

## Haynes and Boone's Fall 2017 Borrowing Base Redeterminations Survey Results

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In September, Haynes Boone polled oil and gas producers, oilfield services companies, energy lenders, private equity firms, and other industry participants to get their predictions about producers' future borrowing capacity or "borrowing bases."

Producers' loans are assessed by their lenders twice a year to determine how much credit will be available based upon the collateral value of the producers' property referred to as their "borrowing bases." The borrowing bases turn on banks' projections about future prices for the producers' oil and gas reserves. The survey, which the firm has conducted twice a year since April 2015, offers a unique, forward-looking view about the projected financial state of the domestic energy market.

The survey results this fall indicate that conditions are continuing to improve for oil and gas producers, albeit at a measured pace. "With the fall in prices since 2015, producers and their service companies have brought drilling costs down so that on a per barrel basis, \$50 is the new \$75," said Energy Practice Co-Chair Buddy Clark. "The industry has adjusted to the new normal."

According to the survey, respondents on average expect 26 percent of borrowers to see a decrease in their borrowing base redeterminations in the fall. That is an improvement from the fall 2016 survey, which showed that an average of 41 percent of borrowers were projected to experience a decline.

"The survey is interesting in that producers were actually more pessimistic about where borrowing bases are heading this fall than the banks. And we saw this in the responses last spring. This seems counterintuitive, since producers by nature are more optimistic and bankers are more conservative," Clark said. "Reading between the lines, it may be that banks remain reluctant to take any aggressive action reducing borrowing bases closer to their true value for fear of putting too much pressure on some producers who have been financially distressed since the beginning of this downturn in prices."

Consistent with the reluctance to push producers into bankruptcy, in another key finding, only 5 percent of respondents in the fall 2017 survey expect companies to file for bankruptcy due to a borrowing base deficiency; last fall, 13 percent of respondents viewed bankruptcy as the most likely path for companies facing a borrowing base deficiency. This view is confirmed by data compiled in Haynes Boone's Oil Patch Bankruptcy Monitor, which indicated that E&P bankruptcy filings for the first half of 2017 have drastically decreased (14) compared to 2016 filings (70).

"Most of the big bankruptcies have already occurred," said [Kraig Grahmann](#), head of Haynes Boone's Energy Finance Practice Group. "There aren't many surprises left."

The survey also demonstrated the significant role that private equity is playing in energy lending. More than two-thirds of respondents thought that over half of new reserved-based loans entered into in 2017 have been with E&P borrowers backed by private equity. "We have heard over and

over since the downturn began that private equity is investing a lot of capital in the oil and gas space,” Grahmann said. “If you are a lender making a new reserve-based loan, you are more likely than not to have a private equity firm on the other side.”

The survey results generated media coverage in [Bloomberg](#) *rel="noopener noreferrer" News*, [Reuters](#), [NPR](#), [Argus Media](#), [ABL Advisor](#) and [Oil & Gas 360](#) (subscription required).

Haynes Boone has played a key role in a number of high-profile E&P and oilfield service matters, including asset sales, refinancings, debt restructurings and Chapter 11 cases, representing debtors, creditors, energy lenders, and private equity investors.

View all of the firm’s [energy bankruptcy reports and surveys](#).