Notes

1 Introduction

1. See, for instance, Smith and Warner (1979), Smith (1980), Bester (1985), Besanko and Thakor (1987), Berger and Udell (1990), Eichengreen and Mody (2000) and Kleimeier and Megginson (2000).
2. See for instance, Sachs and Cohen (1982), Berlin and Loeys (1988), Berlin and Mester (1992) Eichengreen and Mody (1998), Bolton and Freixas (2000).
3. Removal of the claims from the bank's balance sheet and purchase by a special-purpose vehicle (SPV) which issues securities that are subsequently serviced by the cash flow from the loans, allowing some tranching of the risk in the process.
4. Treasurers of large corporations often use loans and bonds as complementary means of financing.

2 A Global Overview of the Syndicated Loans Market

1. These bank roles, enumerated here in decreasing order of seniority, involve an active role in determining the syndicate composition, negotiating the pricing and administering the facility.
2. In practice, though, these rewards fail to materialise in a systematic manner. Indeed, anecdotal evidence for the US suggests that, for this reason, smaller players have withdrawn from the market lately and have stopped extending syndicated loans as a loss-leader.
3. For this discussion, it has to be recalled that the same bank can act in various capacities in a syndicate. For instance, the arranger bank can also act as an underwriter and/or allocate a small portion of the loan to itself and therefore also be a junior participant.
4. One should note that the fees shown in Figures 2.2 and 2.3 are not directly comparable. In Figure 2.2, for the purposes of comparability with spreads, annual and front-end fees are added together by annualizing the latter over the whole maturity of the facility, assuming full and immediate drawdown. Figure 2.3, on the other hand, shows annual and front-end fees separately without annualizing the latter.
5. For instance, it is very common nowadays for a medium-term loan provided by a syndicate to be refinanced by a bond at, or before, the loan's stated maturity. Similarly, US commercial paper programmes are frequently backed by a syndicated letter of credit.
6. This provides an opportunity for risk-sharing between public and private sector investors. It usually takes the form of syndicated loans granted by multilateral agencies with tranches reserved for private sector bank lenders.

7. Transferability is determined by consent of the borrower, as stated in the original loan agreement. Some borrowers do not allow loans to be traded on the secondary market as they want to preserve their banking relationships.
8. The seller banks often enhance their fee income by arranging new loans to roll over the facilities they had previously granted to borrowers. They may sell old facilities on the secondary market to manage capacity on their balance sheet, which is required to hold some of the new loans.
9. For example, minimum participation amounts on the primary market may exceed the bank's credit limits.
10. Banks tend to trade blocks of loans when they restructure whole portfolios. In normal times, loan-by-loan trading is more common.
11. Nonetheless, Japanese banks have recently been very active in transferring loans on the Japanese secondary market. According to a quarterly survey conducted by the Bank of Japan, for the financial year April 2003–March 2004, such transfers totalled ¥11 trn, 38 per cent of which were non-performing loans. This was followed in the second quarter of 2004 by unusually weak secondary market activity by historical standards.
12. According to practitioners, major international banks with an Asian presence are among the main sellers of loans, while demand comes from Taiwanese and Chinese banks.

4 Borrowers-Country Economic Structure and the Pricing of Syndicated Loans

1. Guarantees, collateral, covenants can be thought of as risk mitigants.
2. In the case of loan facilities already funded by the lenders but not yet signed, the funding date was taken as a reference.
3. This sample size is considerably larger than in several other studies analysing the determinants of developing country credit spreads; Edwards (1986) and Kamin and von Kleist (1999) use 113 and 358 loan spread observations, respectively.
4. This includes both private and public debt.
5. Nevertheless, Balassa (1986) also demonstrates that while outward-oriented countries accepted a temporary decline in economic growth in the immediate aftermath of external economic shocks in order to limit reliance on foreign borrowing, their economic growth accelerated subsequently, owing to the output-increasing policies applied.
6. Although this may not be an indispensable condition if credit derivatives are used.
7. A club deal is reserved for a limited number of insider banks instead of being widely sold down on the market; in a bilateral deal, there is only one participant bank.
8. The comprehensive sample is approximately equal to the population.
9. Linneman (1980) estimates property values and rental payments for the urban housing market that are hedonic functions of neighbourhood (non-structural) and structural traits associated with each site. The partial derivative of these hedonic functions with respect to any trait describes the marginal change in the total site valuation associated with a change in that

trait when all other trait levels are held constant. These partial derivatives reveal the same marginal information as do prices in standard market analyses; for this reason, partial derivatives are often referred to as the 'shadow prices' of the underlying locational traits.

