
Financing
the Project
FINANCIALEDGE


Financing &
Insurance Package
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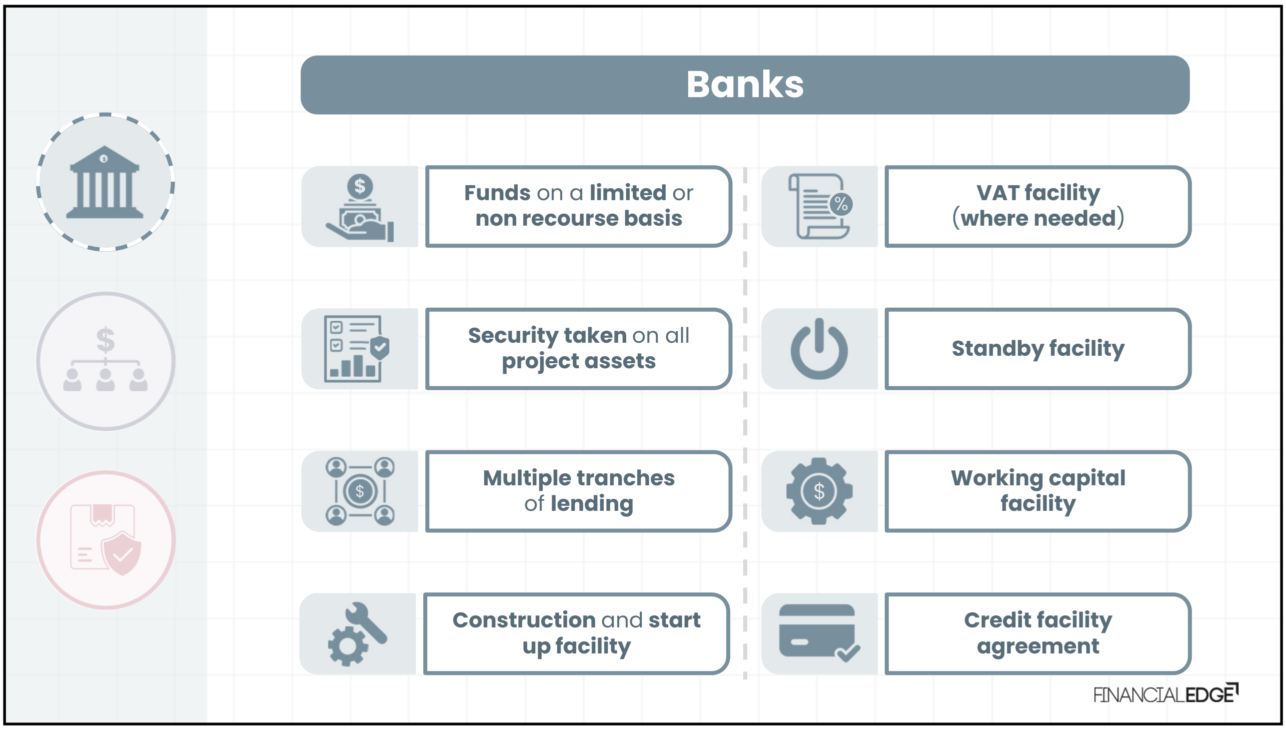
Banks
Funds on a limited or non recourse basis
VAT facility (where needed)
Security taken on all project assets
Standby facility
Multiple tranches of lending
Working capital facility
Construction and start up facility
Credit facility agreement
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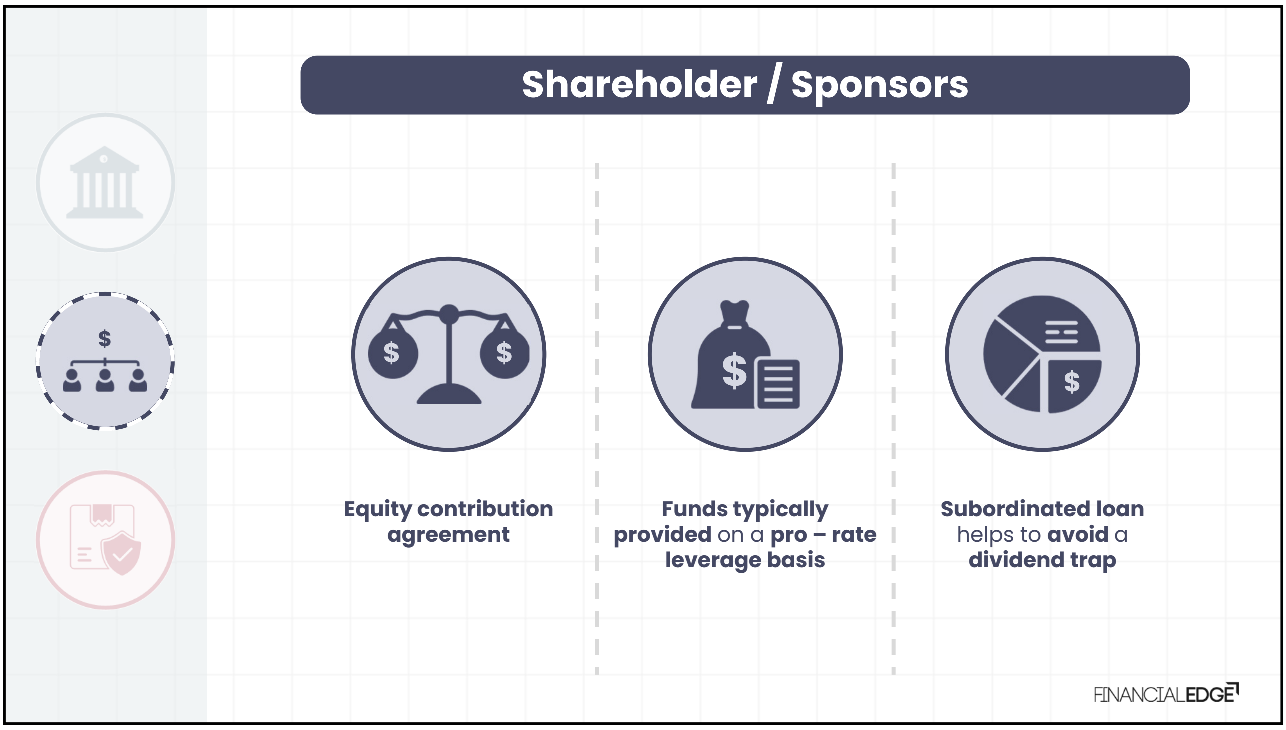
Shareholder / Sponsors
Equity contribution agreement
Funds typically provided on a pro – rate leverage basis
Subordinated loan helps to avoid a dividend trap
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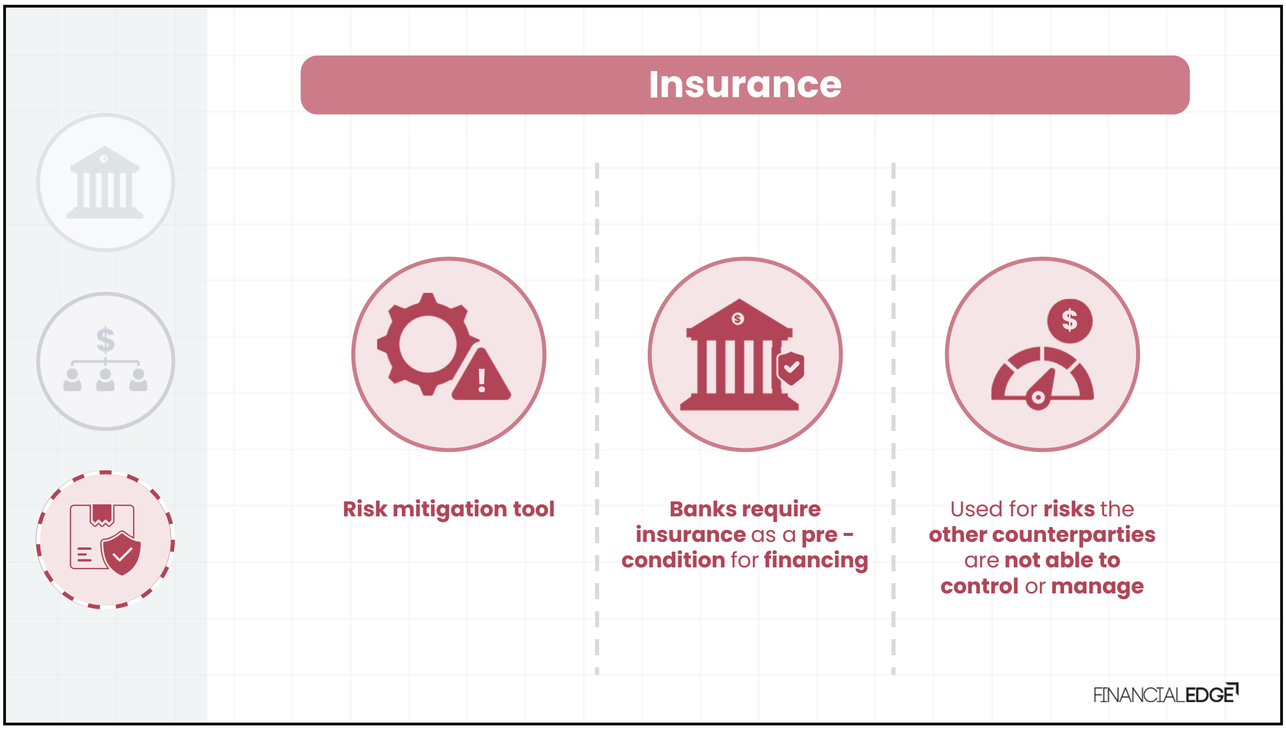
Insurance
Risk mitigation tool
Banks require insurance as a pre - condition for financing
Used for risks the other counterparties are not able to control or manage
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Understanding Debt Capacity
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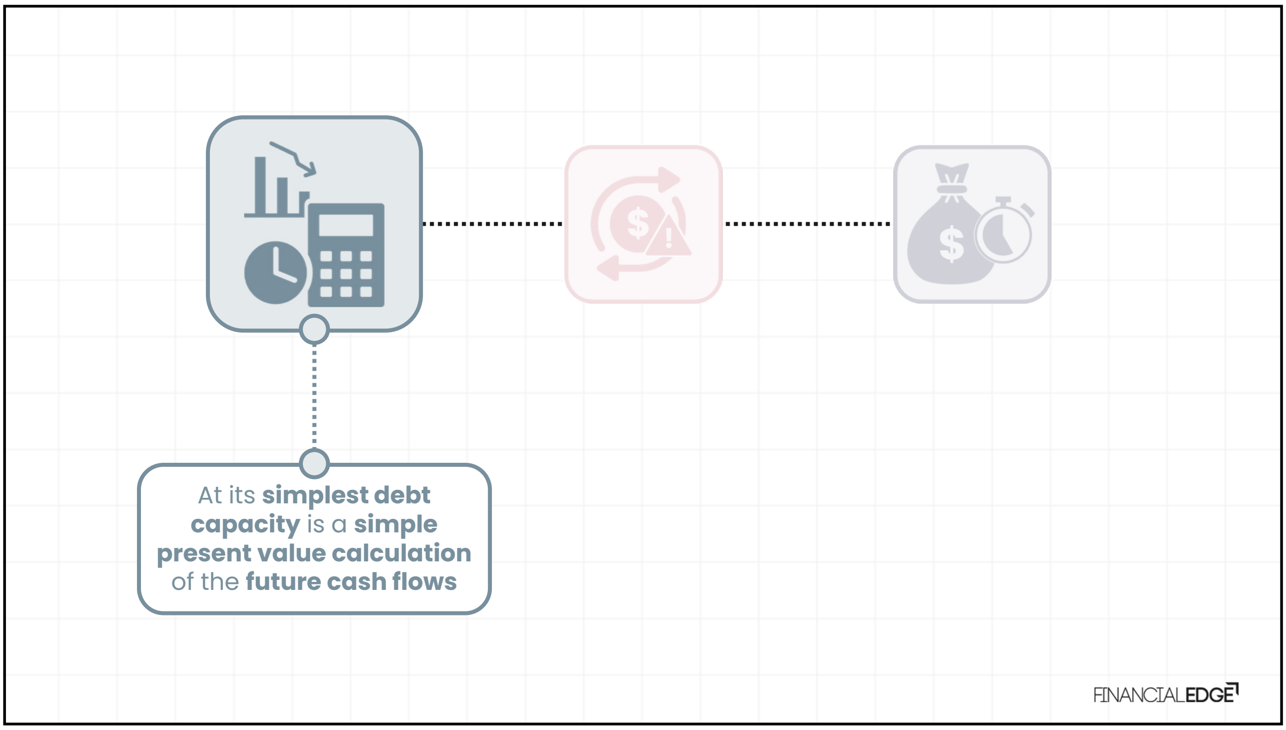
At its **simplest debt capacity** is a **simple present value calculation** of the **future cash flows**
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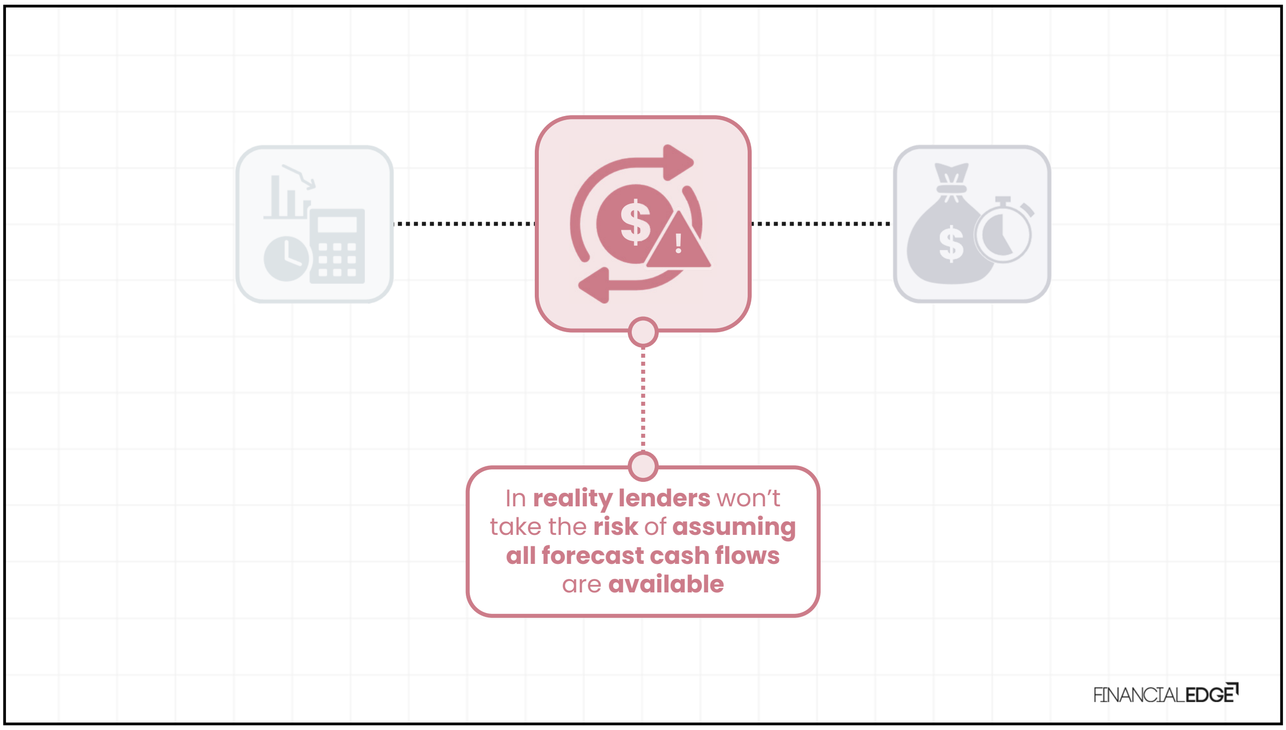
In **reality lenders** won't take the **risk** of **assuming all forecast cash flows** are **available**
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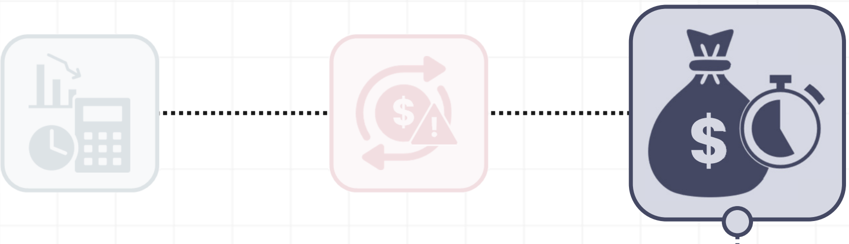

