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The Development of the International Market for Syndicated Loans (1980-2007): A Review.

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The Development of the International Market for Syndicated loans (1980-2007): A Review.

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Abstract

The international market for syndicated loans had grown strongly over the past twenty seven years (1980-2007). Global syndicated lending reached US$ 4.5 trillions in 2007, a 5,500 percent increase from its level in 1980. Nonetheless, little research has been done in this area. Using historical data provided by various sources including Thomson Financial and The International Bank for Settlement, this paper reviews the development of this market in the said period and endeavors to identify the main driving forces for its development. The paper also reviews work done in this area by previous researchers.

Key words: syndicated loans, development.

The Development of the International Market for Syndicated Loans over the 1980-2007 Period

1. Introduction

In this paper, we will briefly present the development of the international market for syndicated loans over the past twenty-seven years (1980-2007). In particular, we will examine how this market has evolved as it stands today. We also look at the development of this market at regional levels. Specifically, we look at the syndicated loan market in the US, Europe and Asia. Finally, we report recent trends and developments in this market.

2. Overview

The term 'syndicated loan' describes an instrument whereby multiple lenders provide funds to a single borrower. In a 'true' loan syndication, a group of banks ('the syndicate') lends directly to the borrower under a single loan agreement. The syndication is generally perceived by lenders as a collection of loan contracts conveniently condensed into one single agreement. Syndicated loans have become an important corporate financing technique for large firms, in particular multinational corporations, and increasingly for mid-sized firms (Amstrong, 2003).

According to Yang, Gupte and Lukatsky (2008), there are three main types of syndications: an underwritten deal, a 'best-efforts' syndication, and a club deal. An underwritten deal is one for which the arrangers guarantee the entire commitment, and then syndicate the loan to other banks and institutional investors. In the case of a best-efforts syndication, the arranger group can underwrite up to certain limit, leaving the remaining part of the credit to the market forces and if the loan is undersubscribed then the credit may not closed. Finally, a "club deal" is a smaller loan (usually less than €150 million) that is pre-marketed to a group of relationship lenders. In terms of facilities, syndicated loans can be classified into four types: a revolving credit, a term loan, a letter of credit and an acquisition or equipment line.

According to Barnish et al. (1997), the syndicated loan market can be broken down into two types of sub-market: investment-grade and "leveraged" (non-investment-grade) lending. The leveraged loan market is further subdivided into the regular leveraged segment, paying spreads of 150 to 249 basis points or more over LIBOR, and the highly leveraged market, paying 250 basis points or more over LIBOR

Syndicated loans include term loans, revolving credit facilities, and standby facilities. According to Amstrong (2003), most large syndicated loans today comprise multiple loan tranches with different features and terms. The shortest maturity or maturities (tranche A) are for traditional bank borrower whereas the longer-term tranches (labeled "B", "C", "D" and "E" are designed for institutional investors.

The costs of syndicated credits are composed of two elements: the actual interest expense of the loan and the commitment fees. The former is usually stated as a spread in basis points over a variable rate base such as LIBOR while the latter are paid on any unused portions of the credit.

As can be seen in Chart 1, the market[1] for syndicated loans increased substantially from under US$ 100 billion in 1981 to US$4.5 trillion in 2007.[2] The international market for syndicated loans has become not only the largest source of corporate funds in the world, but also one of the fastest growing markets.

According to Zuckerman and Sapsford (2001) the syndicated loan market is a "multi-trillion dollar debt bazaar that has become the nation's (U.S) largest capital market during the decade." Gadanecz (2004) also reports that international syndicated loan facilities account for at least a third of all international financing.

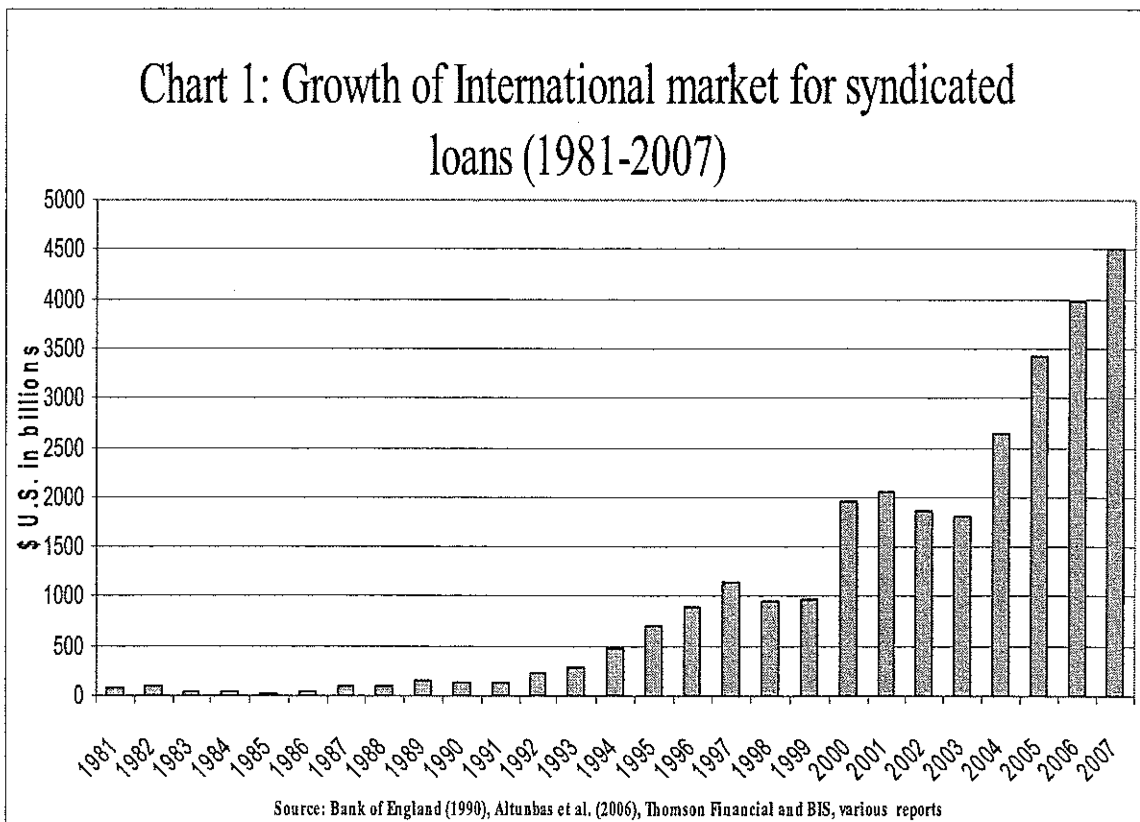
Borrowers use syndicated loans for different purposes including capital structure, general purpose, project finance, etc. However, mergers and acquisitions have increasingly become important purpose in recent times. Thomson Financial (Mergers and

[1] The three major centers of syndicate lending are in New York, London and Hong Kong, with important regional centers in Singapore, Tokyo, Frankfurt, Paris, Amsterdam, Luxembourg, Madrid, Chicago, Sydney and Toronto (Amstrong, 2003).

[2] It should be pointed out that there are differences in the volume of syndicated loans reported by different data sources. These include those from Loan Pricing Corporation, Euromoney, Shared National Credit Program, Thomson Financial and Bank for International Settlement. In this chapter, to maintain consistency, we mainly draw our information from Syndicated Loan Review which is a publication of Thomson Financial. We only resort to other sources of statistics for cross-checking purposes or when no data are provided by Thomson Financial.