10. Surely the effects of this variable are not limited to the year of signature of the loan. The results reported in this chapter use an IMF-assistance dummy equal to 1 if Fund assistance was received during the year of signature of the loan. An alternative model specification (not shown) with a dummy for Fund assistance *preceding* the year of signature of the loan gives very similar results.
11. See n. 12.
12. The estimation results on this variable as well as on the ratio of reserves to GDP could be influenced by endogeneity issues; caution should therefore be exercised in their interpretation.
13. This interpretation is also known as 'survival bias'.
14. In fact, the dummy for large syndicate sizes is significant and positive when macroeconomic conditions are also controlled for – see the right-hand column of Table 4.9.
15. See Appendix 4.2 for the full list of sectors included.
16. In addition, a fourth model specification was run using a partial forward-stepwise estimation technique. An *F*-test was first performed, which found the four sovereign ratings dummies corresponding to the whole S&P ratings spectrum described in Appendix 4.1 – less the 'default, not rated or not disclosed' rating class – to be jointly significant determinants of the drawn return at the 1 per cent level. These sovereign ratings dummies were subsequently forced into the model together with microeconomic variables. Meanwhile, progressing from the specific to the general, the macroeconomic variables were chosen by means of forward-stepwise selection, using an entry criterion of 10 per cent significance and a removal criterion of 11 per cent. The results (available from the authors upon request) are very similar to the combined macro–micro model presented in Table 4.9 without sovereign ratings that uses OLS. Macroeconomic variables (with the exception of the inflation rate and the ratio of imports to exports), as well as sovereign ratings, are significant with the correct sign (favourable sovereign ratings dummies are negative and significant and vice versa). This confirms that there is information contained in macroeconomic variables that is not captured in sovereign ratings.

5 Lender Behaviour and the Structure and Pricing of Syndicated Loans

1. See n. 3 in chapter 7 for a definition of leveraged lending.
2. Insurance companies, pension funds and CDO arbitrage funds have become buyers of syndicated loans, especially on the leveraged and highly leveraged segments.
3. For example, loan size and maturity; borrower rating; bank size and business mix.
4. This is so despite the existence of information sources (such as credit reports and real estate appraisals) which national and local lenders can access with equal ease. But local institutions may have – among other information – credit repayment histories of the mortgagor, information on local default

rates, as well as specific legal knowledge allowing for lower servicing and origination costs.

5. See the paper by Degryse and Ongena (2002) for a comprehensive review of the distance literature.
6. Most previous studies have relied on regulatory and hence national databases.
7. Consider a syndicated credit facility granted by a syndicate consisting of Société Générale and Crédit Lyonnais. Two observations are entered for that facility into the regression. One will comprise Société Générale's balance sheet and profit and loss statement indicators, the other one will feature the same characteristics for Crédit Lyonnais. Both observations will carry the same loan transaction characteristics.
8. Tier 2 capital is not examined separately. This also follows the approach used in seminal work on the bank lending channel by Kishan and Opiela (2000).
9. A zero share was entered in case the senior bank had sold down all the loan to junior participants.
10. Collateral has a cost (Bester, 1985) so it may also be the case that the cost of arranging or warehousing the collateral is charged for in the price of the loan (Freixas and Rochet, 1997). Otherwise, financing constraints facing the borrower may be such that he accepts both collateral and a higher spread. Smith and Warner (1979) argue that collateralization is costly and that the benefits to securing the loan must exceed the cost for a particular loan to be secured. In a cross-section of loans, this means that riskier loans will be collateralized. Examination of the data sample also confirms that borrowers with poorer ratings are more likely to require collateralization. Berger and Udell (1990) also show that collateral is typically associated with riskier loans. If collateral's is main purpose to solve moral hazard problems, then riskier borrowers or those who need more monitoring will post more collateral.
11. This negative relationship between the logarithm of total assets and loan pricing may reflect scale economies for junior banks.
12. Such as US dollar, euro, Japanese yen, Swiss franc and sterling.
13. *bremu98* and *bremu99* can also be interpreted as controlling for changes in institutional structure or regulatory environment.

6 Banks' and Financial Institutions' Decision to Participate in Loan Syndications

1. The chapter restricts the analysis to institutions from industrialized countries for the sake of homogeneity and also because participation in loan syndications by banks from emerging countries represents a very small share of the total sample.
2. The original number of banks that participated in loan syndications is 1,368. However in Bankscope only 1,258 of these banks have available balance sheet and profit and loss statement information. Figure 6.2 includes all 1,368 banks' participations.
3. A correlation matrix showing the association of the bank characteristics with the syndication participation dummy is presented in Appendix 6.2.

7 Comparison of Syndicated Loan Markets with Bond Markets

1. Indeed, in order to bid for the third-generation mobile phone licenses in 2000 auctioned off by various European countries' governments, many European telecommunications firms tapped the syndicated credits market for large amounts in the first instance, subsequently aiming to refinance the initial short-term debt by later issuing medium- or long-term securities.
2. This can, for instance, be a guarantee written by an insurance company.
3. Angbazo, Mei and Saunders (1998) define as highly leveraged transaction (HLT) loans all loan financings:

   - which are used for buyouts, acquisitions and recapitalizations
   - which (1) double the borrower's liabilities and result in a leverage ratio (total liabilities/total assets) higher than 50 per cent or (2) increase the leverage ratio higher than 75 per cent
   - which are designated as HLT by the syndication agent
   - which are granted to subsidiaries of HLT companies, even when the subsidiary does not meet the HLT definitions above.