The **remaining funding needs** to be **provided** by the **sponsors**

	A	B	C	D	E	F	G	H	I	J	K
1		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	
2	Unlevered free cash flows		0.0	0.0	50.0	100.0	110.0	115.0	119.0	125.0	
3	Interest rate	5.0%									
4	Net present value	466.6	=NPV(B3,C2:J2)								
5											
6	Beginning balance		466.6	490.0	514.5	490.2	414.7	325.4	226.7	119.0	=I9
7	Interest (on beginning balance)		23.3	24.5	25.7	24.5	20.7	16.3	11.3	6.0	=B3*J6
8	Payment		0.0	0.0	(50.0)	(100.0)	(110.0)	(115.0)	(119.0)	(125.0)	=-J2
9	Ending balance	466.6	490.0	514.5	490.2	414.7	325.4	226.7	119.0	(0.0)	=SUM(J6:J8)
10											
11	Total funding required	600.0									
12	Provided by loan	466.6	=B9								
13	Equity needed	133.4	=B11-B12								


Syndicated Loan Financing
$
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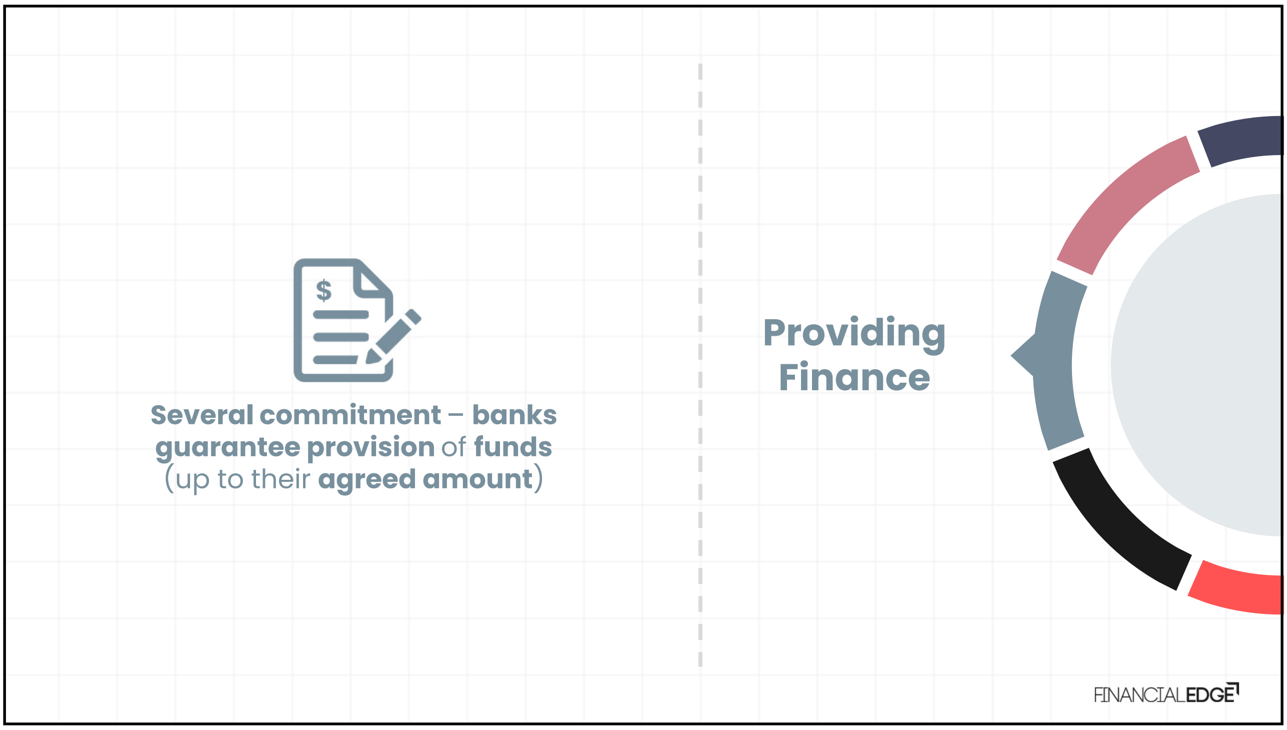
$
Several commitment – banks guarantee provision of funds (up to their agreed amount)
Providing Finance
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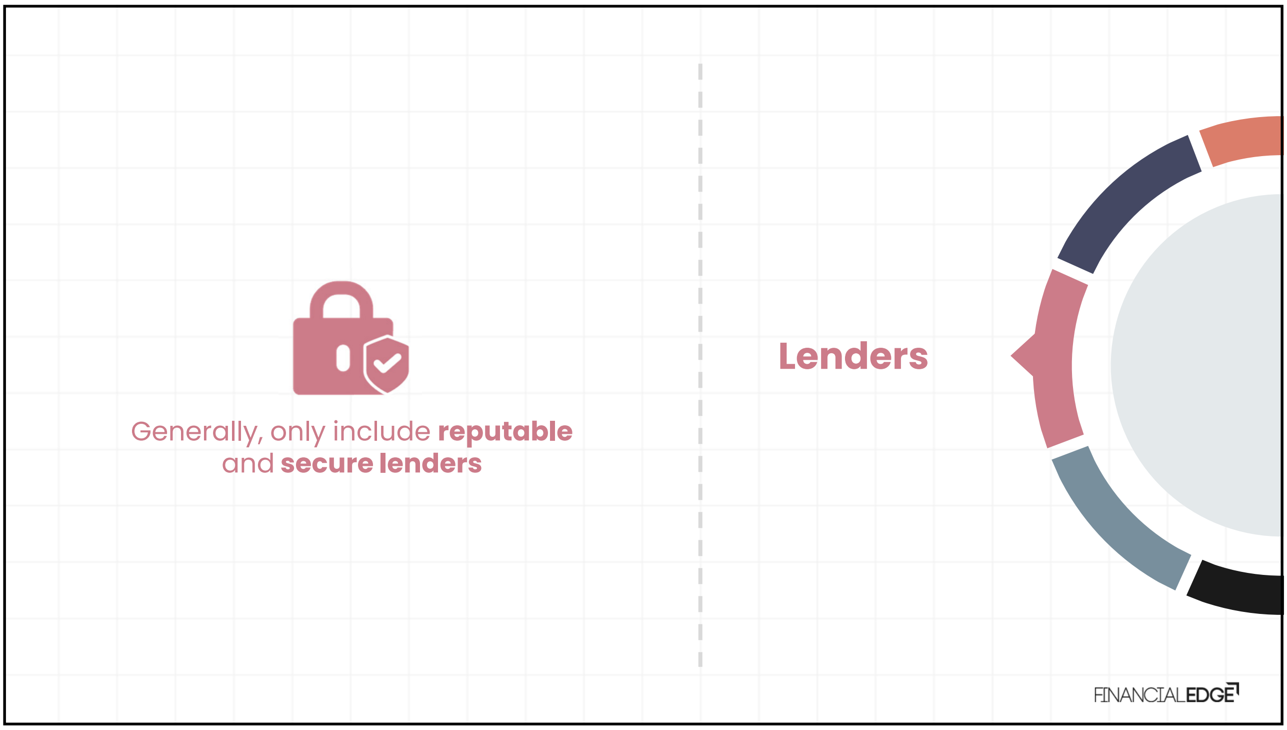
Generally, only include **reputable** and **secure lenders**
