Syndicating your bank credit facility can enhance your access to liquidity so that you can deal with day-to-day challenges and opportunities more effectively while supporting your long-term growth initiatives. Learn best practices for both entering into and amending a syndicated facility.

Syndicated loans can deliver larger amounts of capital in a timely manner and on more consistent market terms compared to conventional bilateral loans. By working with a group of banks rather than a single provider, you can also mitigate the risks that might arise from dealing with only one bank in an unpredictable environment.

However this multibank structure can present challenges if you need to amend the facility.

Each syndicated loan is unique to the borrower’s situation and can be structured in a variety of ways, including revolving and term credit facilities, as well as secured and unsecured loans. Similarly, each amendment process is unique and success is dependent on the dynamics of the lending group.

WHAT LENDERS CONSIDER

Lenders have always focused on relationship, return and the quality of the underlying assets. They are also interested in building their portfolios with quality loans. As a result, borrowers are well-positioned to see extended tenors and openness to event-driven underwritings.

In the current environment, lenders certainly consider quantitative factors such as credit quality and price, size tenor, structure, and purpose. They also consider their relationship with the company’s senior management team. They evaluate how often they’ve come into contact with management and whether or not management has been accessible and responsive when questions or concerns have arisen.

Ancillary business is also important to a bank’s return models when they evaluate the overall exposure to the company. There are very few lenders willing to “buy assets” (i.e., provide credit without ancillary business). It is not uncommon for lenders to reduce their commitments to companies where they do not have sufficient ancillary business.

HOW TO POSITION YOURSELF FOR BETTER TERMS

You can position yourself to seek capital at favorable rates with tactics like these:

• Meet with your lenders regularly to provide business updates. If you don’t hear from them, reach out to make the contact.

• Keep lenders up to date on your company’s performance and develop an understanding of your bank’s lending strategies.

• Encourage lenders to bid on ancillary business. This will help you position yourself to get incremental debt capital for emerging opportunities by encouraging lenders to bid on ancillary business. Spread this business among multiple lenders.

Whether you are exploring a new credit facility or considering an amendment, it is vital to have regular communication with your lender or lenders to keep them up to date on your company’s performance.
• Be open to local and regional lenders. They are often eager to play a role. Although their commitment levels may be smaller, they can increase as they grow.
• Take a conservative approach to forecasts and discretionary spending — particularly nonproductive use of cash — like stock repurchases and dividends.
• Always address potential problems or concerns early.

WHAT HAPPENS IF YOU REQUEST AN AMENDMENT

If your business is facing unexpected challenges, amending the terms of your original loan can be a productive strategy.

Advance notice to your lender and an honest assessment of your financial situation are critical if you want your request to be seriously considered.

Most amendments to a syndicated credit agreement can be made by a percentage of the lenders but certain amendments will require the consent of all affected lenders.

Here are some factors to keep in mind:
• Lenders may request higher pricing if credit metrics have weakened. The amount of pricing adjustment will be influenced by the nature of the request — whether it is performance-related or opportunistic. In addition, some members of the lender group will have minimum pricing parameters or hurdles.
• Lenders may seek a reduction of the loan commitment or additional collateral and/or incremental collateral to secure loans.
• A majority vote of the bank group participants may be required. This can be critical because certain lenders may want to exit a particular industry or credit.
• Extensions of tenor will require a 100 percent vote of the lender group, most likely leading to higher pricing.
• You can develop a strategy to replace lenders who reject an extension request.
• Amendments may take 15 business days or more to process.

Whether you are exploring a new credit facility or considering an amendment, it is vital to have regular communication with your lender or lenders to keep them up to date on your company’s performance. They will be in a better position to help you — and you’ll gain a better understanding of how your financial providers make their decisions.

For more ideas, insight and solutions, contact your relationship manager or visit pnc.com/cib.