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ECONOMIC PROSPECTS OF TRANCHING SYNDICATE LOAN MARKETS

Abstract: In this paper work author discusses concept of syndicate loan. Main focus of article is on the market for syndicated loans, which is quite large and growing rapidly. Modern world economy currently more dynamic developing with tranching syndicate loans. Main purpose of this paper work is explaining relevance of the loans and clarifies advantages with various points of views. Current research has paid little attention to financial activity of Uzbekistan and its widespread areas in local economy. Due to syndicated loans are worthy of analysis active assesses bank credits for private and public investment projects in Uzbekistan this topic is actual. The syndication market involves elements of both commercial banking and investment banking to fundamental directions characterizing the role of credit is reflected. The analysis revealed the growth of credit organizations and their units in the Uzbekistan region in the study period.

Key words: Bank, syndicate loan, investment, profit, financial sector.

Language: English

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Introduction

Syndicated loans for clients organized by domestic banks are gradually increasing in modern economy. Financial review states that in the banking sector the credit market regulated by international law appeared syndications organized by commercial banks for further cooperation. Previously, companies actively attracted low-cost syndicated loans in Western capital markets. After the imposition of partnership, their volumes sharply increased. Due to their small capital and the standard for limiting credit risk, it is difficult for local banks to single-handedly raise an ambitious project, especially if the investor has no collateral. This is one of the reasons for the weak growth in corporate lending in terms of development. At the first stage of project financing, the borrower receives a multi-tranche syndicated loan. Banks take on the most risky part in this mechanism, but give other investors the opportunity to enter the investment project. This means that for each of capital there can be additional capital in the country's economy.

As Boot and Thakor (2000) emphasize, the finance literature tends to identify relationship lending with private finance (bank loans and private placements) and transactions lending with public finance (capital market debt). A large literature has developed which addresses the issue of borrower choice between the two sources. Diamond (1991) develops a formal model which involves borrowers shifting from financial intermediaries such as banks and insurance companies to the public markets as the quality of the information about the firm improves and the borrower develops a "reputation" in the form of a history of successful debt repayments. Carey et al. (CPRU, 1993) propose an extended continuum, with firms gravitating from insider finance through venture capital, bank loan finance, private placements, and the public debt markets as information and collateral become increasingly available and the borrower's repayment record improves. As borrowers become less "information problematic," the characteristics of the lenders and the underlying debt contracts vary systematically. Bank loans tend to be relatively short-

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term, involve extensive covenants, and are frequently renegotiated.

The majority of public-debt contracts are longer term, involve relatively loose covenants, and are almost never restructured. These contractual characteristics have been extensively examined and rationalized in the literature in papers such as Berlin and Loeys (1988), Berlin and Mester (1992), Rajan and Winton (1995). A key result of this literature is that firms perceived as highly risky are rejected by capital markets and are forced to accept the tighter controls of private lenders. Private and public debt differs fundamentally with respect to information disclosure, which in turn can influence borrower choice. Yosha (1995) demonstrates theoretically that high-quality entrepreneurial firms may prefer bilateral (relationship oriented) financing to multilateral (transaction oriented) borrowing in order to avoid disclosing private information which might leak to competitors. In his model, some information remains concealed as long as there is a cost differential between the two modes of financing.

1. METHODS

In this article it has been used qualitative methods with ground theory and secondary source data analyses.

Syndication activities measures:

$$\text{Syndicate}_{i,j,t} = \max_{k \in K_{i,t}} 1_{i,j,k}$$

$$\% \text{Syndicate}_{i,j,t} = \frac{\sum_{k \in K_{i,t}} 1_{i,j,k}}{\sum_{j \in B} \sum_{k \in K_{i,t}} 1_{i,j,k}}$$

i - a lead bank; j- a participant bank; t- a year;

I- k a syndicated loan deal;

I- K_i ; t- the collection of syndicated loans initiated by the lead bank i in year t including both domestically and globally syndicated loans;

I- B the collection of potential participant banks;

I Bank-pair-year panel sample: 865,087 observations of 64,259 bank pairs.