Lenders
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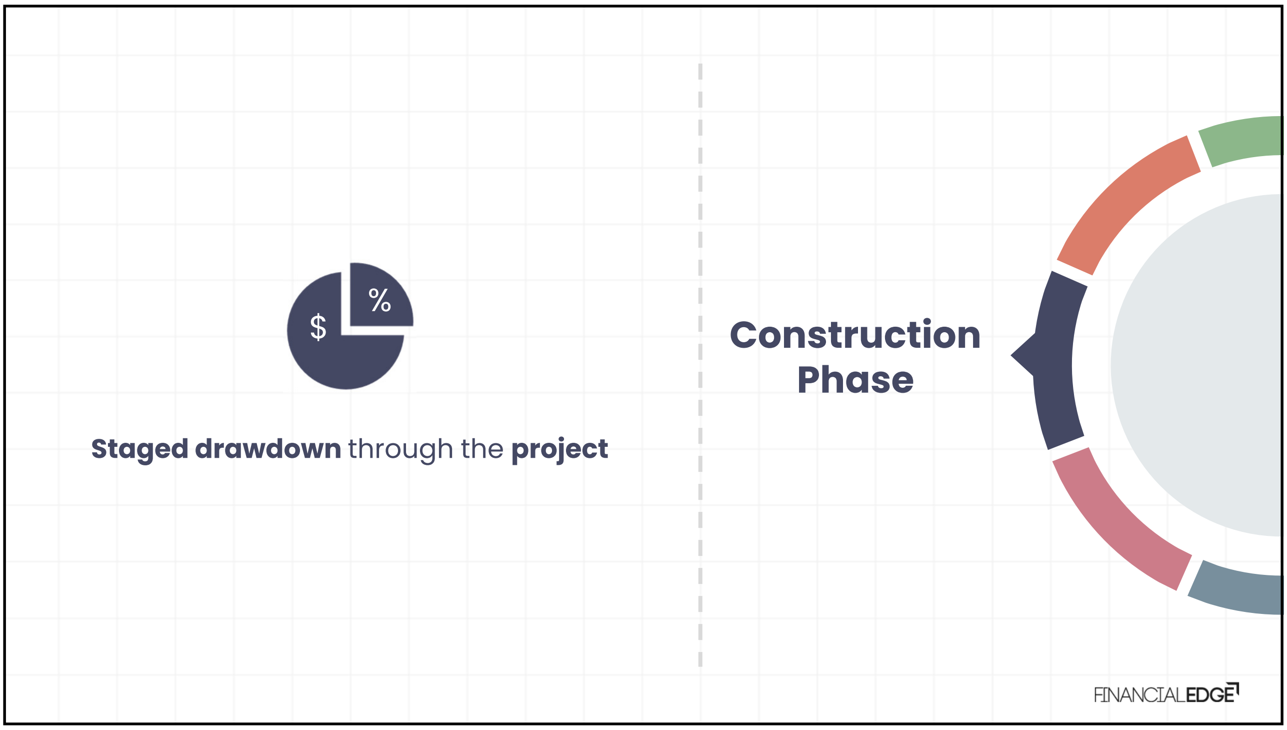
$ %
Staged drawdown through the **project**
Construction Phase
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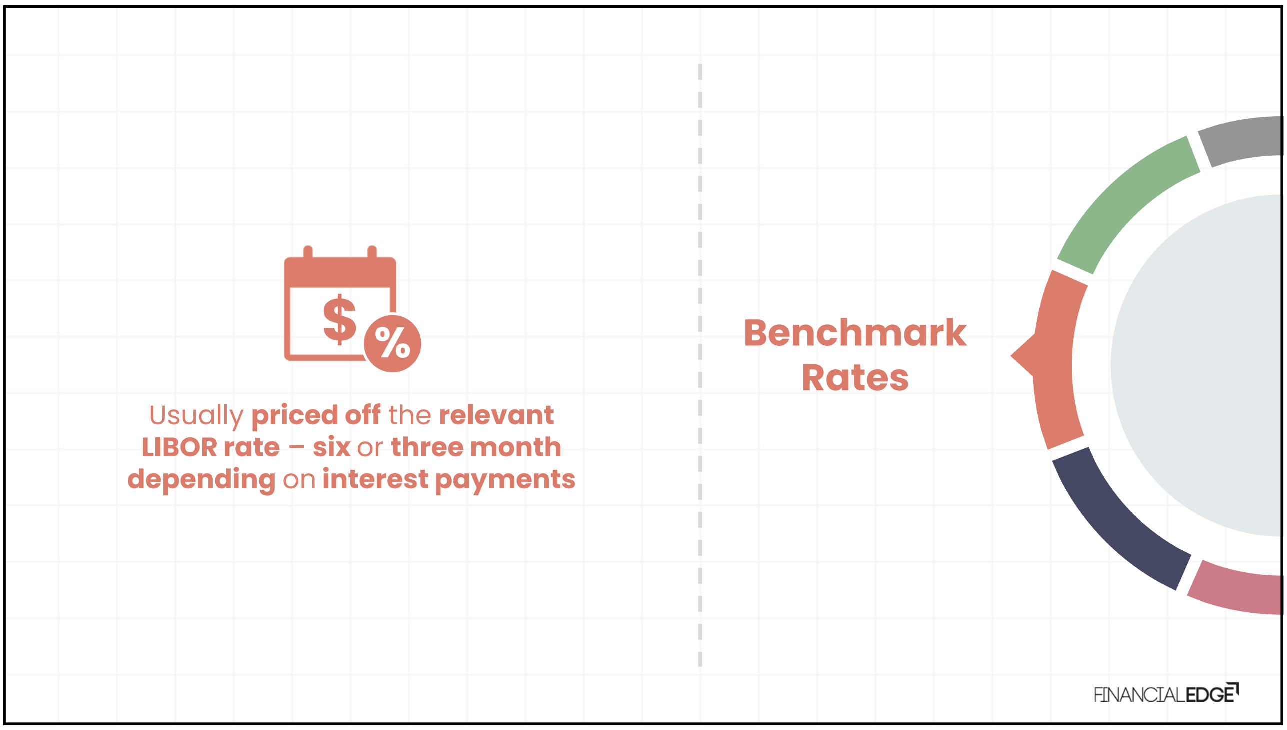
Usually **priced off** the **relevant LIBOR rate – six** or **three month depending** on **interest payments**
Benchmark Rates
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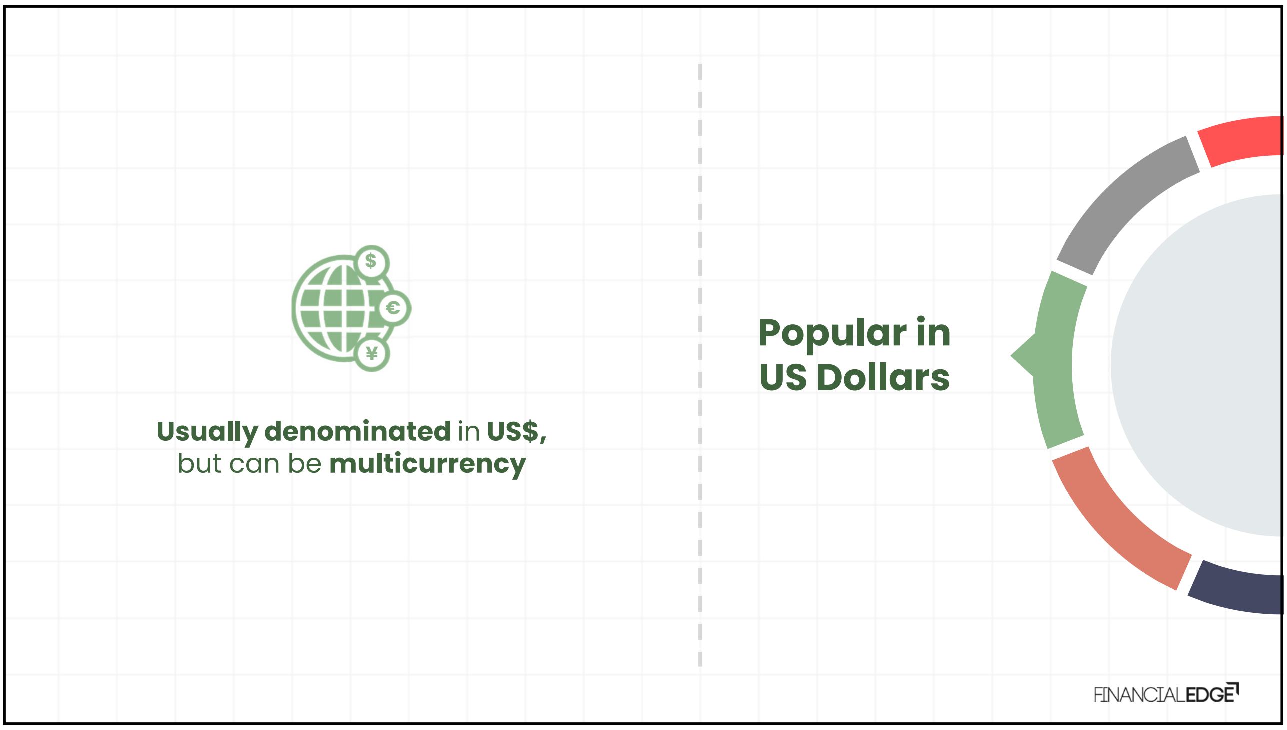
Usually denominated in **US$,** but can be **multicurrency**
Popular in US Dollars
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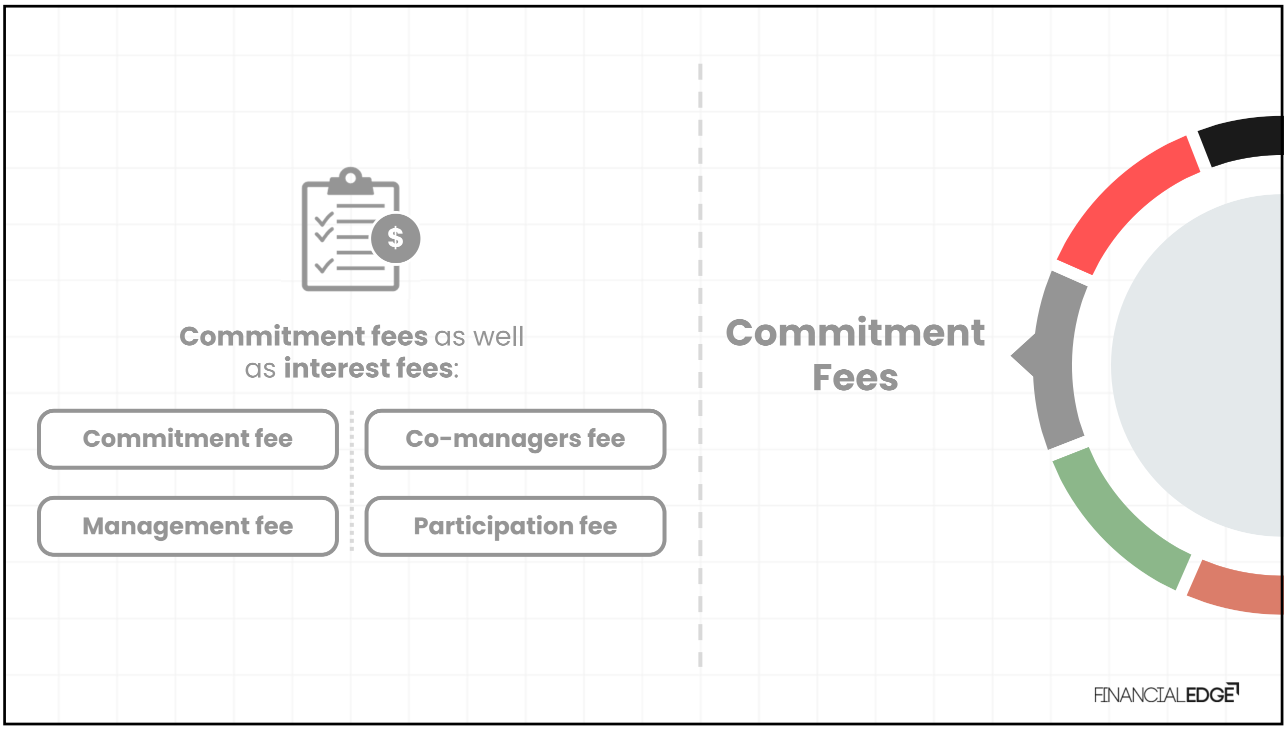
Commitment fees as well as interest fees:
Commitment fee
Co-managers fee
Management fee
Participation fee
Commitment Fees
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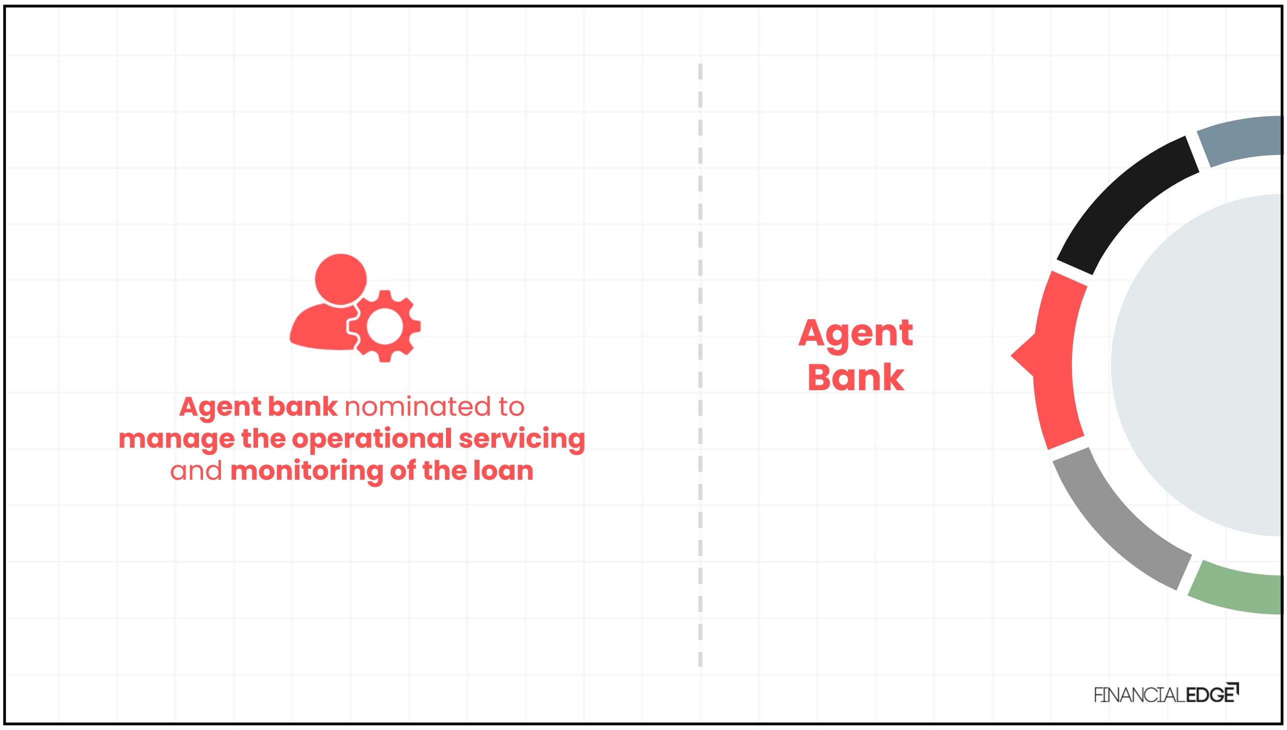
Agent bank nominated to manage the operational servicing and monitoring of the loan
Agent Bank
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Club deal: **a smaller group of lenders, easier to renegotiate** and **agree**, and **higher fees** to the **individual banks**

