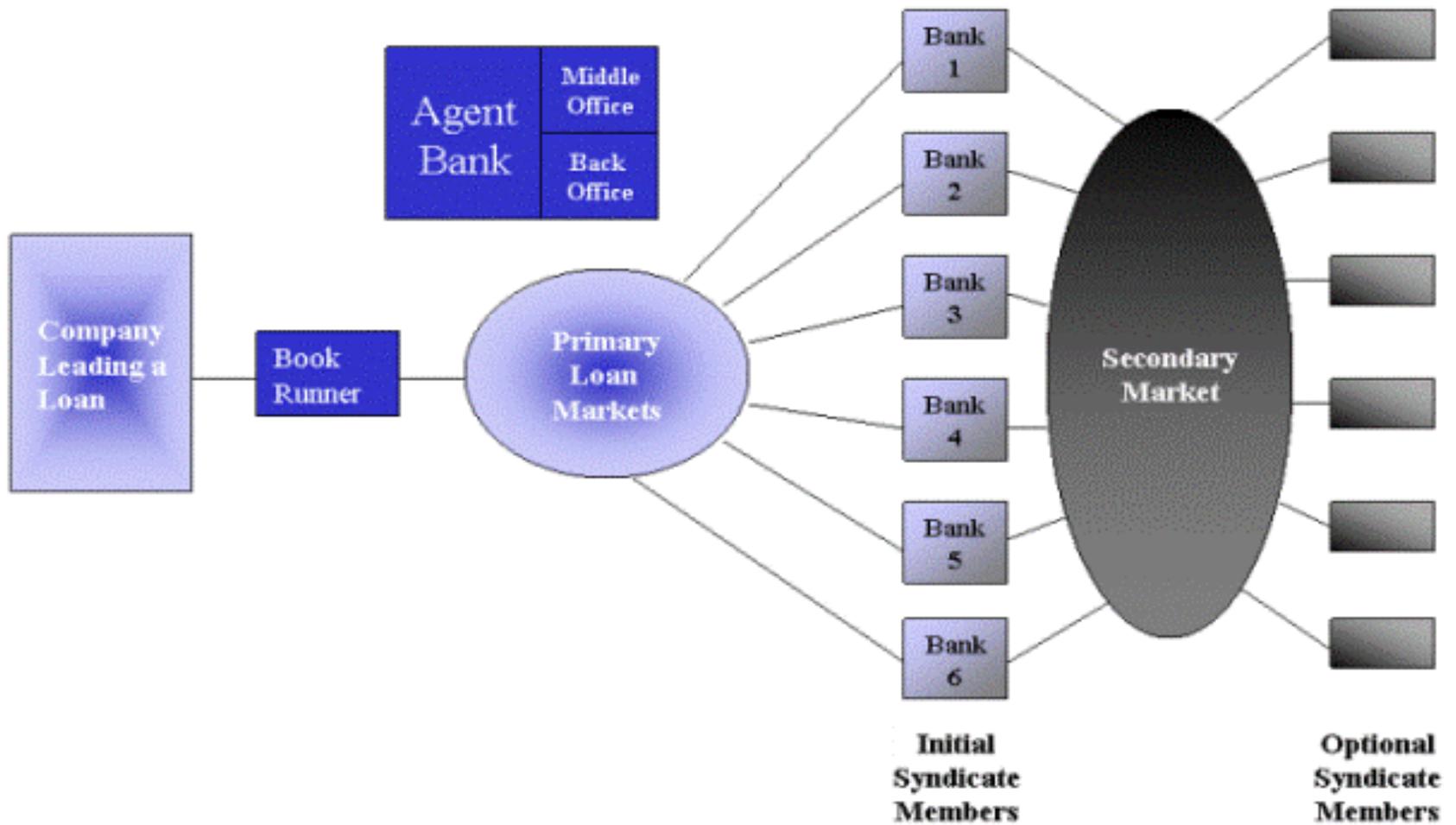




**LC and BG in  
Foreign  
Loan  
Syndication**



# What is a syndicated loan?

**Syndicated loans are credits granted by a group of banks to a borrower.**



**The borrower selects an agent to facilitate communications and transactions between the borrower and the banking institutions that will form the syndicate.**

**Generally, it will be a bank that has the necessary syndication capability and experience to obtain market credibility. This bank will be the lead bank or the syndicate manager.**

**The lead bank/syndicate manager will recruit a sufficient number of other banks to make the loan, negotiating details of the agreement, and preparing documentation.**

**It handles disbursements and repayments and is responsible for disseminating the borrower's financial statements to the syndicate members.**

**Once loan syndication is completed, syndicate members can sell assignments or participations (also called loan sales) in their shares in the secondary market.**



# When is syndication required?

These loans are for large amounts and long term.

It is generally used for new projects loans, large equipment leasing and enterprises' M&A financing in transportation, petrochemical, telecommunication, power and other industries.

Borrowers should be of high reputation in the industry, whose operational ability as well as financial and technical strength are recognized by most banks.

# Syndicated loans used for.....

- Working capital credit (refinancing of small lines of credit, etc.);
- Export finance (including ECAs);
- Capital goods financing (machinery, etc.);
- Mergers & Acquisitions;
- Project finance (SPVs, structured according to cash flow);
- Stand-by facilities;
- Trade finance (Letters of credit, forfaiting);
- Guarantees (supply, service, etc.)



# Process of loan syndication

1. Borrower should contact with the bank or money lending institution which could itself lend some money and work as an arranger to form a syndicate for the borrower. To appoint an **arranger** the borrower sends **a Mandate letter** (also called as a commitment) letter to the arranger.
2. **Term Sheet**– Before documentation, the terms related to financing or credit are included in term sheet. It is usually attached and signed with the Mandate Letter. Parties involved, their duties, roles and many important terms are included in it.
3. **Information Memorandum**- Generally prepared by both, the **arranger** and the **borrower**.