At the second stage, bonds are issued in volumes from 10 to 30 billion rubles under state guarantees. This should ensure their high liquidity and increased reliability. For the issuance of bonds VEB creates a wholly-owned subsidiary - Specialized Project Financing Society Project Financing Factory LLC (SOPF). She cedes the long-term tranche, originally funded by VEB. SOPF will be able to acquire credit requirements, itself to issue loans, acting as the primary participant in the syndicate of creditors.

A syndicated loan is a loan provided to a borrower by at least two lenders (syndicate of creditors) participating in a given transaction in certain shares within the framework of, as a rule, a single credit agreement.

Syndicated loans are credits granted by a group of banks to a borrower. They are hybrid instruments combining features of relationship lending and publicly traded debt. They allow the sharing of credit risk between various financial institutions without the disclosure and marketing burden that bond issuers face. Syndicated credits are a very significant source of international financing, with signings of international syndicated loan facilities accounting for no less than a third of all international financing, including bond, commercial paper and equity issues.

As for the Investopedia clarifies that - a loan offered by a group of lenders (called a syndicate) who work together to provide funds for a single borrower. The borrower could be a corporation, a large project, or sovereignty (such as a government). The loan may involve fixed amounts, a credit line, or a combination of the two. Interest rates can be fixed for the term of the loan or floating based on a benchmark rate such as the London Interbank Offered Rate (LIBOR).

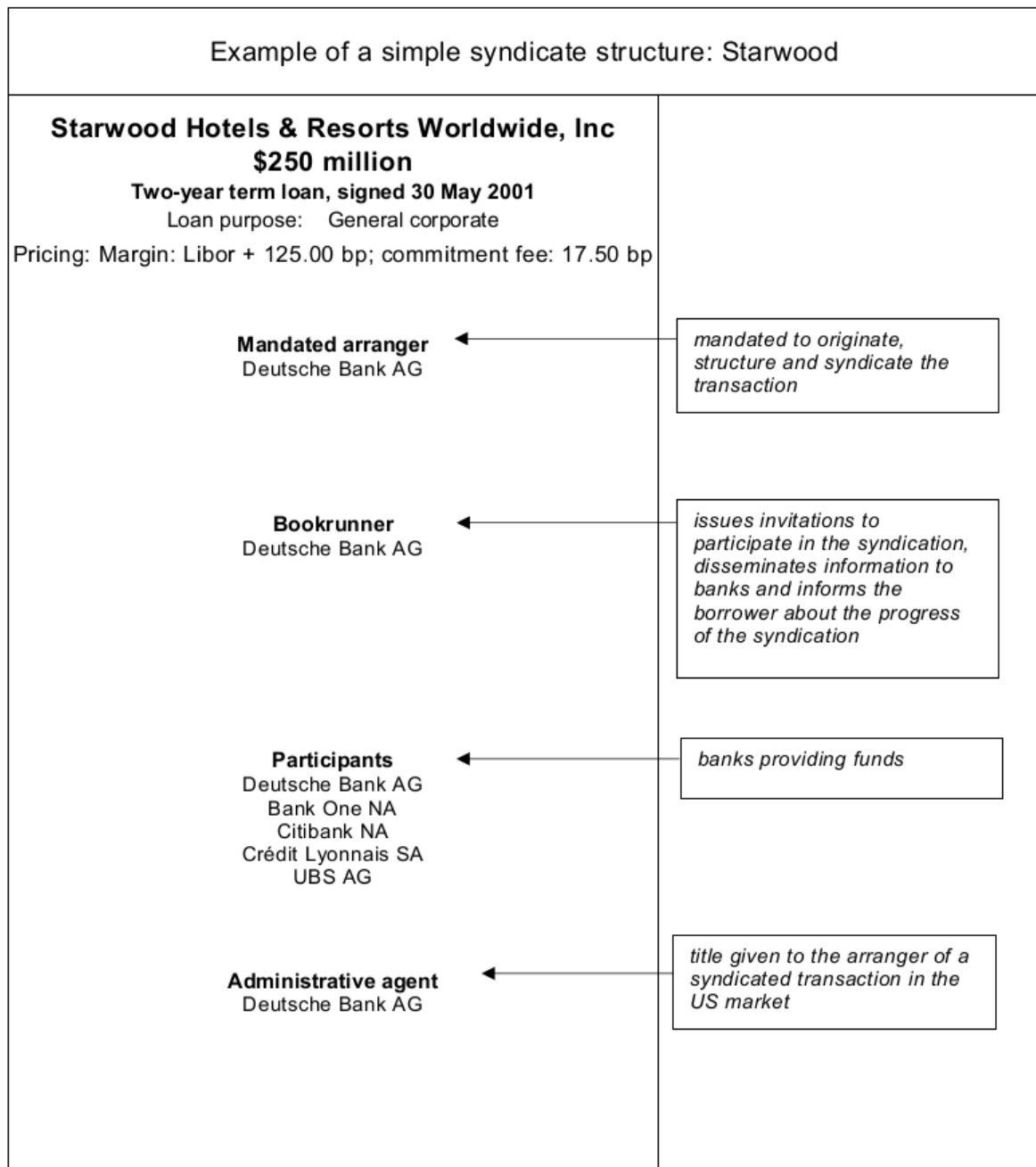
Bushman and Wittenberg-Moerman (2012), investigate the role played by the reputation of the lead arrangers of syndicated loans in mitigating information asymmetries between borrowers and lenders. Consistent with prior research (e.g. Sufi 2007, Ross 2010), they measure bank reputation based on lead market share in the syndicated loan market. They document that higher lead arranger reputation is associated with higher company earnings and cash flow persistence, and with corporate earnings that more strongly predict future credit quality of the borrower. Gopalan, et al. (2011) examines to what extent poor performance damages the reputation of the lead arranger and find that it does.

