

Haynes and Boone Releases Results of the Spring 2016 Borrowing Base Redeterminations Survey

January 25, 2016 Jeff Nichols

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With oil and gas prices continuing to swoon, those involved in energy lending and borrowing remained convinced that the ability to borrow against reserves is about to be significantly decreased by an average of more than 30 percent, according to a Haynes Boone survey conducted prior to the spring 2016 borrowing base redetermination season.

Like the fall survey, the latest study shows that an average of 79 percent of the respondents expect borrowers to see their bases decline, up from 68 percent in the spring of 2015. The amount of anticipated decrease remained about the same – 39 percent in the fall, compared to 38 percent in the spring 2016 survey.

Haynes Boone energy finance lawyers say the new figures portend more potential distress for E&P companies.

“In the fall some companies were able to avoid severe redeterminations or even defer them, and some companies had no reduction at all,” says Houston Partner [Jeff Nichols](#). “But the carry-over of a large percentage decrease from the prior survey demonstrates that banks did not implement the cuts that were expected in the fall and that borrowing bases are set for more and steeper cuts.”

Buddy Clark, head of the firm’s Energy Practice Group, said the release of the figures should provide some valuable clarity at a time when other surveys that are not “forward-looking” are being employed by the media and others to assess the current financial climate in the oil patch.

Of the 213 respondents, about 40 percent described themselves as oil and gas lenders, including private equity firms, 30 percent are oil and gas producers (borrowers), about 17 percent are professional service providers and about 12 percent are oilfield services companies and others.

“Our borrowing base survey is the only one that is forward-looking and includes both public and private companies,” Clark says. “Others are just using prevailing data on announced redeterminations that do not accurately reflect what’s happening.”

For example, the survey asked, “Which one or two of the following options do you think will be the most likely path that lenders and borrowers will take if faced with a borrowing base deficiency in spring 2016?” Results show that the percentage of those who believe selling the company or restructuring/bankruptcy would be most likely has doubled since the fall survey.

The newest version of the borrowing base survey for the first time asked respondents to compare the current market situation to prior downturns, including the recession of 2008, the early 1930s, late 1990s and mid-1980s. More than half of the respondents said it most resembles the oil slump experienced in the 1980s.

“Many more cuts are still expected,” said Clark. “It is not over by a long shot.”

To view the full survey results for Spring 2016, [please click here](#).

The latest borrowing base redetermination report comes as the firm releases its first-ever Oilfield Services Bankruptcy Tracker, which shows that middle-market oilfield services companies have amassed aggregate debt of more than \$5 billion, with the average debt in these cases totaling about \$135 million.

Haynes Boone has also been regularly updating its highly regarded *Oil Patch Bankruptcy Monitor*, which details the accelerating number of oil and gas producers who have filed Chapter 11 since the beginning of 2015.

The firm 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.