Buying and Selling RBLs: What You Always Wanted to Know but Were Afraid to Ask

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The effects of the precipitous decline in oil and gas prices after mid-2014 are well chronicled, but are still unfolding. Although oil prices have risen recently, the current price environment continues to adversely affect a broad range of energy-industry and related-industry businesses, including exploration and production, service and supply, and midstream companies, as well as those that directly or indirectly support or contract with those businesses. In particular, given their voracious appetite for new capital – and despite widespread reductions in their exploration budgets and spending – exploration and production companies are significantly affected by restricted access to capital, whether through capital markets, private equity, joint investment, commercial bank reserve-based loans (“**RBLs**”), or other investments or extensions of credit.

RBL lenders, in turn, are dealing with the combined effects of (1) deterioration in the financial condition of their borrowers and the value of their collateral, and therefore greater uncertainty regarding the ability of some borrowers to repay their loans on a timely basis, (2) increased regulatory scrutiny of, and related reserve requirements for and write-downs of, RBLs, and (3) in some cases, declines in the price of their own stock, at least partly as a result of their exposure to energy credits. Also, and especially for those who may have entered this market near the top of the price cycle, or do not have the depth of talent needed to wrestle with RBL evaluation, administration and collection in a distressed market, some lenders are reconsidering their commitment to this market. At the same time, billions of dollars have been raised by funds and others interested in acquiring energy-based assets, with the prospect of achieving significant investment returns as the prices of oil and gas rebound.

As a result of these and other factors, there is increasing interest in the benefits, as either a seller or buyer, of transfers of RBL credit exposure. This alert will summarize some of the questions that arise when a lender in a secured RBL facility negotiates and consummates a sale to a buyer of all or part of the lender’s RBL facility position. The alert primarily addresses sales of individual “whole loans,” but makes additional observations regarding transfers of loans/commitments in syndicated facilities, the transfer of participation interests, and the sale of RBL portfolios.

Read the full alert on RBLs.

For more information, please contact one lawyers below.