Syndicated loan - joint lending of large investment projects by several banks. This banking tool is used when the borrower requests too large amounts of loans, and for one bank such concentration of risk of the loan portfolio is undesirable.

Development of the market. The evolution of syndicated lending can be divided into three phases. Credit syndications first developed in the 1970s as a sovereign business. On the eve of the sovereign default by Mexico in 1982, most of developing countries' debt consisted of syndicated loans. The payment difficulties experienced by many emerging market borrowers in the 1980 resulted in the restructuring of Mexican debt into Brady bonds in 1989. That conversion process catalyzed a shift in patterns for emerging market borrowers towards bond financing, resulting in a contraction in syndicated lending business. Since the early 1990s, however, the market for syndicated credits has experienced a revival and has progressively become the biggest corporate finance market in the United States. It was also the largest source of underwriting revenue for lenders in the late 1990s (Madan et al (1999)).

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Figure 1.



Source: Blaise Gadanecz, *BIS Quarterly Review*, December 2004, page 79.

The first phase of expansion began in the 1970s. Between 1971 and 1982. Medium-term syndicated loans were widely used to channel foreign capital to the developing countries of Africa, Asia and especially Latin America. Syndication allowed smaller financial institutions to acquire emerging market exposure without having to establish a local presence. Syndicated lending to emerging market borrowers grew from small amounts in the early 1970s to \$46 billion in 1982, steadily displacing bilateral lending. Lending came to an abrupt halt in August 1982, after Mexico suspended interest payments on its sovereign debt, soon followed by other countries

including Brazil, Argentina, Venezuela and the Philippines. Lending volumes reached their lowest point at \$9 billion in 1985. In 1987, Citibank wrote down a large proportion of its emerging market loans and several large US banks followed suit. That move catalyzed the negotiation of a plan, initiated by US Treasury Secretary Nicholas Brady, which resulted in creditors exchanging their emerging market syndicated loans for Brady bonds, eponymous debt securities whose interest payments and principal benefited from varying degrees of collateralization on US Treasuries.

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According to the modern analyses, relevant sectorial areas for financing investment projects under the project financing factory project include 13 points. Among them are the manufacturing industry, including engineering, construction, including the construction and reconstruction of residential and non-residential buildings, education, including the training of highly qualified personnel, agriculture, as well as the collection, processing and disposal of waste, the environmental sector of the economy, production ecology, the creation of environmentally friendly and comfortable environment.