   Dealogic Loanware applies the term 'leveraged' to lending to non-investment grade companies where the ratio of debt to net worth is often high. Typically in the US and Canadian markets, HLT corresponds to a LIBOR pricing of 250bp or above. For European borrowers, the notion of leveraged loans applies to a LIBOR pricing of 150bp or above.
4. Indonesia, Malaysia, South Korea, Thailand.
5. For example, Media and Publishing, Hotels and Leisure, Retailing.
6. The data sources for the macroeconomic variables were the BIS–IMF–OECD–World Bank Joint Statistics on external debt, the IMF's *International Financial Statistics* and *World Economic Outlook* databases, the International Institute of Finance's developing country database, the OECD's *World Economic Outlook* and national statistical offices. The macroeconomic and microeconomic variables contained in the loans and bonds databases were linked on the country and the date, considering both the year the loan was signed or the bond was issued, and the previous year. Distinction is thus made between long-term and short-term effects. In fact investors and banks are expected to have incorporated some kind of macroeconomic forecasting into their pricing models. For instance, for a loan granted to an Argentine borrower in 1995, the real GDP growth variables represent Argentina's real economic growth for 1995 (noted as growth) and for 1994 (noted as growth_{-1}).
7. Transparency International (TI) assigns a score of 0–10 to most countries of the world, standardizing a number of corruption surveys conducted by public and private institutions and consisting of questions about issues such as bribing of public officials, kickbacks in public procurement, or embezzlement of public funds. For a description of the methodology, and the full dataset, please refer to www.transparency.org.
8. Examination of the data sample confirms that borrowers with poorer ratings are more likely to require collateralization.

9. For the purposes of comparability with bond pricing, only the LIBOR spread is considered in the case of loans, not fees. When including fees, Eichengreen and Mody (2000) do find a significant relationship.
10. Berger and Udell (1990) also show that collateral is typically associated with riskier loans.
11. According to the Dealogic database, developing country bond issuance in euro represented less than half of developing country bond issuance in US dollars during the 1993–2001 period.
12. Korea, Malaysia, Thailand.

8 Syndicated Loans and the Financing of Distressed Emerging Markets

1. The macroeconomic data of the borrower countries prevailing when the loans were granted were extracted from the IMF's *International Financial Statistics* and *World Economic Outlook* databases, as well as from the BIS–IMF–OECD–World Bank Joint Statistics on external debt.
2. Either by boosting their GDP or by reducing their debt.
3. For the purposes of the present analysis, the drawn return was used rather than the LIBOR or EURIBOR spread used by several authors (Cantor and Packer 1996, Kamin and von Kleist 1999, Kleimeier and Megginson 2000), since it represents the full economic cost of borrowing. It is the annual return that will accrue to a senior fund provider if the facility is drawn for the entire period of its existence. It includes the spread as above, but it also counts the fees payable for utilization, participation, provision of facility and underwriting (Altunbaş and Gadanecz 2003).
4. The 250+ base-level business sectors available are grouped into 10 main categories. The detailed list is given in Appendix 4.2.
5. Such as the Turkish (IMF, 2001), Indonesian and Thai (IMF, 1999) cases. It may also be the case that domestic banks raise loans in the international syndicated loan markets for domestic enterprises which are too small to access international capital markets on their own.
6. This sector consists of firms mostly with the main business related to health, legal and leisure services. A more detailed subdivision is given in Appendix 4.2.
7. See Appendix 4.3 for a description of how the base-level loan purposes were grouped into broad categories.
8. The data are not differentiated between state and private sector borrowing.
9. Under the provision that it is the funds borrowed abroad that are used for these investments.
10. Kleimeier and Megginson (2000) analyse syndicated loans between 1980 and 1999 and find evidence that loan size is negatively related to pricing, while loan maturity is significantly and positively related to the price. See Chapter 4 for a more in-depth discussion of these two variables. With regards to the external debt/export ratio effect on bond spreads Cantor and Packer (1996) finds a positive relationship between the two by analysing 35 Eurodollar bonds of debtor countries. Neither of these studies makes a distinction between developed and developing nations.

11. The authors explain that unsustainable growth rates fuelled by the expansion of domestic credit were viewed by the market with a concern.
12. Altunbaş and Gadanecz (2003) also find a positive relationship between loan pricing and CPI.

9 Facts and Figures, 1993–2004

1. A list of industrialized countries used in this analysis is given in Appendix 9.1. The IMF classifications of 2004 are taken as a benchmark.
2. The data on all figures showing average maturity and spreads in this chapter has been weighted by facility amounts.
3. A detailed list is provided in Appendix 4.2.
4. Defined in Appendix 4.3 as including refinancing, debtor-in-possession financing, recapitalization, receivable backed financing, debt repayment, securitization and standby/CP support.
5. Loans issued for transport and property purposes are not necessarily borrowed by the construction, property and transport sectors.
6. A list of all countries in each category is given in Appendix 9.2.
7. See Appendix 9.2 for a list of countries in each income bracket (IMF classification, 2004).

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