Club Deal

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Increasingly syndicated loans are **sold down to investors** in a **secondary market**

Insurance companies

Pension funds

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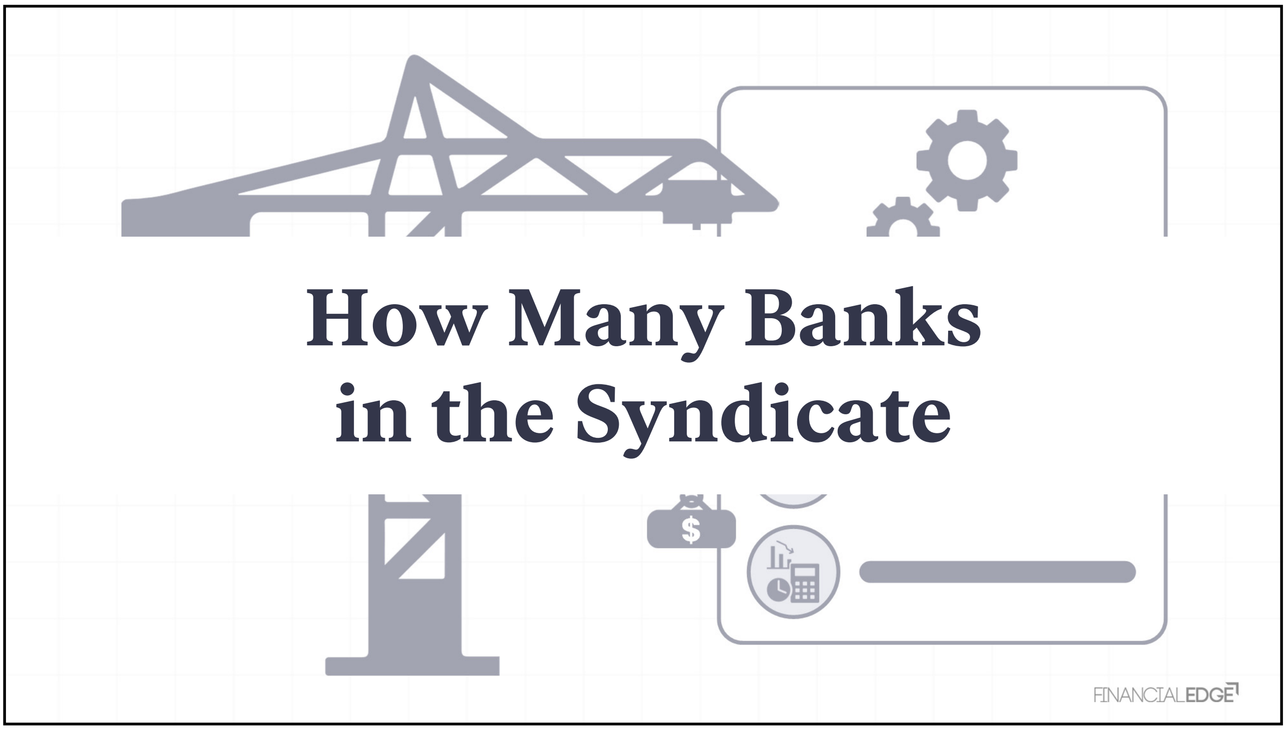
How Many Banks
in the Syndicate
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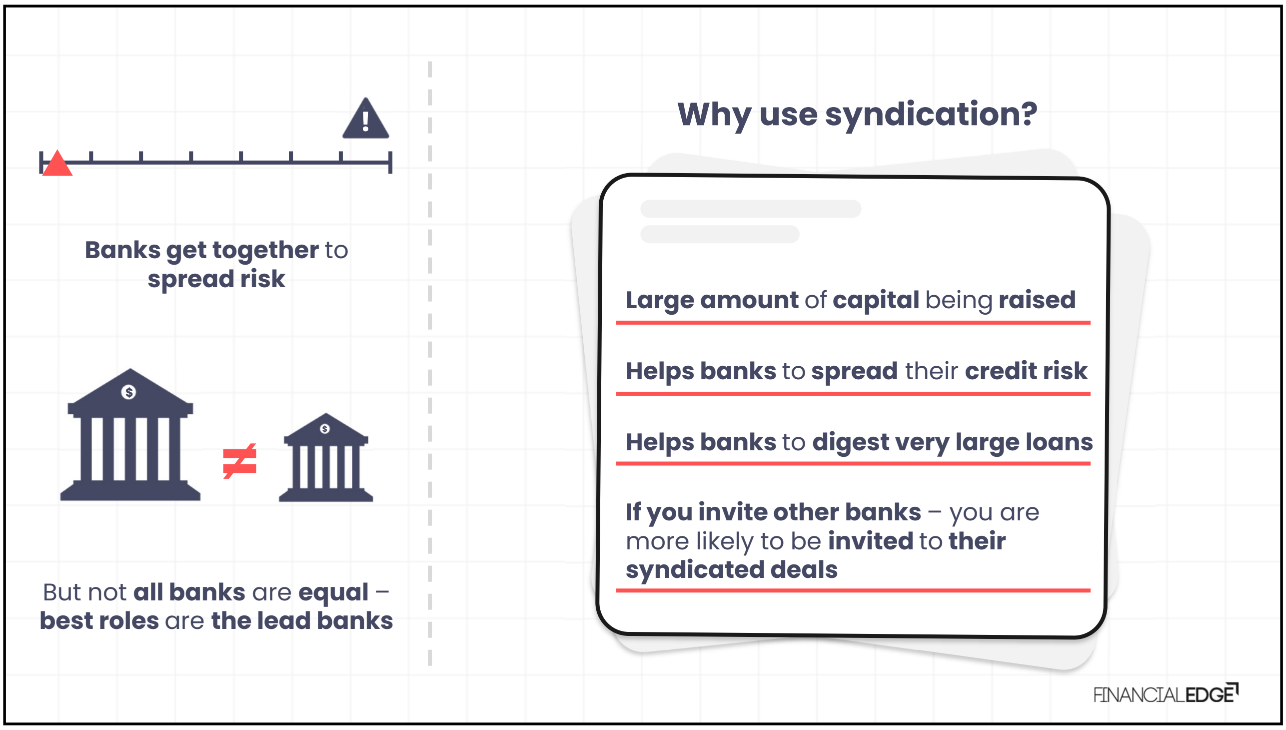
Banks get together to spread risk
But not all banks are equal – best roles are the lead banks
Why use syndication?
Large amount of capital being raised
Helps banks to spread their credit risk
Helps banks to digest very large loans
If you invite other banks – you are more likely to be invited to their syndicated deals
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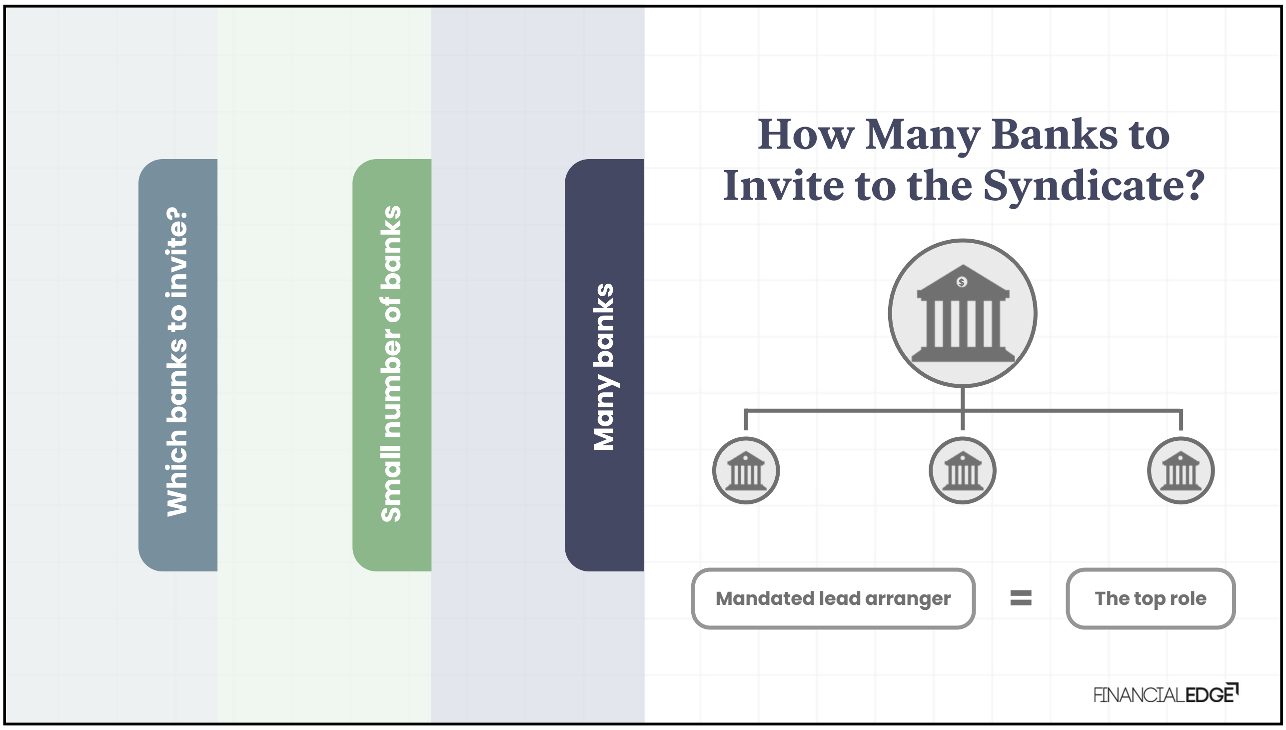
Which banks to invite?
Small number of banks
Many banks
How Many Banks to Invite to the Syndicate?
Mandated lead arranger
=
The top role
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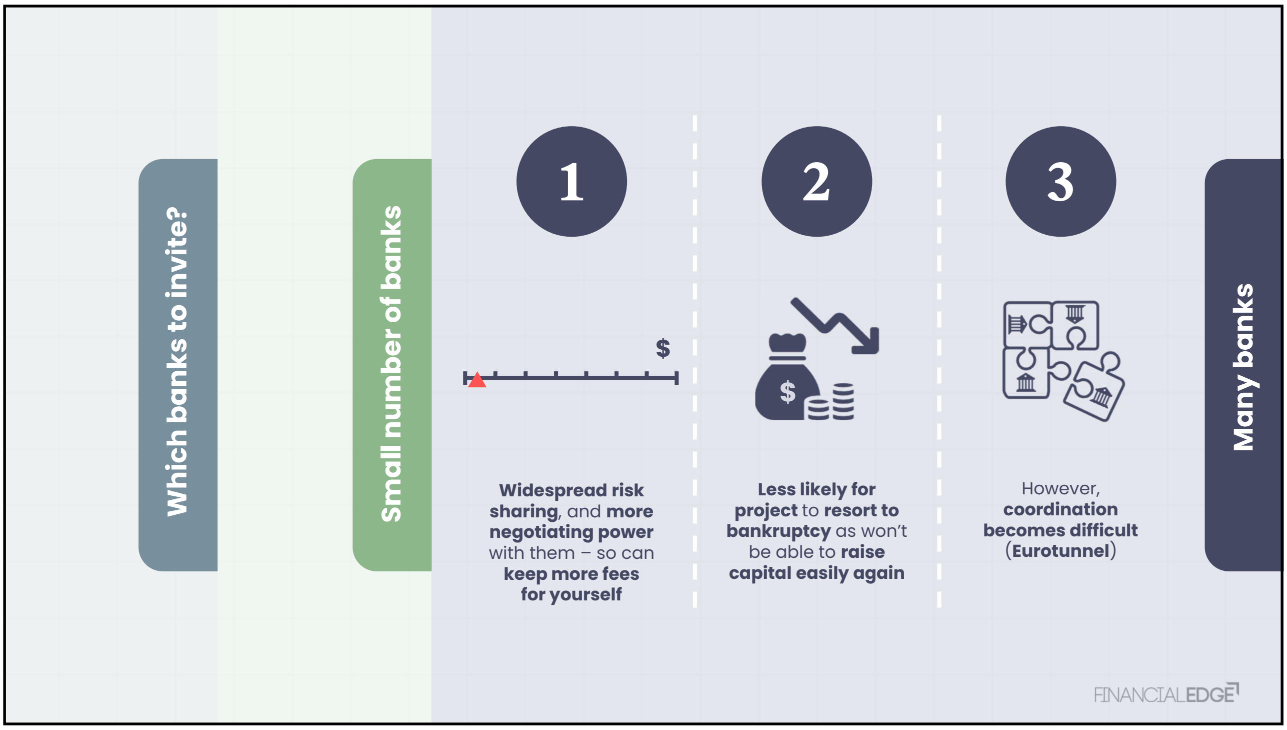
Which banks to invite?
Small number of banks
1
$
Widespread risk sharing, and more negotiating power with them – so can keep more fees for yourself
2
$
Less likely for project to resort to bankruptcy as won't be able to raise capital easily again
3
However, coordination becomes difficult (Eurotunnel)
Many banks
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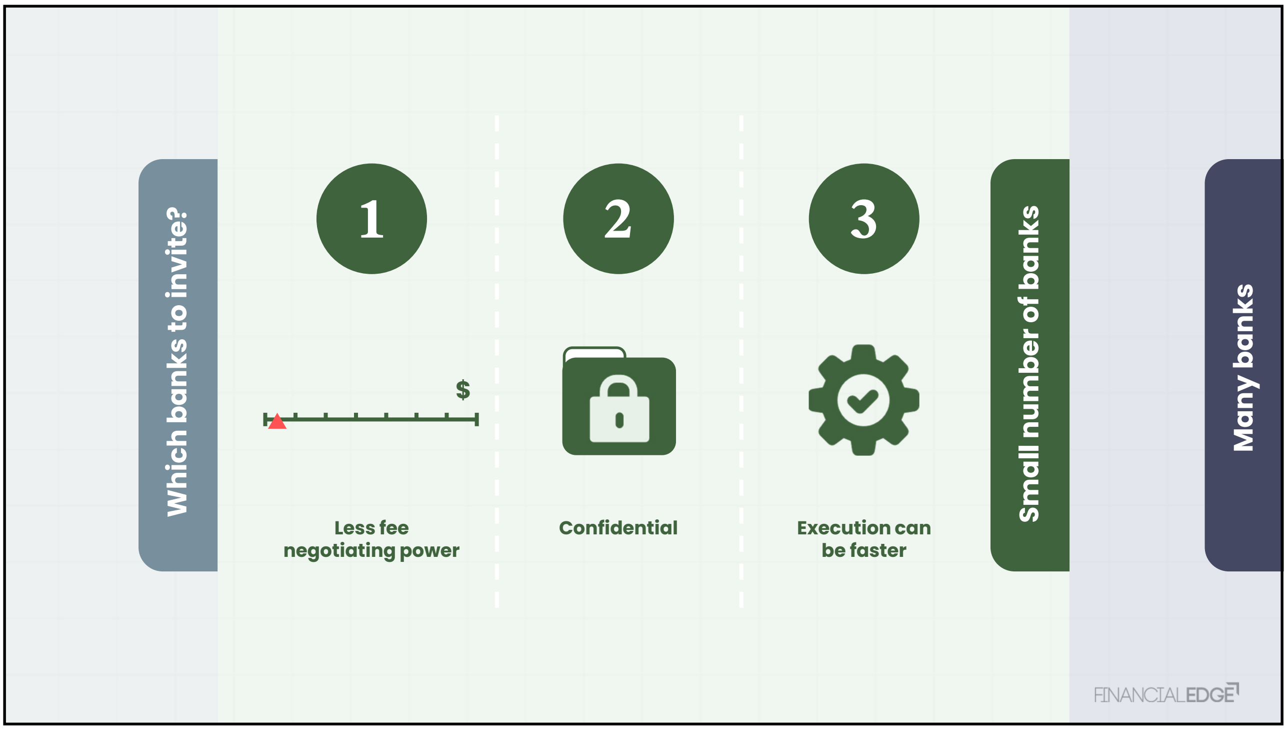
Which banks to invite?
1
$
Less fee
negotiating power
2
Confidential
3
Execution can
be faster
Small number of banks
Many banks
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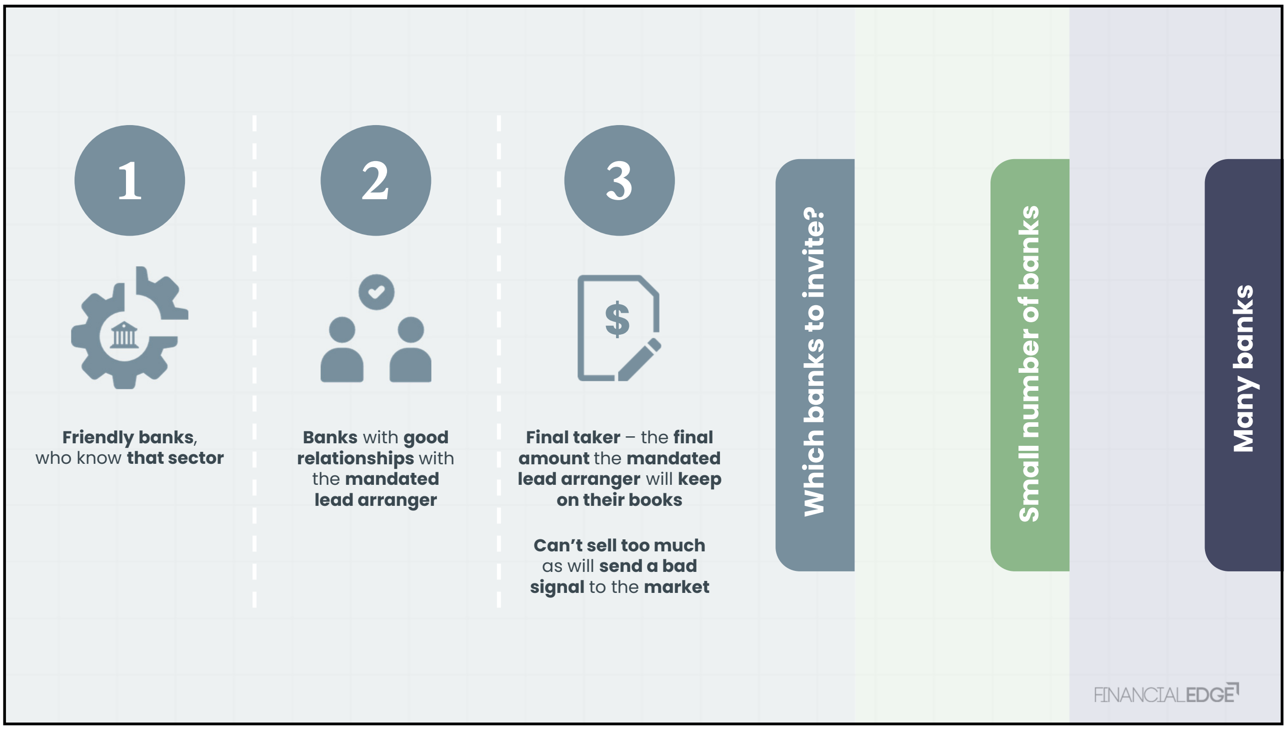
1
Friendly banks,
who know that sector
2
Banks with good
relationships with
the mandated
lead arranger
3
$
Final taker – the final
amount the mandated
lead arranger will keep
on their books
Can't sell too much
as will send a bad
signal to the market
Which banks to invite?
Small number of banks
Many banks
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Syndication Strategy