In addition, the projects direction of the subsidy from the state budget for reimbursement of expenses in connection with the provision of loans and borrowings within the framework of the "factory", as well as the time and period for concluding an agreement on the provision of such a subsidy. The term "interest period" is introduced. The formula for calculating subsidies has been updated.

2. DISCUSSION

According to the concept of syndicated loan is a loan issued by two, three or more banks under one

general agreement with the borrower. They agree on how to share the risks among themselves. The union of creditors in this case is called a banking syndicate. This is more a world practice; although in emerging economies have been issuing syndicated loans for many years. At the same time, the law on a syndicated loan is widely used by countries. Also, according to the banking law, the syndicate may include foreign banks, international financial organizations and legal entities that are allowed to provide loans.

Features of syndicated loans recipient does not interact with all creditors, but only with one of them, the so-called agent bank. Members of the banking syndicate put forward stringent requirements for the client. To count on such a deal, you need to have a high credit rating and get the opinion of an international auditor. On average, it takes 1.5-3 months to complete a transaction; Syndicated loan agreements often include covenants. This is the obligation of the borrower to commit during the loan term. For example, do not allow the ratio of debt to (profit before interest, taxes and depreciation) more than three to one.

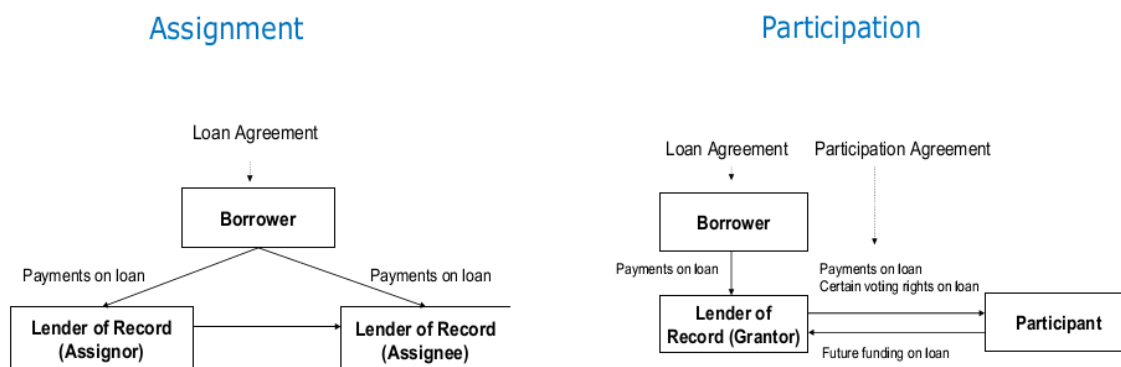
Table 1

Structure of fees in a syndicated loan		
Fee	Type	Remarks
Arrangement fee	Front-end	Also called principium. Received and retained by the lead arrangers in return for putting the deal together
Legal fee	Front-end	Remuneration of the legal adviser
Underwriting fee		

Banks participating in the syndicate have equal rights and all participants in the transaction divide among themselves according to shares in the loan amount. Each party to the agreement sees all the paperwork of other participants. That is, one bank changes the interest rate or other conditions for the

client, the other banks will know about it. The agent bank receives a percentage for arranging a loan. The amount of remuneration in each case is set individually difference from the following stated fees (Table 1).

Figure 2



Source: Bram Smith, Elliot Ganz. *Syndicated Loan Market, Loan Syndications and Trading Association*, 2012 page 8.

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Types of syndicated loan the Central Bank of the countries divide this financial instrument into three forms.