Acquisitions Review, Third Quarter 2008) reports that the volume of mergers and acquisitions in the first nine months of 2008 totaled US$ 2.5 trillion. The annualized figure for the 2008 volume (US$3.3 trillion) represents an increase of almost 140% compared with that in 1999 (US$ 1.4 trillion). The current financial crisis (triggered by the sub-prime mortgage sector) also saw major consolidation in the global banking sector. Thomson Financial (ibid. p.1) reports that Bank of America acquired Merrill Lynch for US$ 48.8 billion, Lloyds TSB acquired HBOS for US$22.9 billion and Commerzbank acquired Dresdner Bank for US$14.3 billion.

The rapid growth of syndicated loans is driven by advantages this funding type provides to both borrowers and lenders. From the lender's perspective the size individual loans has become so large that no single financial institution has either the capacity or desire to lend the entire sum. Also, syndicated loans provide an attractive alternative



for lenders and offer them the ability to spread the credit risk, generate fee income, and diversify their income stream. Furthermore, banks can cancel their commitments

relatively easily without reducing investor confidence. Altunbas et al. (2006a) also note that banks can use syndicated loans to compete with bonds.

From the borrower's perspective, syndicated loans offer a number of advantages. The syndicated loan market is a stable source of funds that allows borrowers to raise larger sums than they would be able to obtain from other sources. Borrowers can reduce administrative costs and establish a lender group for subsequent funding. Borrowers can arrange deals quickly and discreetly to conduct certain transactions such as takeovers (Bank of England, 1990). The aforementioned reasons made syndicated loans "a powerful financial tool for strategic corporate transactions such as mergers and acquisitions" (Altunbas et al. 2006b).

There are also other institutional factors that help explain the development of the syndicated loan market. First, in the early 1980s, political pressure from the home governments forced lenders to lend to less developed countries (LDCs) to maintain international financial stability, hence contributing to the development of the market for syndicated loans. Second, regulation in some countries (in particular, the US) limits the size of loans to a single borrower. This caused banks to look for borrowers overseas. Third, in the US, the advent of Rule 144a in 1990 permitted the resale of privately-held securities. The 1991-1992 credit crunch led to the banking system's willingness to sell their loans into the secondary market rather than holding them until maturity. Fourth, as noted by Altunbas et al. (2006b), growing internationalization in banking and the relaxation of exchange controls by Western European countries led to more growth in financial activity and free movement of capitals among countries. Finally, the founding of the Loan Syndication and Trading Association (LSTA)[3] in the US and the standardized T+10 settlement procedures for par and near par loans have also enhanced the liquidity of the syndicated loan market (Allen et al., 2004).

In addition to above factors, a number of other important trends have further contributed to the development of the international market for syndicated loans in the last two decades. First, globalization has made it possible for firms to invest and operate worldwide. Globalization has evolved in many aspects. From the trade point of view, the

[3] The counterparts of LSTA in Europe and Asia are the Loan Market Association and the Asia Pacific Loan Market, respectively.

forming of Free Trade Area has created more investment opportunities across countries and many firms have become multinationals to operate in that environment. Financially, firms now need more capital to operate. A significant event that strengthened the globalization process is when eleven European countries established a new currency called the "euro" on 1 January 1999.

Secondly, financial engineering has also brought forward many financial innovations tailored to the needs of both borrowers and lenders. The advent of financial derivatives such as an issuance note facility, a floating rate facility, commercial paper and many others has facilitated borrowing and lending across countries. For example, commercial paper programmes are also frequently backed by a syndicated letter of credit (Altunbas et al., 2006b).

Advances in information technology and communication networks consolidate the development of the market for syndicated loans as they facilitate the forming of lending syndicates across all countries. Online lending and borrowing are becoming more popular. Conversely, according to the Bank for International Settlement (Quarterly Review March 2001), the growth of the IT and communication industry has been evidenced by its borrowing in the syndicated loans market.

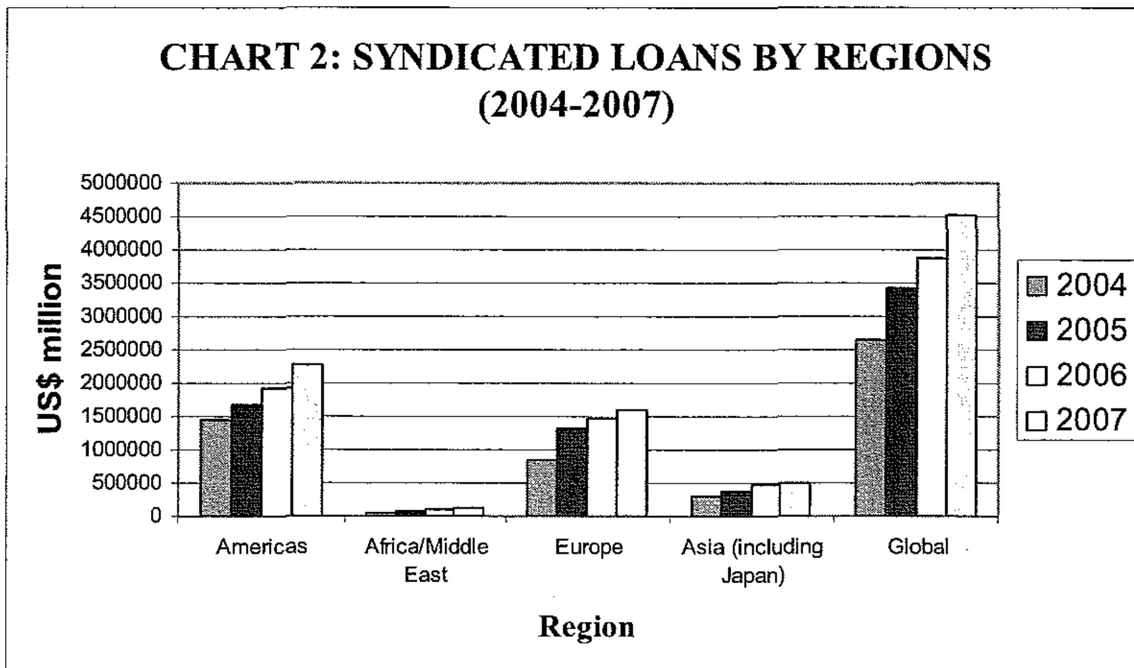
Gadanecz (2004) identifies three phases in the evolution of the international market for syndicated loan. He indicates that credit syndication first developed in the 1970s as a sovereign business and ended in early 1980s. Between 1970 and 1982 foreign capital was injected into developing countries of Africa, Asia and Latin America in the form of medium-term syndicated loans. Gadanecz (2004) finds that large US and European banks tend to originate loans for borrowers in emerging markets and then allocate them to local banks. This phase of market development actually allows smaller financial institutions to acquire emerging market exposure without the need for being present locally. Gadanecz (2004) notes the 1980s then saw payment difficulties experienced by many emerging market borrowers. For example, Mexico defaulted on its payment in 1982 which was soon followed by other countries in the region (e.g. Brazil, Argentina and Venezuela) as well as the Philippines in Asia.