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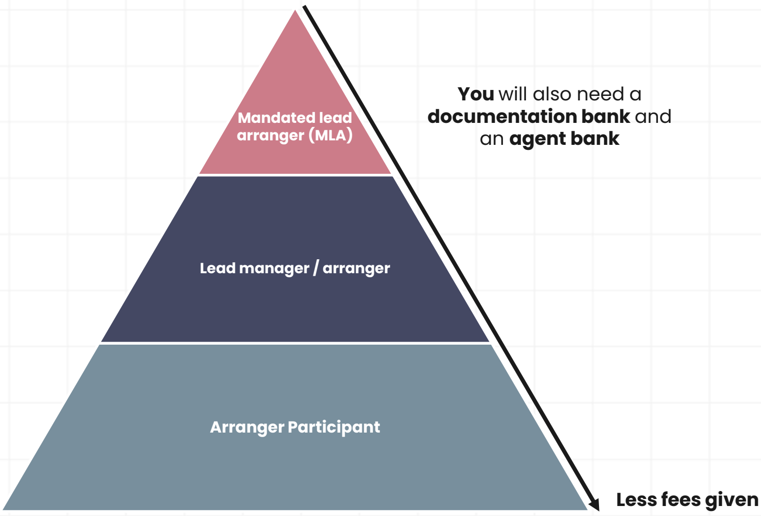
Syndicate Details



You will also need a **documentation bank** and an **agent bank**

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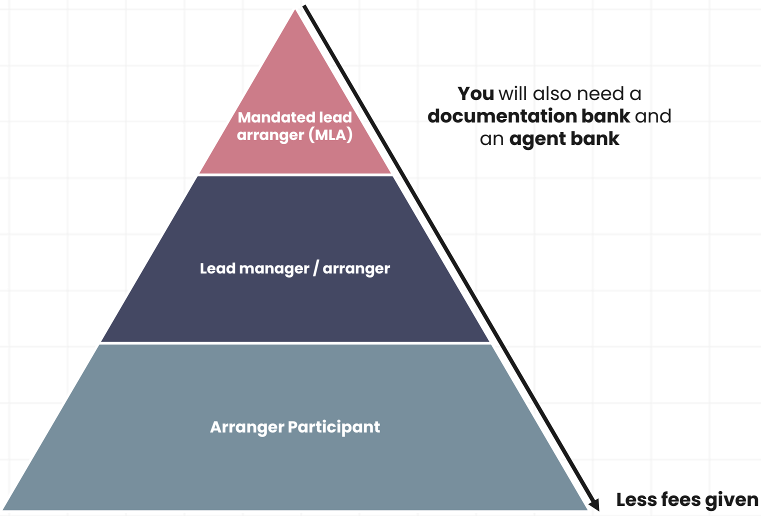
Syndicate Details



You will also need a **documentation bank** and an **agent bank**

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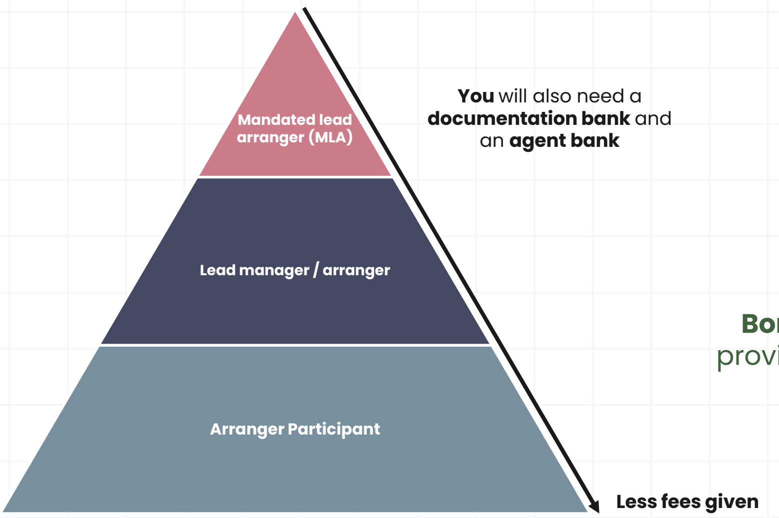
Syndicate Details



You will also need a **documentation bank** and an **agent bank**

Borrower needs commitment to provide the full **amount of financing** – the **deal is underwritten**

