

Pricing faces new challenges

The first eight months of 1999 were a challenging environment for most borrowers entering the syndicated loan market. For many, the sea-change in lender attitudes have proved unwelcome – particularly where a borrower has sought to raise an unusually large amount of finance.

Despite the difficulties, the volume of financing raised in the market has increased dramatically compared to same time period in 1998 – largely through a series of high-profile event-driven facilities that have further fuelled the higher returns that many active lenders expect from their loan books. The market is set to become more challenging as the new millennium looms.

One of the most significant factors determining the pricing achieved by individual borrowers accessing the market has been the scale of financing being sought. Many borrowers have seen significant pricing decompression

occur when seeking financing that exceeds their relationship and aspirant 'relationship' banks' ability – or willingness – to provide. In such circumstances – often when the scale of financing is being determined by an external factor such as an acquisition – borrowers have been required to tap into market- rather than relationship-driven liquidity.

Early access is key

While there is no shortage of this type of liquidity, unlocking 'commodity' lenders is proving increasingly costly for borrowers when compared to more traditional financing needs. As many lenders redefine their relationship aspirations and establish higher hurdle rates, the cost of accessing this near-limitless pool of global bank liquidity is set to steadily increase.

Although the deal pipeline for September is looking very robust for many leading arrangers, some banks

are concerned about the anticipated autumn rush. The fear is that this may crowd out a some syndications as investors concentrate resources on the most favourable opportunities on offer.

Unlike previous fourth quarters, this year does have an extra twist to it in that no one is quite sure what the impact of the Y2K issue will be. However, this factor is likely to further exacerbate the caution in the financial markets.

A number of the market's active investors are starting to review year-end positions in terms of likely drawing levels under existing facilities. In the CP market, spreads have started to widen for lower-rated issuers seeking funding over the year-end period. The expectation is that spreads will continue to rise as time goes by with a resultant increase in demand for drawn bank finance.

While a small number of banks are predicting that the syndicated loan market will be effectively closed as the year-end gets closer, this is unlikely to be the case. However in such an uncertain environment, it has rarely appeared more prudent for borrowers to access the market sooner rather than later. ■

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INTERNATIONAL LOANS

These are a selection of loans announced recently. The details, updated to the middle of last month, were supplied by IFR Securities Data, London and other sources.

Borrower	Type	Amount (m)	Term (yrs)	Margin Libor+ (bp pa)	Fees Commit. (bp pa)	Fees Front-end (type)(bp)	Arranger (s)
Hiscox <i>Syndication signed 30 July 1999.</i> <i>Comment: (a) letter of credit. Proceeds will be used to support the borrower in its underwritings for 2000 and 2001.</i>	(a)	GBP75	1	150	50	Lead Man 30	Chase Manhattan
House of Fraser <i>Syndication in progress.</i> <i>Comment: Proceeds will be used to refinance existing debt and for general corporate purposes.</i>	RC	GBP125	5	150	62.5	Co-Arr Senior 35 Lead Man 27.5 Under 22.5	HSBC Investment Banking
Stagecoach Holdings <i>Syndication in progress.</i> <i>Comment: Acquisition finance, supporting the USD1.87bn acquisition of Coach USA.</i>	TL TL RC	USD1,000 USD750 USD500	1 5 5	100	40	Co-Arr 25 Under 30	Royal Bank of Scotland JP Morgan Securities Bank of Scotland Credit Suisse First Boston
Stanley Leisure <i>Syndication completed July 1999.</i> <i>Comment: Proceeds will be used both to refinance existing debt and for the acquisition of London-based casino group Capital Corp.</i>	TL RC	GBP100 GBP125	5	125		Lead Man 30 Man 20	Royal Bank of Scotland
Tarmac Holdings <i>Syndication signed 24 June 1999.</i> <i>Comment: Demerger credit facility in support of the demerger of Tarmac.</i>	RC	USD515	5	37.5		Facit 37.5 Lead Man 15 Man 12.5 Partic 10	Greenwich NatWest
TI Group <i>Syndication in progress.</i> <i>Comment: Proceeds will be used to refinance existing bilateral facilities.</i>	RC	GBP400	5	35		Lead Man 10 Man 8 Util 5	Barclays Banque Nationale de Paris Royal Bank of Canada WestLB

RC = revolving credit, TL = term loan, M = mezzanine.