Gadanecz (2004) notes "The Brady plan, however, provided "new impetus" to the syndicated loan market." In the early 1990s, banks started to apply more

sophisticated risk pricing techniques to syndicated lending (e.g. synthetic securitization). They also made use of covenants and linked pricing explicitly to corporate events such as changes in ratings and debt servicing. In doing so banks gain protection against credit risk and at the same time keeping the loans on their balance sheets. In this phase, it was noted that corporations in industrialized countries also started to use syndicated loans for their financing needs. Corporations used syndicated loans as complement to other sources of external financing such as bonds and equities. However, it is common nowadays for borrowers to refinance their syndicated loans by issuing bonds at the loan's stated maturity (Altunbas et al., 2006b).

Chart 2 below shows that developed country borrowers received approximately 90 per cent of syndicated loans. US borrowers' volume of syndicated loans accounted for 50.5 per cent of the world market and reached a peak of US$ 2.28 trillion in 2007. Next in importance are European countries area countries (35 per cent). Japan and other Asian countries had a limited presence in the world market for syndicated loans accounting for only 10 per cent; however, the number of loans signed by Japan has increased significantly over time and reached a total of over 2,095 loans in 2007 (Thomson Financial, Syndicated Loan Review, 2008).

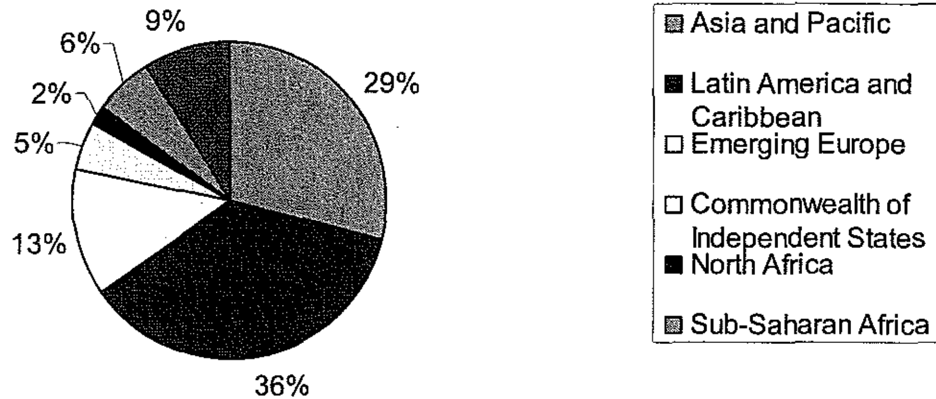
Completing the market are syndicated loans to emerging countries which accounted for 8 per cent of the total loans during the period between 1993 and 2004. One third of these loans were granted to borrowers in Latin America and Caribbean countries (36 per cent). Second in ranking are Asia and Pacific (29 per cent) which followed by emerging Europe (13 per cent) and the Middle East (9 per cent). Chart 3 below gives a breakdown of lending to emerging markets for the period 1993-2004. An interesting point mentioned by Altunbas et al. (2006a) is the difference in pricing of syndicated loan



between facilities granted to emerging and industrialized country borrowers. They note that on average, emerging market borrowers had to pay 40 basis points more than their industrialized country borrowers and this gap widened during the Asian and Russian financial crises to 100 basis points. However, according to Altunbas et al. (2006a), between 1993 and 2001, a number of sovereign borrowers in emerging countries have been assisted by IMF to pay a higher spread over LIBOR for short-term loan.

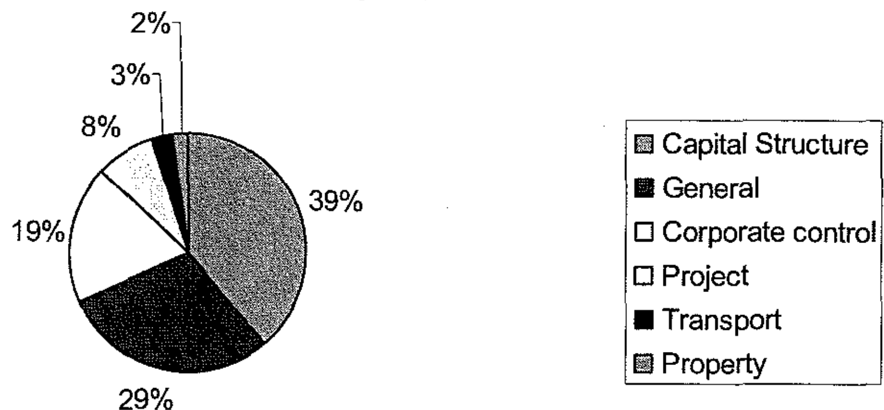
Altunbas et al. (2006a) also report that over the period 1993-2004, 39% of the total loan amount granted was for capital structure purposes. Ranked second were general corporate purpose facilities, accounting for 29% of all loans. Corporate takeover and project financing were other common purposes which accounted for 19% and 8%, respectively. Chart 4 below shows the loan purposes of syndicated loans during the above period.

Chart 3: Lending to emerging markets 1993-2004



Source: Altunbas et al. (2006a).

Chart 4 : Composition of loans, by purpose 1993-2004.



Source: Altunbas et al. (2006a).

The next three sections present the syndicated loan markets in the US, the Europe and Asia.

3. The US Syndicated Loans Market

The US market has always been the major market for syndicated loans. Chart 5 shows that in the US market, the volume of syndicated loans increased from $241 billion in 1990 to $1,196 billion in 2000, an annual compound rate of 17.4 per cent. The lending decreased subsequently in the following three years but bounced back in 2004 and increased to US$ 2.086 trillion in 2007.

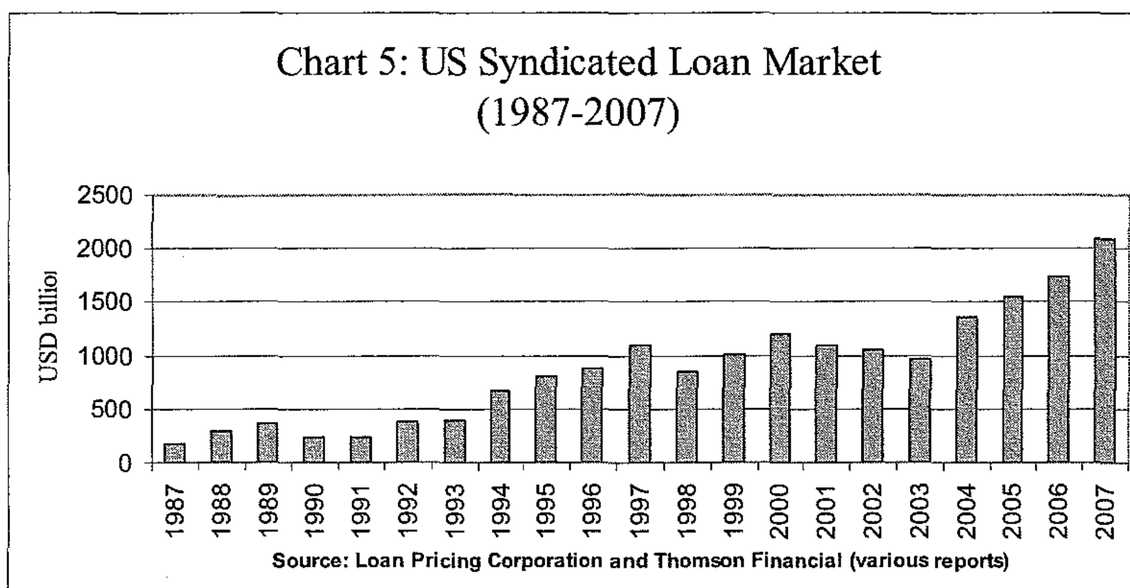


Table 1 below lists the top ten managers in the US market for the year 2007. In 2007, the number of deals arranged by these top ten arrangers accounted for almost 82% of the US market with a total of 2995 deals. The average size for these deals was US$ 484 million. The total lending accounted for by these top ten arrangers (US$ 1,449.79 billion) also accounts for approximately 32 percent of the global lending in the same year (US$ 4.5 trillion).