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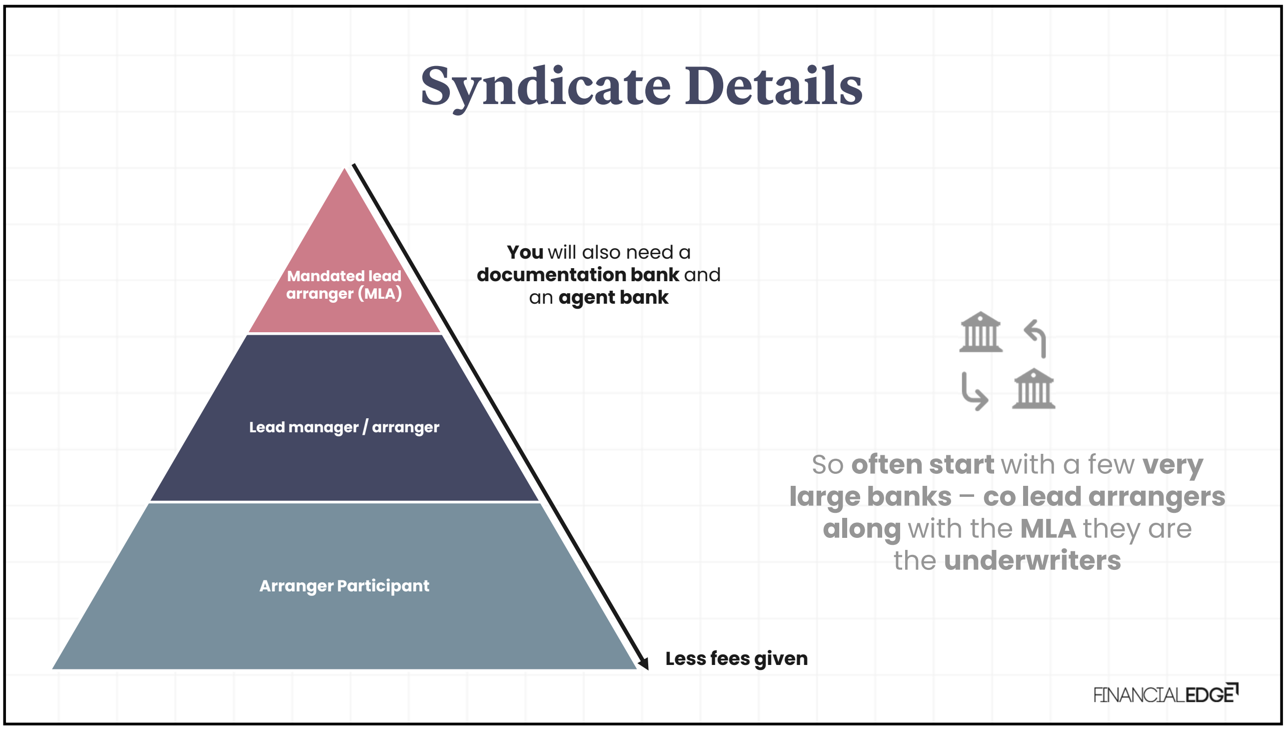
Syndicate Details
Mandated lead arranger (MLA)
Lead manager / arranger
Arranger Participant
You will also need a documentation bank and an agent bank
So often start with a few very large banks – co lead arrangers along with the MLA they are the underwriters
Less fees given
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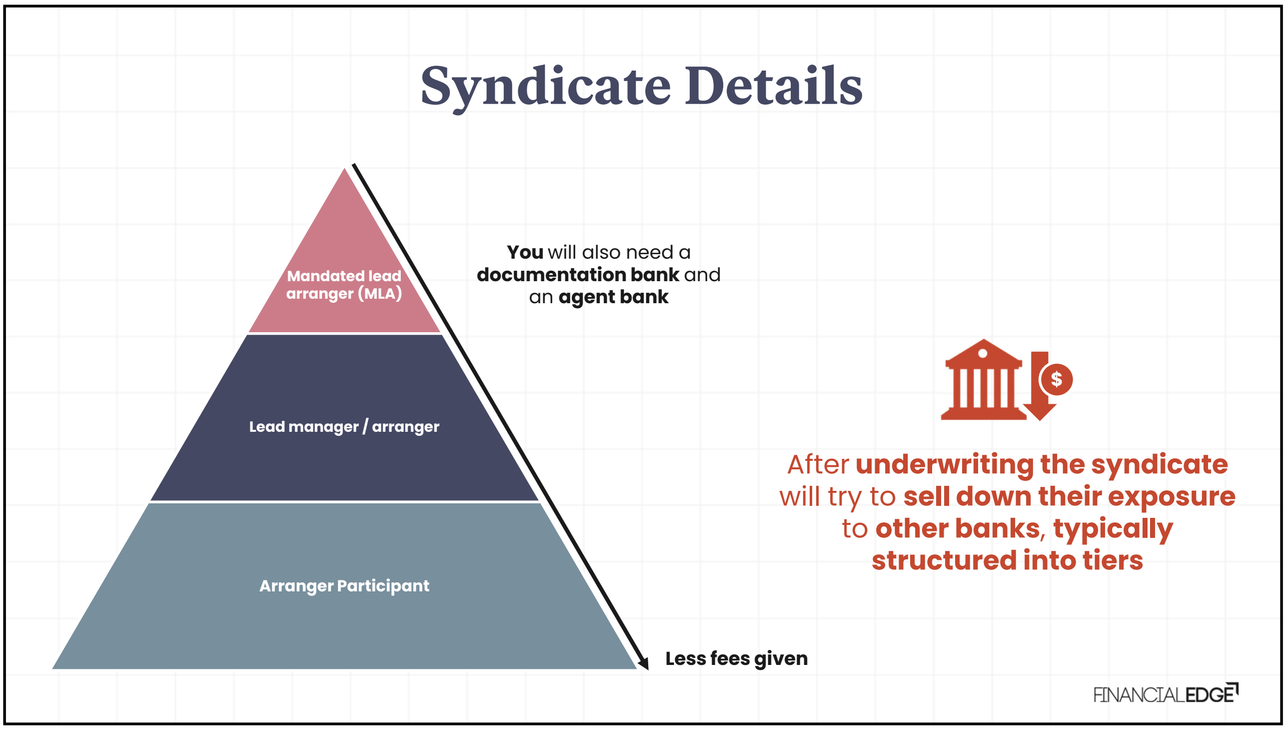
Syndicate Details
Mandated lead arranger (MLA)
Lead manager / arranger
Arranger Participant
You will also need a documentation bank and an agent bank
After underwriting the syndicate will try to sell down their exposure to other banks, typically structured into tiers
Less fees given
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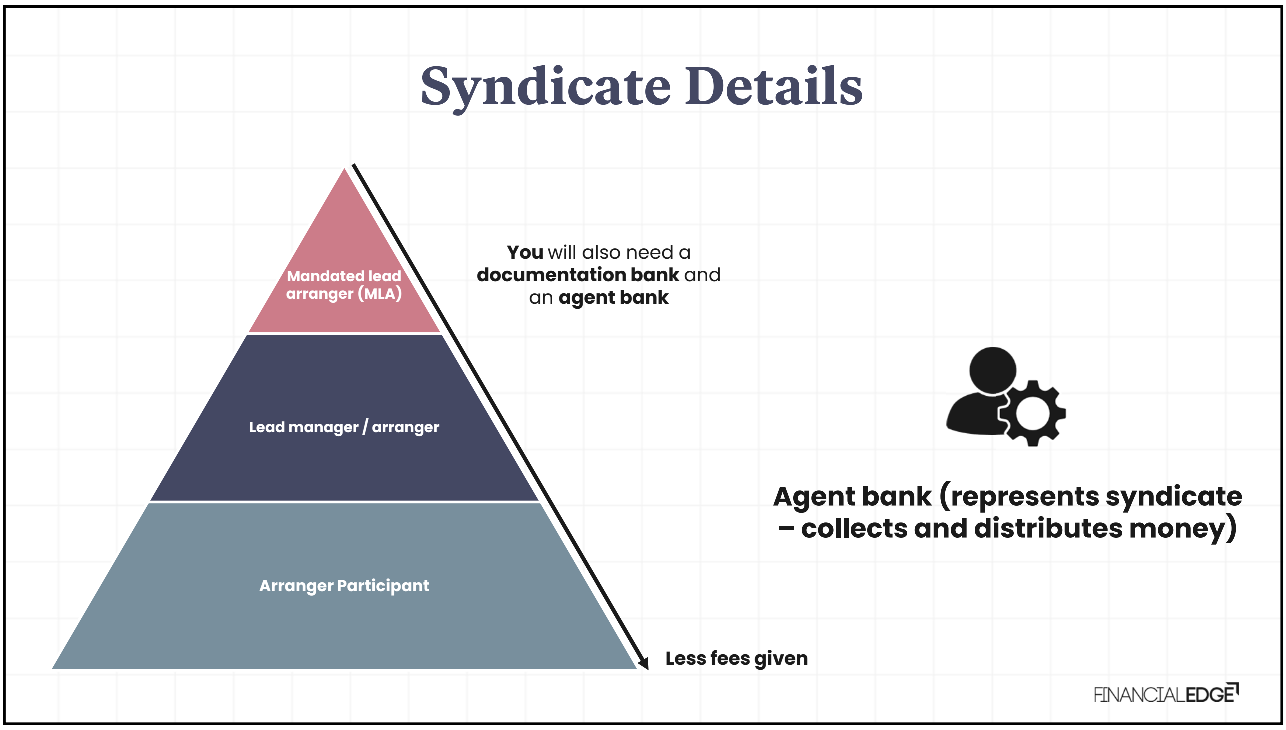

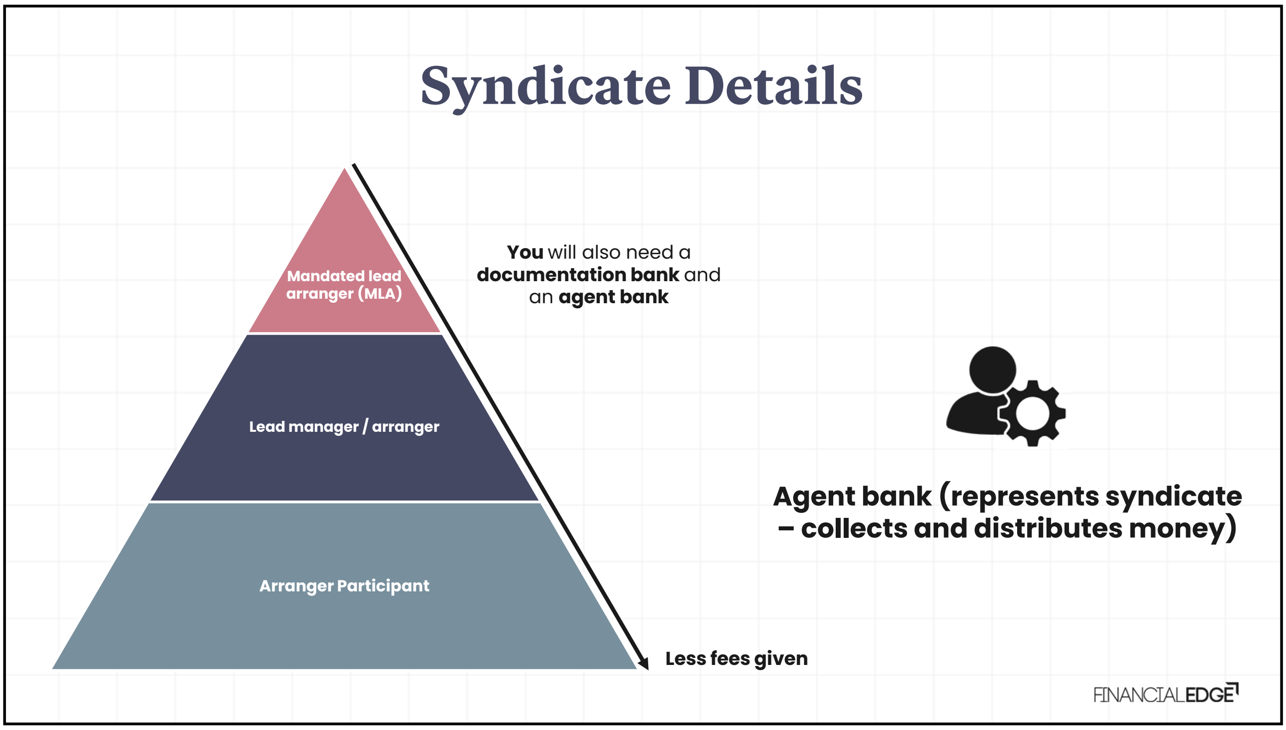
Syndicate Details
Mandated lead arranger (MLA)
Lead manager / arranger
Arranger Participant
You will also need a documentation bank and an agent bank
Agent bank (represents syndicate – collects and distributes money)
Less fees given
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Syndication Strategy

