

## Fund Finance Insights Contracting Subscription Line Facility Tenors


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Average tenors for subscription line credit facilities ("**Subscription Facilities**") remain shorter than what the market saw two years ago. While lenders are still entering into two to three year facilities, most facilities are now structured with a tenor of under 16 months.<sup>1</sup> Selection of tenors, both at initial closing and in connection with extensions, is idiosyncratic to lenders and to specific deal circumstances. However, this contraction of tenors, from a previous average of ~25 months in H1 2022 to an average of ~17 months in H1 2024, is consistent with a general tightening of terms after the regional banking crisis of 2023 and is also likely being impacted by regulatory changes and a flurry of new entrants on both the supply and demand side of the Subscription Facility market.

### At a glance:

- Average tenors have shortened from ~25 months in H1 2022 to ~17 months in H1 2024.
- ~65% of Subscription Facilities documented in 2024 YTD have had 1-year tenors.
- The average initial facility size of 2-year facilities was 3x that of 1-year facilities.
- Committed extension options are rare, especially for 2-year facilities.

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Facilities with tenors of 16-24 months were, on average, three times the commitment size of facilities with tenors of under 16 months, based on our data for facilities closed in the first half of 2024.

Unsurprisingly, the majority of extension options, when offered, were uncommitted rather than committed. This remained true regardless of the length of the initial tenor of the facility and, as expected, the effect was significantly more pronounced in facilities of 16 months or longer than in facilities of under 16 months, as illustrated in the chart below.

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Fundamentally, tenor length is driven by expected returns and, perhaps to a lesser extent, risk management and mitigation. Both of these factors are impacted greatly by internal policies of each bank and those policies are seemingly constantly in flux at the moment as a result of recent and pending regulatory changes and macroeconomic considerations. Longer tenors usually command higher pricing which can be attractive to banks but obviously less so to borrowers. In a renewal of a syndicated facility, many additional factors come into play, including conflicting internal approaches to capital management among syndicate banks. Each bank may treat a committed or even an uncommitted extension differently when calculating internal rates of return. As private credit becomes more and more active in the fund finance space, the flexibility that non-bank lenders currently enjoy concerning regulatory capital reserves will open opportunities to these lenders with respect to longer facility tenors that are problematic for bank lenders.

These insights are based on data from Subscription Facilities, primarily US-based, documented by Haynes Boone during the referenced period for the largest domestic and international lenders, as well as for regional and super-regional banks.

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<sup>1</sup> Facilities included generally carry a tenor of 12, 24, or 36 months, but early exercise of extension options sometimes result in tenors not equal to one-year increments.