Initially in the United States syndicated loans were mainly to US corporations and to less developed countries. Loans to US corporations include loans for leveraged[4] acquisitions and managerial buyouts (LBO).

[4] Leveraged is the term frequently used in the loan market to describe credits that are lower rated or less than investment-grade. Leveraged or sub-investment-grade lending should not be equated with leveraged buyouts. Leveraged buyouts comprise only one part of the overall leveraged lending market (Amstrong, 2003).

TABLE 1: TOP TEN ARRANGERS IN US SYNDICATED LOAN MARKET IN 2007.					
YEAR	Rank	**Bank Holding Company**	**Lead Arranger volume (US$ Billion)**	**# of deals**	**Market Share**
2007	1	JP Morgan	449.37	741	25.30%
	2	Bank of America	293.39	833	16.50%
	3	Citi	280.46	356	15.80%
	4	Wachovia Securities	92.06	321	5.20%
	5	Credit Suisse	81.25	174	4.60%
	6	Deutsche Bank	71.75	109	4.00%
	7	Goldman Sachs & Company	62.23	96	3.50%
	8	Lehman Brothers	46.24	77	2.60%
	9	Merrill Lynch & Company	40.59	93	2.30%
	10	Wells Fargo & Company	32.45	195	1.80%
		TOTAL	1449.79	2995	81.60%
Source: Loan Pricing Corporation website as at 10 August 2008.					

3.1. Loans to US Corporations

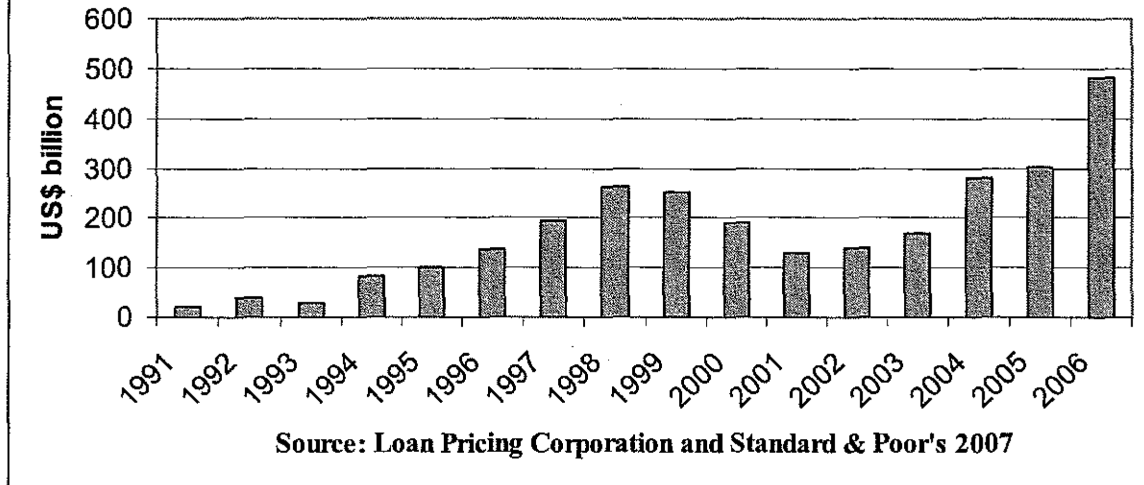
According to Barnish et al. (1997), in the early 1970s large banks began to distribute credit risk to correspondent banks. However, it was not until the mid-1980s that the syndicated loan market emerged as a vehicle to finance large leveraged buyouts. The market was actually initiated by a small group of money center banks in the United States. These banks arranged, underwrote, and sold pieces of large loans to syndicates of banks. With this distribution process, lead banks could reduce their exposure to credits and still account for a large share of structuring and underwriting fees. Barnish et al. (1997) report that in the 1980s, foreign banks used syndicated loans to expand their lending activity in the United States by accessing the client relationships established by domestic commercial banks over the preceding decades. They also began to establish relationships with American institutional investors like insurance companies and mutual funds to strengthen their clientele for leveraged loans. By 1988, some of these institutional investors had entered the leveraged loan market. A number of reasons had attracted these investors to this market. These include: (1) a unique risk-return opportunity with wide-margin loans; (2) a stable return due to the floating interest rate; and (3) considerable protection from principal loss in the form of covenants and security.

By the late 1980s, the syndicated loan process for the leveraged market was quickly transformed into the investment grade market. According to Barnish et al. (1997), in the early 1990s a number of events had caused a liquidity crunch in the leveraged finance market. These include: (1) slowing economic growth; (2) soaring default rate; (3) increased regulatory scrutiny of HLTs (highly leveraged transactions); and (4) outflows from high-yield funds resulting from the collapse of the high-yield bond market.

According to Amstrong (2003), one important development in the latter half of the 1990s is that the market had started to recognize syndicated loans as "an asset class." Many institutional investors (e.g. mutual funds, pension funds and insurance companies) began to seriously consider syndicated loans as an alternative investment to bonds and debentures. In the 1990s, only few large US commercial banking companies accounted for the bulk of US syndicated corporate credits to borrowers of all quality types.

The leveraged loan segment of the syndicated loan market had grown rapidly in the 1990s. Important participants in this market are institutional investors. It was estimated that as many as 75 institutional investors participated in the leveraged loan market (Altman and Suggitt, 2000). The Starndard and Poor's/LSTA Loan Index reports a volume for this market segment at almost US$0.5 trillion in 2007 (See Chart 6).

Jones et al. (2000) report both the number of Shared National Credit (SNC) loans and the number of unique SNC borrowers rose dramatically between 1995 and 1999. They also report that "the growth in leveraged lending was the most significant growth in the syndicated loan market." However on the average the holding of loans by agent banks steadily declined over the 1995-1998 period. Jones et al. (2000) argue that "this is consistent with the increase in syndicated loan sales and the securitization of these loans as collateralized loan or debt obligations (CLOs and CDOs) during the latter 1990s." They also report that the recent growth in individual loan ratings published by rating agencies has given this market a further boost by making syndicated loans more attractive.



Source: Loan Pricing Corporation. Web site (10 August 2008).

According to Bavaria (2002) "the growth in agency's ratings in the late 1990s and early 2000s has transformed the US syndicated loan market from a traditional, relationship-based bank loan market to a more efficient, investor-driven loan market." Also, Standard & Poor's reports that starting from a base of zero in 1996, it now rates the loans of about 1,200 companies.