Single Stage

MLA underwrites whole deal

Use when **market** is **confident**

- Low rates
- High liquidity
- Low volatility

Where you can be **sure other banks** will be **interested**

MLA retains a **larger slice** of **fees**, but **high risk** and **high return**

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Syndication Strategy

Two Stage

Stage 1

Start sharing the **deal** with the **most active large banks** in the **market** – **asking** for **commitments** for the **underwriting**

Stage 2

MLA and the **other underwriters try to sell** the **individual portions** of the **loan to other lenders**

Less risky but **less return** (use when **markets are tough**)

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Financial Crisis and the
Development of Club Deals
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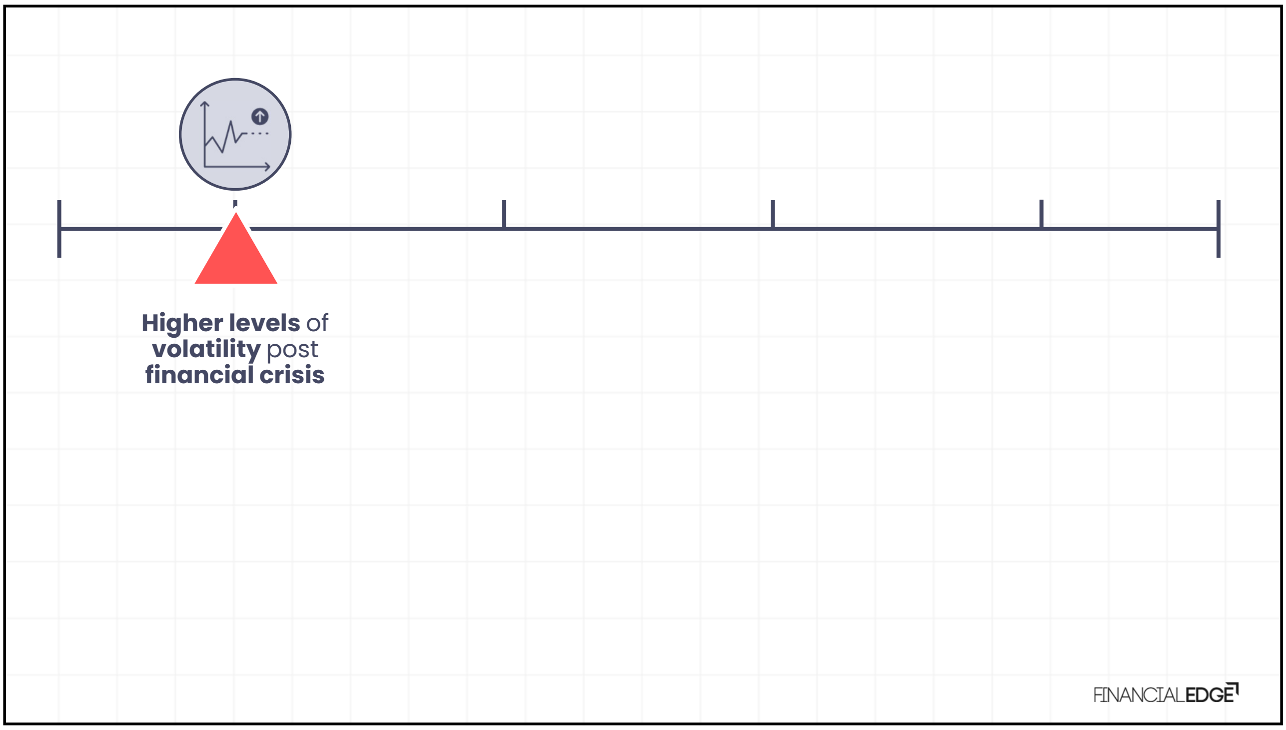
Higher levels of
volatility post
financial crisis
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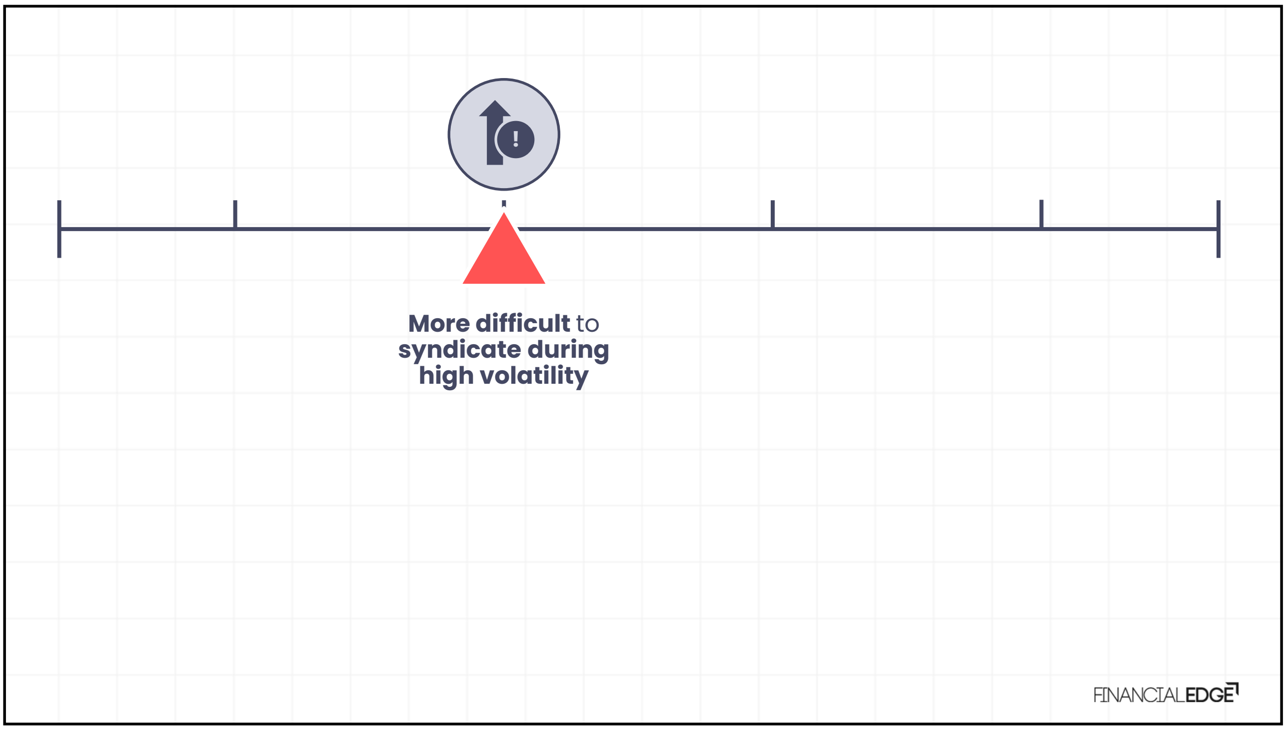
More difficult to syndicate during high volatility
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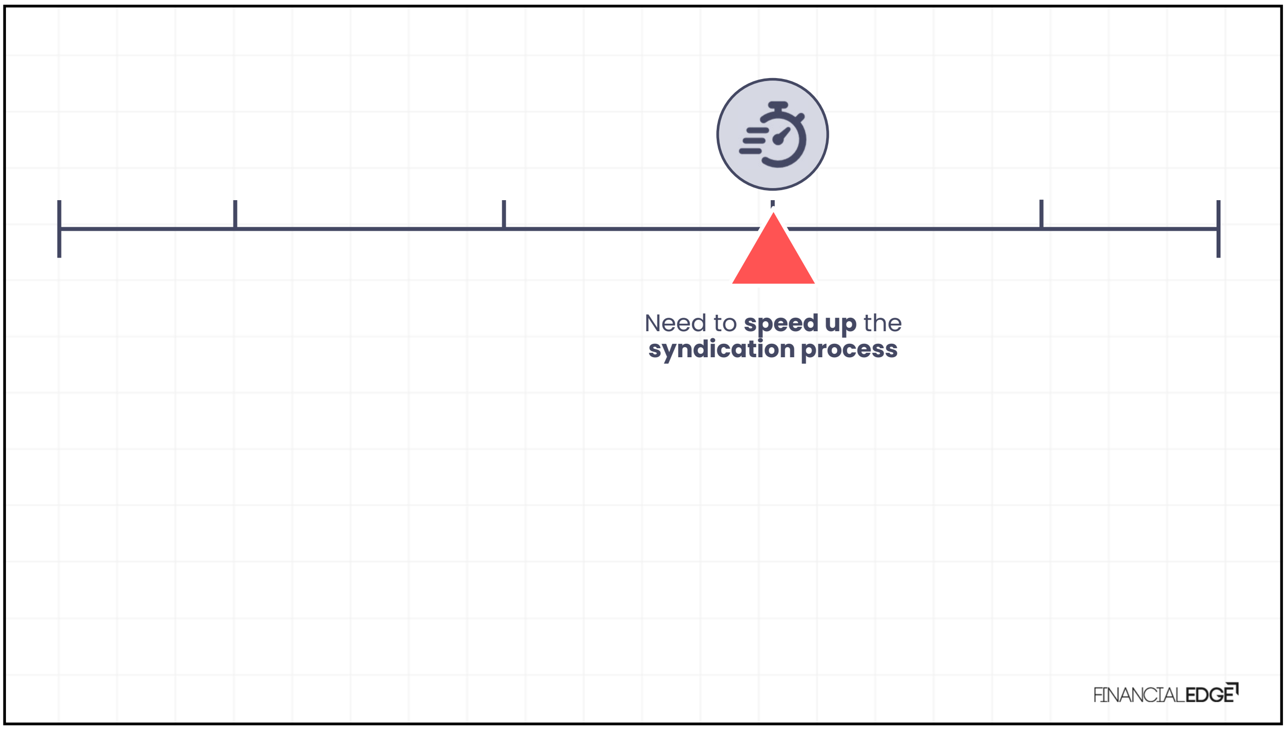
Need to speed up the syndication process
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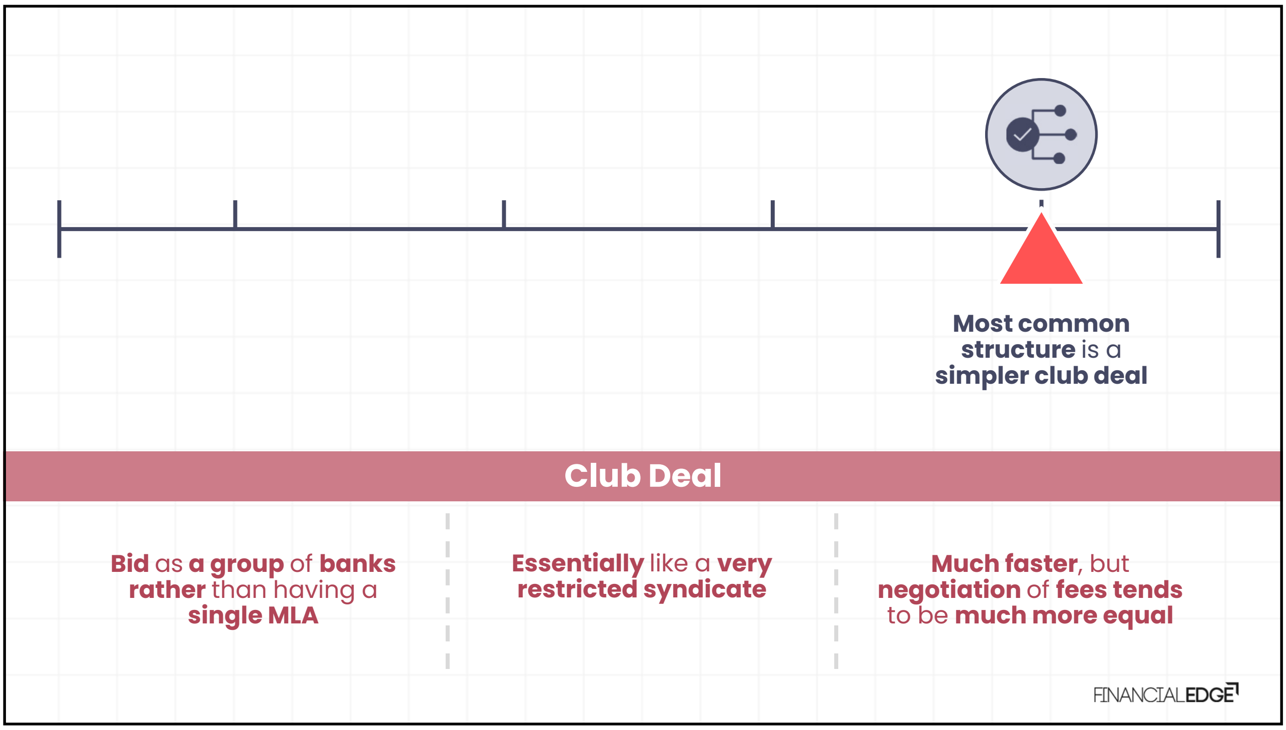
Most common structure is a simpler club deal
Club Deal
Bid as a group of banks rather than having a single MLA
Essentially like a very restricted syndicate
Much faster, but negotiation of fees tends to be much more equal
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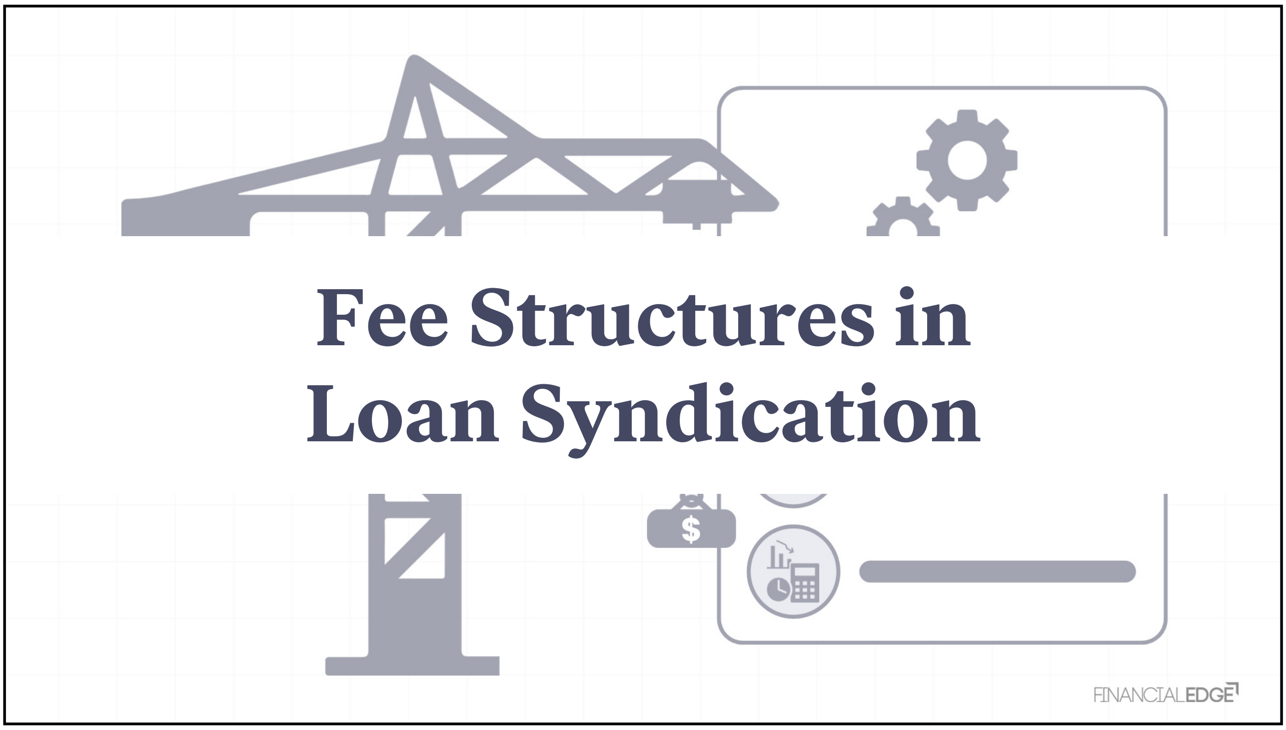
Fee Structures in Loan Syndication
$
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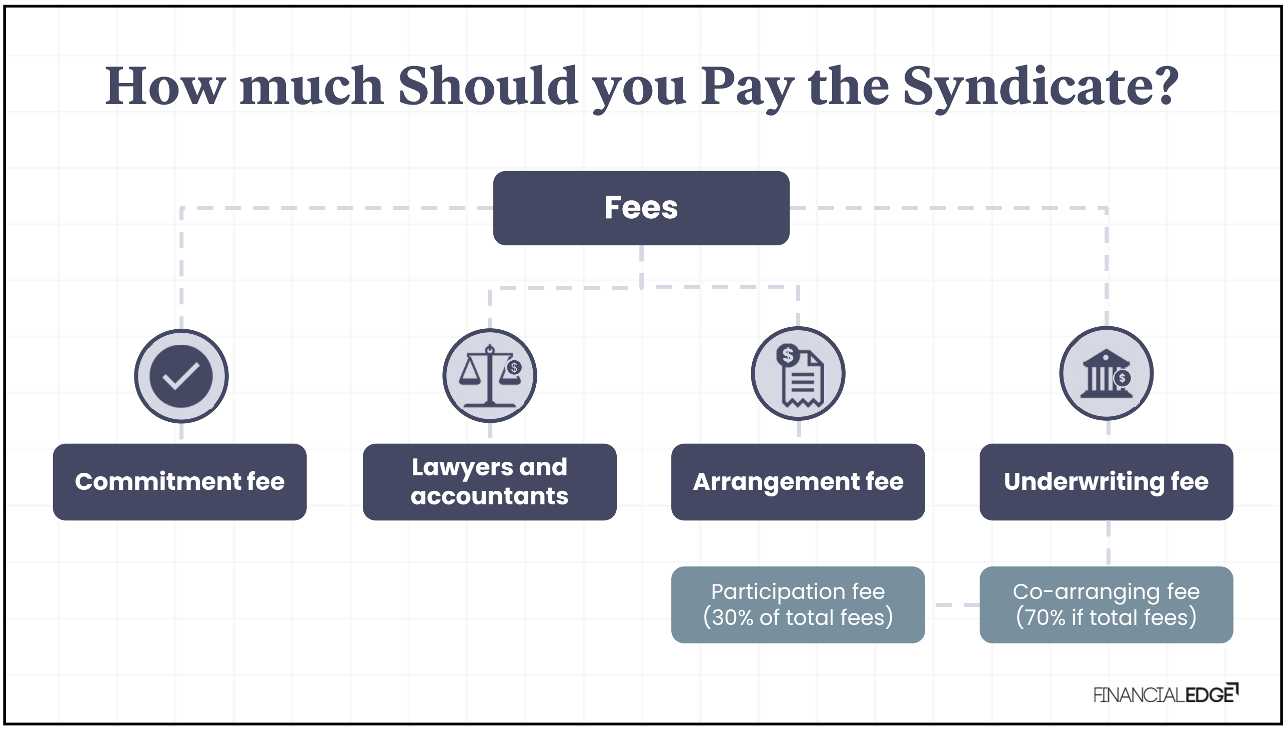
How much Should you Pay the Syndicate?
Fees
Commitment fee
Lawyers and accountants
Arrangement fee
Underwriting fee
Participation fee (30% of total fees)
Co-arranging fee (70% if total fees)
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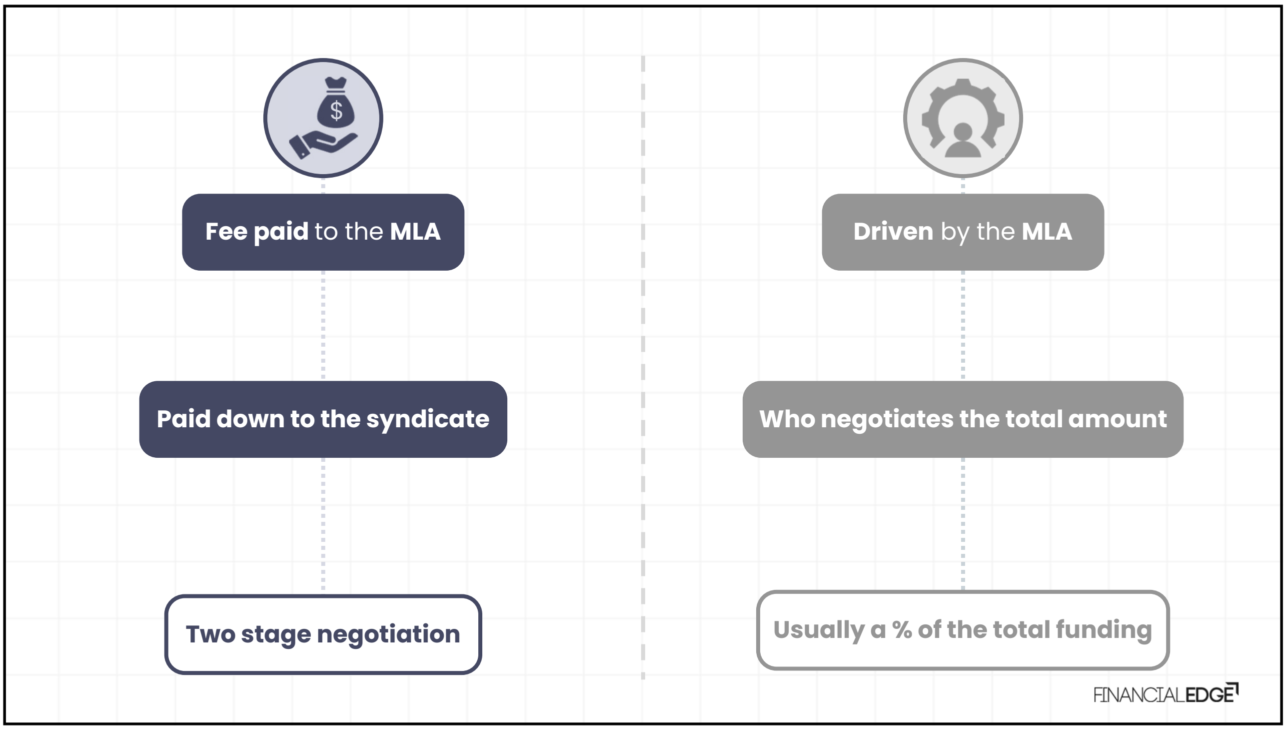
Fee paid to the MLA
Paid down to the syndicate
Two stage negotiation
Driven by the MLA
Who negotiates the total amount
Usually a % of the total funding
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Fee Structure – an Unequal Split