# Process of loan syndication

3. Information Memorandum is sent to **the potential syndicate members**. It should mention the important description about the borrower business (mentioned above) and details of proposed facilities. It is a confidential document and all potential lenders that wish to see it usually sign a confidentiality agreement.
4. The **lead bank** underwrites a larger share of the syndicated loan, ranking the highest among managers.  
*Usually, the lead bank is also the arranger.*
5. The lead bank is responsible for providing credit information and loan documentation to the participating banks.

6. **Syndicated Loan Agreement:** The loan agreement in which the detailed terms and conditions of the facility is made available to the borrower. The agents have to follow up the sanction of the loan amount by the lender.
7. The loan is appraised and sanctioned by the bank/financial institution.
8. Then the financial institution informs the applicant borrower of such sanction along with the detailed terms and condition and arrangements of other lenders.
9. The sanction letter mainly covers amount of loan, interest, commitment, charge security for the loan conversion option, repayment of loan etc.

10. The loan agent is a bank selected by the who represents the interests of all the syndicate members for the lifetime of the loan.
11. Middle Office Agent: the Middle Office Agent has the responsibility for drawing up and getting signed all the contractual documentation associated with the loan
12. The Loan Admin Agent: has to move the money around for the borrower and syndicate members.

**For example** ABC wants to draw down some money, say £73 million, the Loan Admin Agent has to calculate each syndicate member's share of the drawdown and obtain the money from the syndicate member in order to pass it on to the borrower.

Money flowing in the opposite direction would be interest payments, loan repayments and fee payments. Each amount of money has to be divided up according to the syndicate member proportion of the loan and the loan contracts rules.

# The Secondary market

The syndicate membership is not frozen for all time. Banks' appetite for classes of loans, countries, companies, industries and so on change over time so syndicate members often sell some or all of the participation after the initial syndicate has been set up. This buying and selling of parts of established loans is called the Secondary Loan Market.

Additionally, banks will typically have a loan trading book (an inventory of loans) that they are trading purely speculatively like any other commodity by trying to sell the loan for more than they paid for it. The expectation is that any loan on the trading book will be sold at most in a few months after being bought.

# Why loan syndication - Banks

- 1. Capital constraints promote loan syndication.**
- 2. Limitation of size of loan to a single borrower**
- 3. Achieve diversification in their loan portfolios**
- 4. Gives a chance to lend to borrowers in regions and industries to which they might otherwise have no convenient access.**
- 5. Allows a small bank to make loan to a large borrower.**
- 6. Syndicated loan facilities can increase competition, prompting other banks to increase their efforts to put market information in hopes of being recognized**

# Letter of Credit **and** Bank Guarantee

**Borrower in a syndicated loan may also require non fund based facilities like LC and BG.**

Let us take an example of opening an LC in favour of the borrower ABC with unit located in Germany. The unit needs to import a machinery from USA. LC required for USD 1 mio.

The front LC in this case will be opened by the agent bank.

**Situation 1:** *The agent bank may open an LC in favour of the beneficiary on the backing of LCs opened by the participating banks on the agent bank.*

**Situation 2:** *The conditions in the loan agreement may have so been structured that separate LCs may be opened. This all depends upon what the syndication document says.*

# Important ICC Publications

1. UCPDC 600 – Uniform Customs and Practices for Documentary Credits
2. ISBP 2013 – International Standard Banking Practices
3. URDG 758 – Uniform Rules for Demand Guarantees
4. ICC Rules for Arbitration - 2017

# USA

The syndicated loan market represents one of today's most innovative capital markets.

In 2016, total corporate lending in the United States nearly reached \$2 trillion in the syndicated loan market.

In US, the LSTA has been the leading advocate for the U.S. syndicated loan market since 1995, fostering cooperation and coordination among all loan market participants, facilitating just and equitable market principles, and inspiring the highest degree of confidence among investors in corporate loan assets.

# USA

The Loan Syndication and Trading Association's (LSTA) role has expanded since the Global Financial Crisis to meet new market challenges, assuming more prominence in the loan market generally **and** *regularly engaging with the U.S. Government and its regulatory bodies on legislative and regulatory initiatives.*

# CHINA

Bank of China (BOCHK) is an active and major participant in the Asia Pacific syndication loans market.

With roles as mandated lead arrangers or lead arrangers, BOCHK has been ranked as a leading arranger in the Hong Kong and Macau syndicated loan market in the past 12 years by "Basis Point".

The scope of service include structured finance and syndicated finance related to export credit, aircraft leasing, ship financing, infrastructure and construction loans, energy projects, plant and machinery installation, etc.

# CHINA

In China, most **syndicated** loans are used for the construction of major infrastructure projects such as the Beijing-Shanghai High-Speed Railway and the reconstruction of the Wenchuan area after the 2008 earthquake

# INDIA

Yes Bank is raising \$400 million through two syndicated loan transactions in Taiwan and Japan, comprising of \$ 250 million from Taiwanese banks and \$150 million from Japan.

Yes Bank has tied up 5-year commercial loan in a syndication led by CTBC Bank, Bank of Taiwan, Mega International Commercial Bank and Land Bank of Taiwan.

The syndication which was announced for an initial size of \$ 200 million with a green-shoe option saw a total subscription of \$ 355 million from 13 banks apart from the four mandated lead arrangers, amongst the largest bank participation in a Taiwan loan transaction.

This is Yes Bank's second such strategic loan syndication transaction in Taiwan after a successful maiden transaction in 2016 for a 5 year, \$ 130 million syndicated loan which saw participation from 10 banks including the mandated lead arrangers -- CTBC Bank and Taiwan Cooperative Bank.