The development of secondary market for syndicated loans has also facilitated the primary market for those loans. It provides the liquidity for the lenders as well as for investors. In the United States, the secondary trading in loan assets has been growing strongly, as shown in Chart 7. Amstrong (2003) notes that banks and non-bank institutional loan buyers can confidently use sophisticated loan portfolio management techniques because they know there is a liquid secondary market they can use to balance and re-balance their portfolios when necessary.

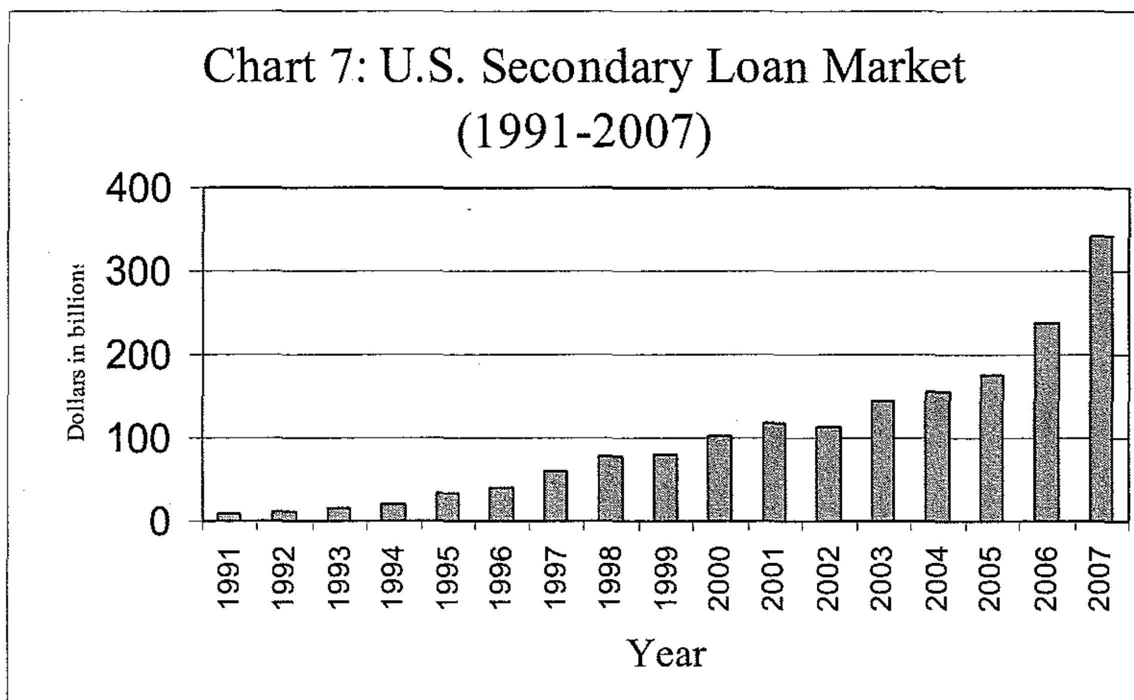


Table 2 below gives the industry breakdown of the US syndicated loan market in 2007. The energy and power industry was the largest with a 23% share. Ranked second and third are financials and industrials sectors, respectively.

Table 2: American loan proceeds by industry (2007)

Industry	(US$ Billion)	(%)
Energy and power	437	0.23
Financials	320	0.17
Industrials	265	0.14
Materials	219	0.12
Media and entertainment	195	0.10
Healthcare	175	0.09
High Technology	160	0.08
Retail	125	0.07

Source: Thomson Financial, Syndicated Loans Review, 2007.

In sum, syndicated loans to U.S corporations include both investment grade loans and leveraged loans. The latter market, however, accounts for the bulk of the transactions in the US market. Indeed, according to Barnish et al. (1997) "the market for leveraged

loans now offers issuers and investors most of the key features of public capital markets, including a robust secondary market, derivatives, independent credit ratings, and research. The net effect of these innovations is a sophisticated, diversified leveraged finance market that issuers can tap to finance strategic transactions or simply to refinance debt." In the US, syndicated loans have become to be recognized at an asset class and traded in the market as other debt securities.

3.2. Loans to Less Developed Countries

According to Megginson et al. (1995), in the 1970s banks had significant surplus in petrodollars and at the same time faced weak demand from the corporate sector. During this decade, Less Developed Countries (LDCs) were able to borrow at favorable rates at the expense of syndicated lenders. Regulation also restricted the market for corporate control in banking in the 1970s, thus banks pursued other objectives rather than the traditional goal, that is, maximization of shareholder wealth. Eichengreen and Mody (1999) report that between 1972 and 1982 syndicated lending to LDCs increased from $50 billion to more than $300 billion. According to the Federal Deposit and Insurance Corporation (FIDC, 1997), the primary motive to lend to emerging markets during this period was the search for new markets and profit opportunities when US banks was facing a declining share of households' savings to other types of intermediaries and to the capital markets (cited in Altunbas et al., 2006b). These loans were typically charged with a spread over London Interbank Offered Rate (LIBOR). Banks also viewed the periodic adjustment of rates characterized by these syndicated loans as a protection against inflation which devalued their loan assets. According to Bank for International Settlements (2005), the signings of new loan facilities had increased from US$ 7 billion to US$ 133 billion over the 1972-1981 period (cited in Altunbas et al., 2006b).

However, in the 1980s, a number of important events regarding syndicated loans to LDCs triggered the international debt crisis. In August 1982, when Mexico announced its inability to meet scheduled repayments, it owed almost $90 billion of external debt. This announcement triggered the international debt crisis in the 1980s. According to Lee et al. (1996), during the three years following that announcement, over 35 other debtor nations renegotiated their debt service obligations with their creditors. This put an end to

voluntary syndicated lending to LDC borrowers in 1985. Indeed, the total amount of syndicated loans issues to emerging markets fell dramatically from US$ 47 billion in 1981 to US$ 9 billion in 1985 (Bank for International Settlements, 2005 cited in Altunbas et al., 2006b). However, the international debt crisis led to the development of a secondary market for syndicated loans. Lee et al. (1996) note that the wave of LDC loan renegotiations and consolidations after 1982 actually promoted the growth of the syndicated loan market. Initially, the role of this market was to facilitate commercial banks to adjust their credit exposure to highly indebted countries. Since then the market has grown rapidly and has attracted non-bank market participants. Trading volume increased from $2 billion in 1984 to $500 billion in 1992. According to Eichengreen and Mody (1999), the completion of the Brady Plan rescheduling by the end of the 1980s also explains the recovery of syndicated lending to LDCs.

