several ways to sell down a syndicated loan:

- § Primary syndication
- § Secondary market by:
 - § Transfer by way of transfer certificate (LMA form; note novation and issues about security and hardening periods)
 - § Assignment (LMA form)
- § Sub-participation
 - § Funded Participation
 - § Risk Participation
- § Derivatives
 - § CDS
- § Securitisation

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