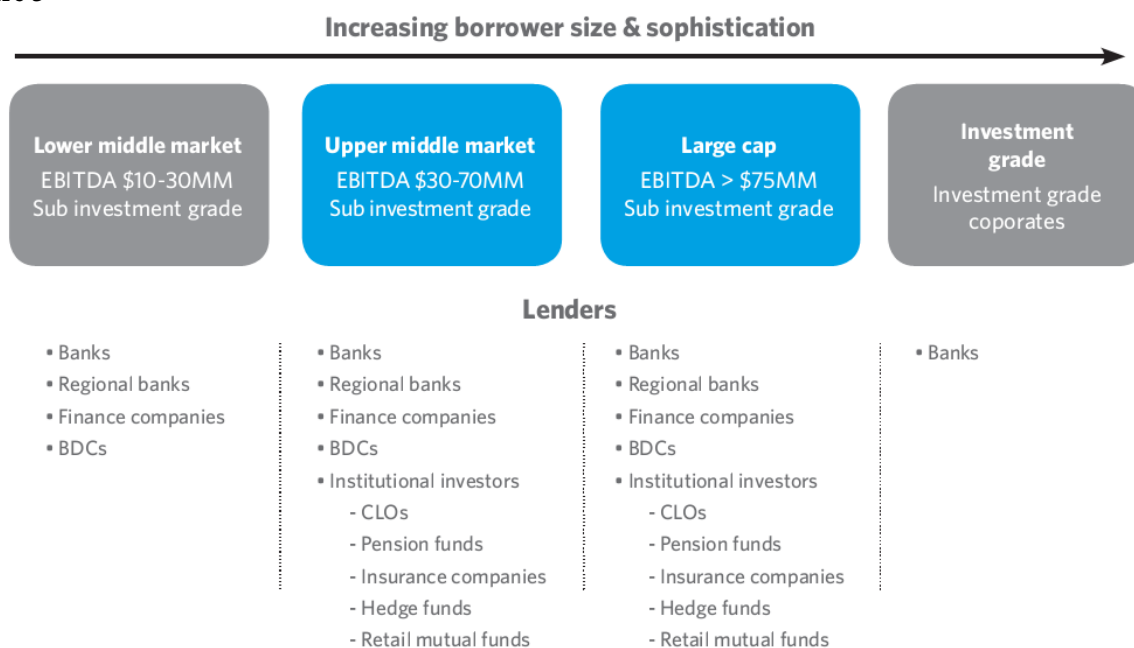
1. A jointly initiated Client concludes agreements directly with several banks, one of which is an agent. The maturities in all agreements are the same. Each bank issues its share independently and has the right to demand a refund, but all payments are made through the one that has the status of an agent.

2. Individually initiated In this case, a loan is issued by one bank, and therefore it connects partners

and turns a regular loan into a syndicated one. Under what conditions does a financial institution raise money from partners, to the borrower no matter - for him, the interest rate and other conditions do not change.

3. Without determining equity conditions such a syndicated loan is also issued by one bank, but the borrower may not even be aware that he received money from several sources - all his interaction is built with one counterparty. Credit syndicates also have their own classification.

Figure 3



The main feature of a syndicated loan is the presence of several lenders, so that the loan amount and risks are distributed among participating banks. Trade loans, project financing, ordinary loans (for general corporate needs), leasing transactions, credit lines, letters of credit can be syndicated, and existing debt can also be refinanced. Enterprises (firms) and banks at the expense of a syndicated (consortium) loan finance the needs associated, as a rule, with foreign economic activity, as well as with the investment sphere, the implementation of large-scale measures in such sectors as energy, ecology, extraction of raw materials, the implementation of scientific technical developments, etc (Fig 3).

Prospective development tranching of syndicate loan in Uzbekistan

The syndicated loan market is becoming increasingly open to domestic borrowers. For the economy of Uzbekistan, attracting syndicated loans is especially important due to the fact that their final recipient is most often enterprises whose activities are focused on the production of export-oriented products, which largely meets the basic requirements of the adopted Program of priority measures to expand production and develop new types of competitive products for 2012–2016.