4. Loan Syndication in Europe

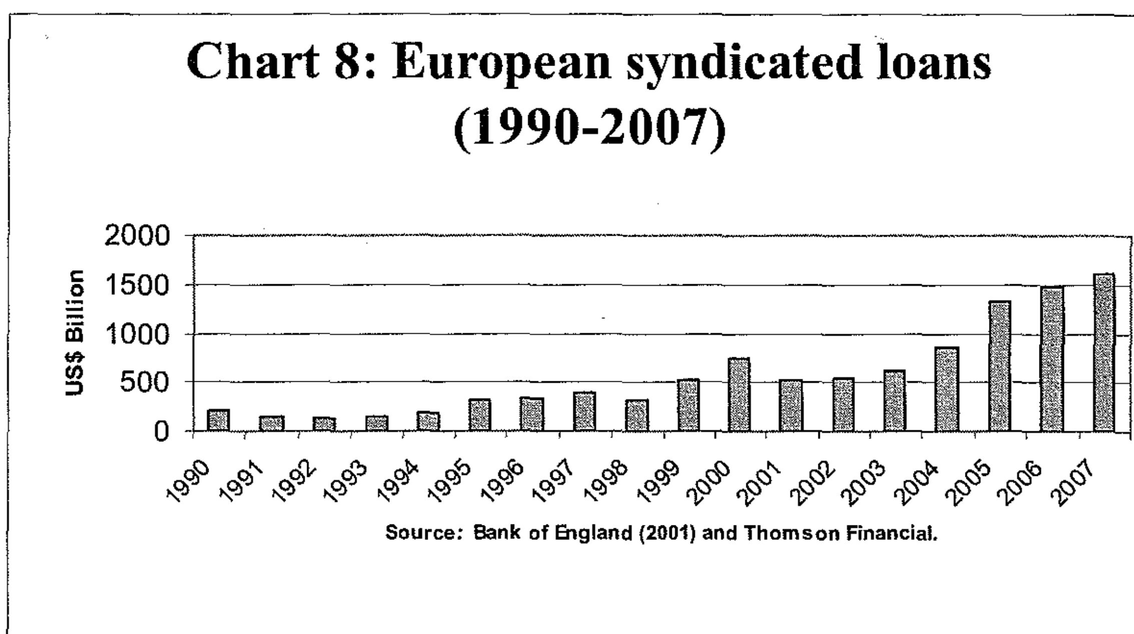
Chart 8 shows that total volume of syndicated loans in Europe has grown from just over US$ 200 billion in 1990 to US$ 1,599 billion in 2007. International bank loans, called Eurodollar credits or simply Eurocredits, have traditionally been sourced in the Eurocurrency markets.[5] The basic borrowing interest rate for Eurocredits is traditionally tied to the London Interbank Offered Rate (LIBOR). In addition, borrowers usually pay a premium over the base rate, dependent on creditworthiness and the terms of the credit.

According to Eiteman et al. (2007), the key factor attracting both depositors and borrowers to the Eurocurrency syndicated loan market is the narrow interest rate spread (less than 1%). Eiteman et al. (2007) note that on the lending side, the low rates exist because the Eurodollar market is a wholesale market, large corporations or governments with good credit standing are seeking large loans, and the transactions have low overheads.

[5] Eurocredits are bank loans denominated in Eurocurrencies and extended by banks in countries other than the country in whose currency the loan is denominated.

On the deposit side, the rates are higher than in the US domestic market because banks avoid US reserve requirements and Federal Deposit Insurance Corporation assessment fees paid on deposits.

The International Monetary Fund (1997) reports that stimulating monetary policy in Europe boosted liquidity in European banking systems. As a result, syndicated lending volume has been spurred by refinancing operations, funding associated with mergers and acquisitions, expansionary monetary policy, backup facilities associated with commercial paper and asset-backed securities issues, and project financing.



What is more interesting about the European syndicated loan market, however, is the introduction of the euro – the common currency for eleven member-countries, in January 1999. The market for Euroloans has grown spectacularly since the introduction of the euro. According to Barclays (cited in Bank of England, 2001), the significant increase in demand for syndicated loan facilities was due to a number of factors. Firstly, there was a significant increase in volume terms due mainly to borrowing by continental European corporations. While historically, these corporations did not use syndicated loans, over the two years following the introduction of the Euro, they utilised the syndicated market either to refinance existing bilateral arrangements, or to obtain larger

loans. This increase in funding requirements was due to record levels of merger-and-acquisition-led corporate restructuring facilitated by flexibility, confidentiality, and expediency of syndicated loans.

The size of Euroloans had increased dramatically, from less than $5 million in 1995, to € 1.5 billion in 2000. According to Barclays (cited in Bank of England, 2001), the above increase in the volume of syndicated loans had occurred during a period of market consolidation. Many major lenders reduced permanent term financing in order to improve returns on capital for shareholders from lending, and to reduce the period of time in which they expect other business to develop. During the period 1999-2000 there was a considerable shortening of the maturity profile of facilities. Many loans were simply serving as bridge financings to the Eurobond market.

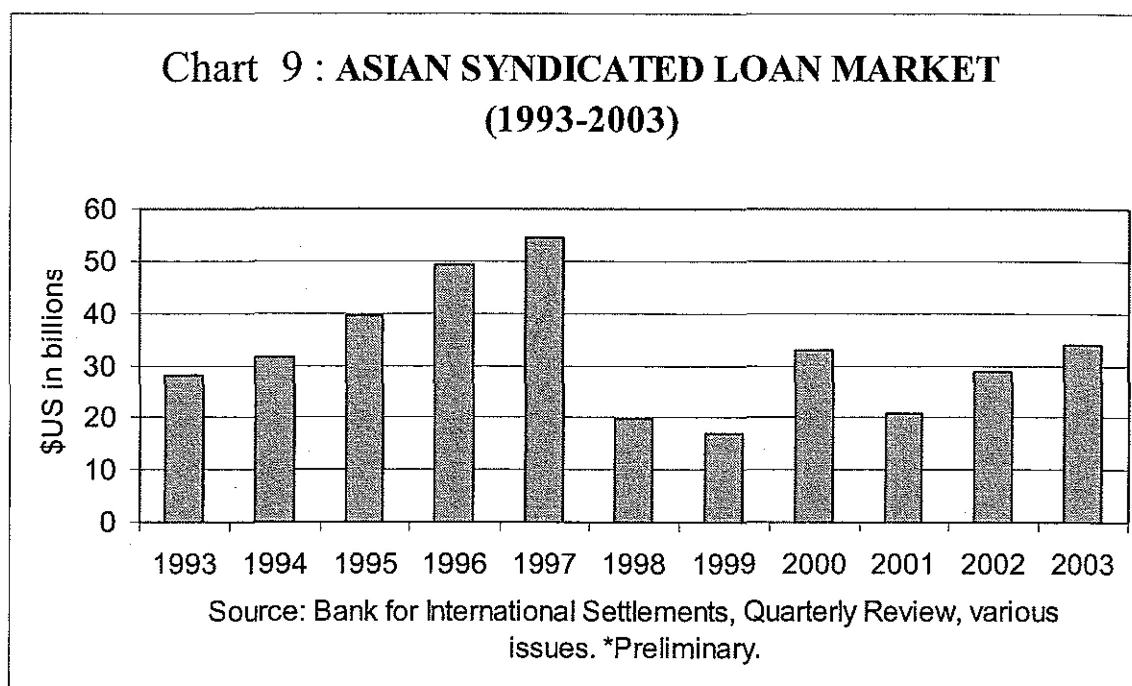
In addition to the introduction of the euro and the increasing scale of transactions, the Euroloan market has begun to change in other ways. There has been more of a transnational approach to financing. Across-country pricing comparisons are more frequently made among borrowers that exhibit similar credit characteristics and syndicated loans must be priced consistent with comparable international securities. Syndicated lending has now longer maturity and is more permanent in nature. Loan structures usually consist of "an element of mezzanine or high-yield debt."

