Syndicated Loan Market

Loan Syndications and Trading Association

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The Loan Syndications and Trading Association is the trade association for the floating rate corporate loan market. The LSTA promotes a fair, orderly, and efficient corporate loan market and provides leadership in advancing the interest of all market participants. The LSTA undertakes a wide variety of activities to foster the development of policies and market practices designed to promote just and equitable marketplace principles and to encourage cooperation and coordination with firms facilitating transactions in loans and related claims.
U.S. Corporate loan market is a vital source of capital for American business

According to government data, the U.S. syndicated loan market totals roughly $2.5 trillion of committed lines and outstanding loans.

- The committed lines are loans in the form of revolvers – they can be drawn, repaid, drawn, repaid, etc.
- It is a key source of financing for many large and middle market companies in the U.S.
- Over one-third of outstanding loans are held by non-banks; half of those are held by CLOs.

Source: Shared National Credit Review
U.S. syndicated lending volume

Investment grade loans are often undrawn revolvers that backstop commercial paper programs for companies like IBM; they are held almost exclusively by banks.

Non-investment grade (or leveraged) loans often include revolvers (drawn or undrawn) and one or more term loans; they are often used to fund mergers and are held by banks and non-bank investors.

Source: ThomsonReuters LPC
How a syndicated loan works
(Continual engagement between agents, borrowers and lenders)
Types of “institutional” investors

2010 primary investors in institutional loans

- Hedge, Distressed, HY fund: 29%
- Finance Co: 4%
- Mutual fund: 12%
- Ins Co: 4%
- Bank: 13%
- 38%

Source: S&P/LCD
Loans trade in the secondary

- Loans trade by assignment or participations
- Due to broad language, some participations might be considered swaps under Title VII
Loans can trade by either assignment or participation

**Assignment**
- Loan Agreement
- Borrower
- Lender of Record (Assignor) → Payments on loan → Lender of Record (Assignee) → Payments on loan

**Participation**
- Loan Agreement
- Borrower
- Lender of Record (Grantor) → Participation Agreement → Participant → Future funding on loan
- Payments on loan
- Certain voting rights on loan
LCDX PRODUCT
What is Single-Name LCDS?

- CDS: contract where two parties exchange the credit risk of a Reference Entity
- LCDS: CDS tailored to loan market (Deliverable Obligations = secured loans)
- If a “Credit Event” occurs in respect of specified “Reference Entity”, Protection Buyer will have the right to settle the contract (physical vs. cash settlement)
What is LCDX?

- Portfolio of 100 equally weighted single-name LCDS contracts representing Reference Entities with most liquid US first lien loans
- Reference Entities selected by active dealers, index “rolls” every 6 months to ensure most liquid names are included
**Credit Events**: Settlement on notional amount relating to single Reference Entity in the index is triggered if one of the following events occurs with respect to that entity:

- Bankruptcy of the Reference Entity
- Failure to Pay: Failure to make payments in excess of $1 mil on Borrowed Money obligations
  - Includes bonds and loans
  - Takes into account any applicable grace period
**LCDX Key Terms: Deliverable Obligations**

- **Limited to Secured Loans**
  - Loans must meet the definition of “Syndicated Secured” in order to be deliverable
  - Syndicated Secured means an obligation
    - (i) that arises under a syndicated loan agreement and
    - (ii) that, on the relevant day, “trades as a loan of the Designated Priority” under the then-current trading practices in the primary or secondary loan market, as the case may be
  - LCDX Designated Priority = First Lien
  - Poll of active LCDX dealers determines which loans are “Syndicated Secured”
LCDX Key Terms: Settlement

- **Auction cash settlement**
  - LCDX dealers determine whether to hold an auction and compile list of Deliverable Obligations
  - Auction occurs on one day and determines single price for list of Deliverable Obligations
    - Physical settlement component enables interested parties to physically deliver loans
  - All outstanding LCDX contracts cash settle at Auction Price
    - Protection Seller pays 100% minus Auction Price multiplied by relevant notional amount (1% of total notional)

- **Physical Settlement Fallback**: Protection Buyer delivers Deliverable Obligation in exchange for par payment