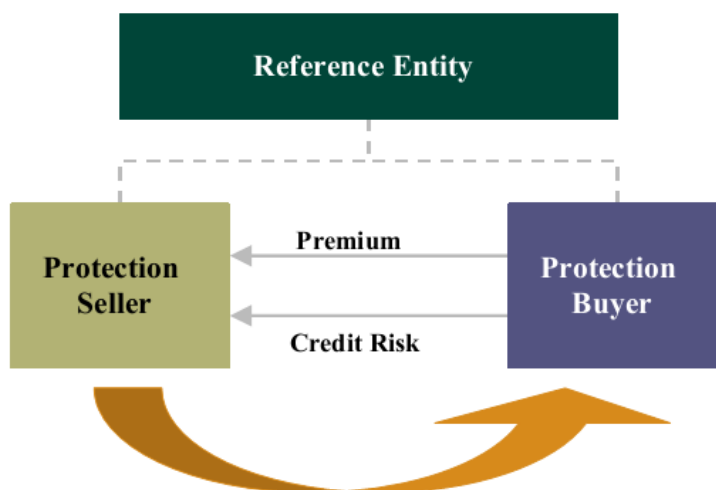
The syndicated loan market requires the creation of banking syndicates, which allows you to accumulate the necessary credit resources for large-scale long-term investments with project financing. The development of syndicated lending technologies contributes to the development and improvement of the general situation in the banking sector. The spread of syndicated lending practices in Uzbekistan contributes to a manifold increase in the banking system's ability to lend to large projects, especially when the approved risks / limits do not allow one commercial bank to give the client the entire necessary loan amount.

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When studying syndicated lending, it should be remembered that this is a special case of bank lending, which should also be characterized by the following basic principles: urgency, repayment, payment, submission of a credit transaction to legal norms and banking rules, invariability of the terms of a loan agreement, mutually beneficial, intended use of the loan, secured lending. In addition to these principles, syndicated lending also has some specific features.

Figure 4. Contingent Payment on Credit Event of Reference Entity



Firstly, as a rule, this is a long-term loan. If you provide a loan for a short period of time, the costs of the organization will be too large, and the loan will become extremely disadvantageous for the borrower. However, repeated loans can be provided for a short period.

Secondly, the size of the loan should not be small, since unit transaction costs will make the idea of syndicated lending absurd - it will be easier to find one lender who agrees to take all the risks associated with syndicated lending.

Thirdly, a syndicated loan, as a rule (there are exceptions), is not involved in financing current activities (the syndication procedure is too long, this tool is not flexible enough to respond quickly to the borrower's urgent needs for borrowed funds). To finance capital expenditures, it fits perfectly; combining large amounts of borrowed funds, long terms and at the same times relative flexibility, a convenient repayment schedule and relative low cost.

Fourth, a characteristic feature of syndicated loans is their publicity. A regular (bilateral) loan is usually not advertised to the public and investors, while a syndicated loan is often a public contract. When deciding to sign a syndicated loan agreement, the main bank and the borrower invite a wide range of potential lenders.

Syndicated loan is a specific product with such advantages for the borrower as:

- 1) a large amount of borrowing, compared with bilateral lending;
- 2) expansion of the existing base of partner banks;
- 3) a public transaction, the possibility of covering the transaction in the media;

4) simplification of the volume of documentation compared to lending for each bank separately;

5) reducing the risk of dependence on one creditor;

6) a more flexible form of borrowing.

Evidence from the Uzbek commercial banks we can discuss following analyses:

The Bank of Uzbekistan for the first time took a syndicated loans, it follows from the message of the Russian bank Trans Capital Bank, which acted as the lead organizer of the transaction.

Kishloq Qurilish Bank raised 16 million euros and \$ 3.5 million under the loan. The structure of the transaction consists of dual currency tranches.

Along with TKB, the organizers of the transaction were Promsvyazbank, BANK URALSIB, Altyn Bank (Subsidiary Bank of China CITIC Bank Corporation Limited), Asian-Pacific Bank, J&T Bank, and ALEF BANK.

"This is a debut syndicated loan for the banking system of Uzbekistan, organized under Russian law," said Elena Shirinskaya, deputy chairman of the board of Trans Capital Bank.

3. CONCLUSION

Summarizing the foregoing financial activity it can be noted that the convenience of the syndicated loan for the borrower is obvious: he receives a large loan and at the same time communicates with only one bank - the organizer of the transaction. One contract is concluded with the borrower, and analysis of the borrower's condition is carried out only by the organizer. This greatly simplifies the attraction of large resources for the borrower. The mismatch between the needs of large borrowers and the lending capabilities of banks should encourage banks to create

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syndicates. Many banks have difficulty lending to their large customers. Even if the bank has enough free funds, it is constrained by the Central Bank

standards of each country: provide support lending current prospective development.

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