As for the secondary market for syndicated loans, Crawley (2002) notes that it still needs to be developed further to provide the liquidity required by market participants. Crawley (2002) also predicts that even though trading in large investment grade acquisition financings has so far dominated this market, over time the market will shift to a more sub-investment grade financing and the creation of the Loan Market Association (LMA) in 1996 has fostered "an active secondary market in loans." The documentation and trading practices developed by LMA have become standards for European markets. LMA also helped reduce various legal and regulatory barriers and developed standard documentation for transactions in the primary loan market.

5. Loan Syndication in Asia

Asia is the newest submarket for syndicated loans. As can be seen from Chart 9, the volume of syndicated credits in this market doubled between 1993 and 1997. The 1997 Asian financial crisis caused a sharp plunge of the volume of loans in this market. The crisis also saw the devaluation of the Thai Baht and other Asian currencies during the period 1997-1998 and consequently worsened the debt-servicing capability of borrowers in the region. This problem was also exacerbated by further deterioration of the Japanese banking system which had been struggling with non-performing loans during this period. Subsequently, Japanese banks restructured their loan portfolios and a large proportion of these loans was sold in the secondary markets. The Asian market for syndicated loans, however, began its recovery in 2000 according to the data reported by the Bank for International Settlements. Included in their data are syndicated lending to the following countries: Brunei, China, Indonesia, Malaysia, South Korea, Philippines, Taiwan, Thailand and Kazakhstan.

Chart 9 : **ASIAN SYNDICATED LOAN MARKET (1993-2003)**



Source: Bank for International Settlements, Quarterly Review, various issues. *Preliminary.

Thomson Financial has a different classification to that of the BIS. Table 3 reports a much bigger volume of syndicated lending in Asia even excluding Australia,

New Zealand and Japan from the statistics. This table also shows that Japan dominates the syndication market in Asia. According to Bank for International Settlement (Quarterly Review December 2002), between 1999 and 2002, 63% of syndicated credit facilities signed by borrowers in East Asia were arranged by East Asian and Japanese banks. It is noteworthy that with a strong growing economy and its entry into World Trade Organization (WTO) in 2000, China is becoming a significant destination for foreign direct investment and hence raising the world-wide demand for syndicated loans even further.

To recap, syndicated loans are the most widely accepted fund raising product in Asian debt markets because of its simplicity, flexibility and ease of market access. In addition, loan syndication fosters borrower/lender relationships and facilitates future financing acquisitions. Although the Asian syndicated loan market is still small compared to US and European markets, it is expected that as the countries in this continent are further developed, the market for syndicated loans will continue to grow.

TABLE 3: SYNDICATED LOANS TO CENTRAL ASIA/ASIA-PACIFIC AND JAPAN (2004-2007)										
	2004		2005		2006		2007		2008	
REGION/NATION	Proceeds (US m)	Number of issues	Proceeds (US m)	Number of issues	Proceeds (US m)	Number of issues	Proceeds (US m)	Number of issues	Proceeds (US m)	Number of issues
Central Asia/Asia-Pacific	**150.88**	**666**	**167.26**	**740**	**253.69**	**1043**	**291.13**	**849**	**121.55**	**333**
Australasia	52.36	142	60.92	164	83.49	212	106.35	140	36.02	63
Australia	43.79	103	54.43	139	70.94	161	99.93	110	32.47	47
New Zealand	8.19	37	6.49	25	11.45	49	6.42	30	3.54	15
South East Asia	20.61	121	20.43	120	41.86	172	35.50	145	24.45	58
Malaysia	8.04	31	4.18	22	7.16	27	10.77	26	2.47	11
Philippines	1.97	15	2.55	8	n/a	n/a	n/a	n/a	n/a	n/a
Singapore	n/a	n/a	n/a	n/a	19.68	76	13.70	59	18.97	27
North Asia	68.26	338	69.40	353	88.12	468	95.66	409	37.99	158
China	6.14	30	10.94	49	n/a	n/a	n/a	n/a	n/a	n/a
Hong Kong	19.94	73	23.04	78	31.73	92	20.72	67	4.27	14
Taiwan	n/a	n/a	n/a	n/a	29.08	243	27.82	197	17.38	104
South Asia	5.07	44	12.31	85	29.80	162	42.31	126	19.45	48
Central Asia	4.61	21	5.20	18	10.41	29	11.31	29	3.55	6
Japan	**155.44**	**1467**	**195.93**	**1895**	**216.33**	**2279**	**205.42**	**2095**	**142.90**	**1008**

*: The 2008 figure is for the first quarter only.
Source: Thomson Financial, Syndicated Loan Review, First Quarter 2008.

5. Recent Trends in the Market for Syndicated Loans

In recent years, a number of trends have developed in the market for syndicated loans. First, according to the Federal Deposit Insurance Corporation (1999) the expansion of liquidity in the bank loan market in general, and a trend toward one-stop shopping in the financial services industry in particular, have lured competitors into the syndicated market in the 1990s. The industry has become more competitive and financial institutions now provide "a complete array of advisory services and financial products" to customers, borrowers and investors alike. Traditional lenders have been improving their ability to offer "a full array of equity and debt underwriting." Now major banks have their own underwriting departments for syndicated loans. Indeed, FDIC (1999) reports that "in some cases, the desire of commercial banks to move toward one-stop financial services and the resulting approaches to relationship management have affected the underwriting of loans to large commercial borrowers that have multiple financing and advisory service needs." Notwithstanding the above-mentioned competition, there emerges a group of large syndication banks that focus on earning fees from leading syndications rather than earning interest-spread income by holding loans to maturity. These "lead banks" have traditionally had "the role of intermediating" the competing interests of the borrower and the lending institutions in the syndicate.

Second, according to Bank of America Corporation, there has been an increase in the number of non-bank institutional investors involved in bank loans. These include prime rate mutual funds, hedge funds, and insurance companies. In fact, the number of these institutional investors increased from 14 in 1993 to more than 100 in 1998. These investors have played "a pivotal role in enhancing the bank loan as a distinct asset class by increasing trading activity, demanding third-party loan ratings, and contributing to the development of loan derivative products."

According to the Bank for International Settlements (2003), banks have shifted a substantial amount of credit risk to non-bank institutional investors. In recent years, about a tenth of the volume of US syndicated credits was funded by these institutional

investors, and they also held significantly riskier credits than those held by banks. The same trend is also present in Europe.

Third and perhaps the most important new development in the market for syndicated loans has been "the deepening of secondary market for bank loans". As can be seen from Chart 7 above, the volume of secondary trading in bank loans had more than tripled between 1994 and 1997 to over $60 billion. The volume increased further in 1998 and reached in its peak level in 2007 with a trading amount of over $342 billion. Loans traded in this market were mainly non-investment-grade issues which was the focus of institutional investors. This secondary market for syndicated loans parallels the publicly traded bond and equity markets. Furthermore, the standardization of trading arrangements makes this market active and relatively liquid.

Fourth, the rapid development of the market for syndicated loans led to the initiation of independent credit ratings of bank loans in 1995. Corporations now solicit and pay for ratings on bank loans. Starting in April 1995, Moody's has steadily increased its coverage of bank loan ratings (Altman and Suggitt, 2000:234). Now, Standard and Poor's, Moody's, Duff and Phelps, and Fitch/IBCA are actively involved in rating bank loans. As rating activity increases a whole host of activities are made available to investors including market analysis, ratings criteria, and historical loss recovery rates. These independent loan ratings allow investors to compare the value of a company's loans with its other rated loans or bonds (Federal Deposit Insurance Corporation 1999).

