Syndication Update[1]

By Brent Shultz and Ochuko Hope

The Syndication Update panel provided a comprehensive overview of the tumultuous events of 2023 and their implications for the syndication market going forward in 2024. The year 2023 witnessed significant turbulence, beginning with the market shakiness of Q3/Q4 of 2022 caused by market reaction to rising interest rates, leading to increased cost of funds for banks and challenges in predicting market behavior with players in the syndication markets. The bank failures occurring in March of 2023 marked a turning point, characterized by unprecedented run on the banks fueled by social media and intervention by the FDIC in connection with multiple bank failures.

In navigating the aftermath of the bank failures, legal considerations regarding defaulting lenders and the interplay with the established receiverships added complexity, prompting a flurry of activity in the syndications market and a reassessment of risk exposure for borrowers and lenders alike. The ensuing period saw portfolio sales, changes in bank participations in syndicated transactions, and renewed attention to regulatory capital requirements from a lender perspective. From a borrower's perspective, the evolving syndication landscape necessitated adaptation to shifting lender dynamics, with a focus on fostering long-term relationships amidst market uncertainties.

Insights from various panelists underscored the multifaceted nature of the syndication market. While new entrants injected fresh perspectives and capital into the market, established players grappled with capital constraints and evolving client needs. Questions surrounding facility syndication versus bilateral deals, tenor preferences, and the interplay between fund size and fundraising timelines highlighted the nuanced strategies employed by both lenders and borrowers to keep capital available in the market.

Looking ahead, the panel offered cautious optimism tempered by ongoing regulatory scrutiny and market dynamics. Despite challenges, opportunities abound for collaboration and innovation, as evidenced by the continued interest in fund finance and the resilience of the syndication ecosystem. As borrowers and lenders navigate this evolving landscape, a nuanced understanding of market trends and a strategic approach to relationship-building will remain key in driving sustainable growth and mitigating risk in the syndication market.

Additionally, the panel provided insightful analysis and discussions on current trends and challenges in syndicated deals, particularly focusing on the dynamics of pricing, utilization and facility sizing, structural innovations and rating considerations. Key points highlighted include:

[1] The panelists were William Gonska, Director at Mitsubishi UFG Financial Group; Ann Richardson Knox, Partner at Mayer Brown LLP; Charles Inkeles, Head of U.S. Fund Finance at Industrial and Commercial Bank of China; Maggie Jiang, Senior Vice President at Bank of China, New York Branch; and Debra Abramovitz, Executive Director at Morgan Stanley Investment Management

- Pricing Trends: The increase in pricing, particularly for longer tenor deals, presents a significant challenge for borrowers and lenders alike. The rising cost of capital has led to a preference for shorter tenors and a reluctance to commit to longer-term financing options.

- Utilization Dynamics and Facility Sizing: Usage of facilities has generally been lower, with periodic fluctuations based on market conditions and fund strategies. Due to capital constraints, syndicate lenders typically prefer participating in deals in which the borrower has demonstrated high usage, and Managers are increasingly focusing on higher utilization to optimize returns and avoid unused fees which are increasing. There's a trend towards sizing facilities based on anticipated usage, as lenders are becoming more selective in their offerings and considering capital constraints and risk exposure.

- After-Care Facilities: As funds transition into the harvest period or end-of-life phase, liquidity and facility restructuring considerations become crucial. Options such as uncommitted lines, NAV and hybrid facilities, and bridge facilities are being explored to address reduced facility sizes that continue to meet ongoing fund requirements.

- Structural Innovations: Lenders are exploring innovative structures, such as conduit financing, term loan tranches, and letter of credit issuance on a syndicated basis, to optimize capital costs and manage risk. These approaches require careful consideration of borrower needs, lender preferences, and market conditions.

- Rating Considerations: The potential for seeking credit ratings to optimize capital costs is emerging as a strategy for lenders, albeit with caution due to potential implications on pricing and market dynamics.