Also driving the use of credit ratings in the loan market has been the adoption of "market-flex pricing" by most of the major syndicating banks. Market-flex pricing is a feature of the loan commitment that allows the interest rate margin to vary by a certain amount, usually 25 or 50 basis points, as indicated by the market conditions at the time of closing the loan. In the past, the syndicating bank assumed all the risk of changing market conditions because it committed to a specific margin several weeks before the loan was signed. In the presence of a market-flex clause in their commitment letter, banks do not have to build in an extra margin to cover possible interest rate shocks. Interestingly enough, Standard & Poor's reported that in 2001 rated loans were more likely to have their pricing flexed downward and un-rated loans flexed upward.

In addition, the Shared National Credit (SNC) Program[6] provides annual review of large syndicated loans which helps investors in their assessment of borrowers and the expertise of lending syndicates. In 2003, for example, SNC provided the rating of outstanding syndicated loans as shown in Table 4 below.

Table 4: Summary Of Shared National Credit Trends 1989-2003 (Committed balances in billions of dollars).

Year	Special Mention	Sub-standard	Doubtful	Loss	Total Classified	Total Criticized	Total Committed	Total Outstanding
1989	24.0	18.5	3.5	0.9	22.9	46.9	692	245
1990	43.1	50.8	5.8	1.8	58.4	101.5	769	321
1991	49.2	65.5	10.8	3.5	79.8	129.0	806	361
1992	50.4	56.4	12.8	3.3	72.5	122.9	798	357
1993	31.4	50.4	6.7	3.5	60.6	92.0	806	332
1994	31.5	31.1	2.7	2.3	36.1	67.6	893	298
1995	18.8	25.0	1.7	1.5	28.2	47.0	1,063	343
1996	16.8	23.1	2.6	1.4	27.1	43.9	1,200	372
1997	19.6	19.4	1.9	0.9	22.2	41.8	1,435	423
1998	22.8	17.6	3.5	0.9	22.0	44.8	1,759	562
1999	31.3	31.0	4.9	1.5	37.4	68.7	1,829	628
2000	36.3	47.9	10.7	4.7	63.3	99.6	1,951	705
2001	75.5	86.9	22.6	7.8	117.3	192.8	2,050	769
2002	79.0	112.0	26.1	19.1	157.1	236.1	1,871	692
2003	55.2	112.1	29.3	10.7	152.2	207.4	1,644	600

Source: SNC 2004.

[6] The Shared National Credit (SNC) Program was established in 1977 by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, and in 2001 the Office of Thrift Supervision became an assisting agency. The annual program, which seeks to provide an efficient and consistent review and classification of large syndicated loans, generally covers loans or loan commitments of at least $20 million that are shared by three or more financial institutions, with a few exceptions.

The same rating trend is also happening in Europe. The rating of syndicated loans in the European market is one of the factors which explain the growth of this market. Although it is still low compared with the US market in terms of proportion of the total loan market, the incidence of specific loan ratings has increased.

In recent years, the syndicated loan market has become more complex and difficult to be distinguished from the traditionally corporate bond market and investors now consider syndicated loans as a substitute or complement to bonds in their debt portfolios (Altman and Suggitt, 2000). In fact, syndicated loans have emerged as a new asset class with a unique set of investment properties that attract the participation of non-bank institutional investors.

The Bank for International Settlements (2003) reports that in recent years, the market for derivatives – including credit default swaps, credit-linked notes, total return swaps and other similar derivative instruments – expanded extremely rapidly. The bank also reports that financial institutions made use of these markets to transfer risk across borders as well as between sectors. Cross-border risk transfer was reported to be greatest for syndicated loans and corporate bonds. In the syndicated loan market, Table 5 below shows that European and Japanese banks accounted for about 31% of the syndicated credits arranged for US borrowers in recent years. Conversely, US and Japanese banks provided about 20% of the syndicated credits to firms in Europe.

The fifth trend is the movement toward a more efficient, investor-driven loan market. The characteristics of the old and new loan markets are shown in Table 6 below. These characteristics are self-explanatory. One important factor which explains the movement toward a more efficient, investor-driven loan market is the growth in the non-bank institutional loan investor base. These investors include retail mutual funds, specialized loan investment vehicles, and traditional investors like insurance companies, and other money managers.

Table 5: Global syndicated loans of non-financial borrowers (in percentages).

Borrowers' nationality[1]	Fund providers' nationality					Memo:
	United States	Euro area	United Kingdom	Japan	Others[2]	Ratio to bank loans[3]
United States						
1993-95	49.4	17.2	3.7	12.6	17.2	33.2
1996-99	51	17.6	2.5	7.5	21.4	52
2000-02	56.4	20.6	4.5	5.6	13.4	48
Euro area						
1993-95	8.2	61.1	5.6	14.5	10.6	...
1996-99	8.5	68.5	5.6	4	13.4	5.0[4]
2000-02	13.7	63.6	10.2	4.6	7.9	7
United Kingdom						
1993-95	11.6	27.2	29.2	13.9	18.2	13.7
1996-99	11.7	35.2	22.4	9.9	20.8	23.4
2000-02	15	35.2	32	7.2	10.7	28.6
Japan						
1997-99	4.9	17.4	4	63.2	10.6	0.5
2000-02	4.1	8	1.7	84.4	1.8	2.8

[1] Residence of borrower. [2] Includes loans of unallocated origin. [3]Average new syndicated loan agreements during the period, including drawn and undrawn portions, as a percentage of average total outstanding bank loans to non-financial corporations. [4] 1997-99.
Sources: Table 7.5 BIS 73rd annual report.

Table 6: Loan market characteristics	
"Old" loan market	**"New" loan market**
Opaque (information closely held)	Transparent (information widely available)
No credit ratings or third-party research	Credit ratings, independent data and research
Club lending with specialized credit knowledge	Numerous investors
Negotiated or "relationship" pricing	Competitive pricing with comparative pricing information available
Bank plays both intermediary and investor roles	Intermediary and investor roles more distinct
"Buy and hold" lenders	Portfolio theory and secondary trading used to manage portfolios
Documentation and distribution protocols unique to agent bank	Standardized instruments and established trading protocols

Source: Amstrong (2003)

6. Summary

This paper reviews the development of the international market for syndicated loans. We find that this market has evolved such that the corporate loan markets are more efficient and transparent. Syndicated loans have become an asset class that assumes similar features to publicly traded bond and equity securities and better serve the needs of borrowers and investors. In addition, syndicated loans also offer broader dispersion of credit risk that ultimately should be constructive for financial stability.

The development of the syndicated loan market has been facilitated by the development of credit rating services and financial innovations (e.g. credit derivatives). In addition, the increased number of institutional investors and their involvement in the syndicated loan market adds further growth to this market. Some analysts have predicted that with a trend away from financial intermediation and with the development of the interest rate and currency swap markets, syndicated lending would become obsolete. However, the market for syndicated loans has shown no such a sign. Indeed, with the globalization of the world economy and the growth of many newly industrializing

countries in Asia as well as the introduction of the euro, the market for syndicated loans is likely to continue on an increasing trend into the foreseeable future.

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