	Stage 1		Stage 2			
	Underwriting		Final amount	Fees %	Fees $	ees % lent
Total financing	300.0	1.0%	300.0	1.0%	6.0	
		3.0		3.0		
MLA	100.0	1.50	20.0		1.50	7.50%
Co-lead	100.0	0.75	20.0		0.75	3.75%
Co-lead	100.0	0.75	20.0		0.75	3.75%
Participant			40.0	0.50	0.50	1.25%
Participant			50.0	0.63	0.63	1.25%
Participant			50.0	0.63	0.63	1.25%
Participant			50.0	0.63	0.63	1.25%
Participant			50.0	0.63	0.63	1.25%

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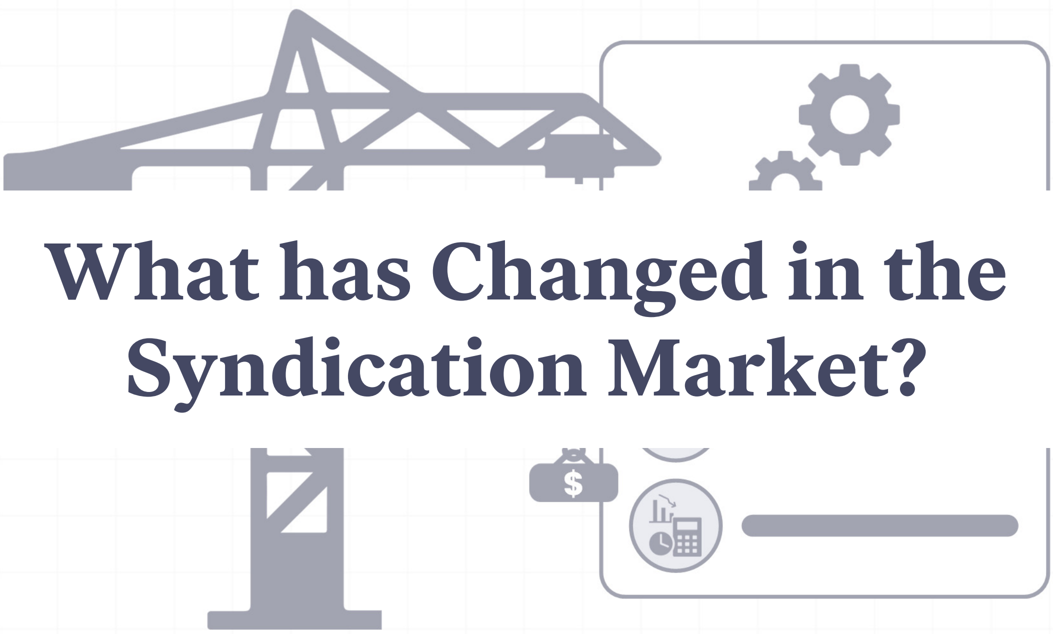

What has Changed in the Syndication Market?

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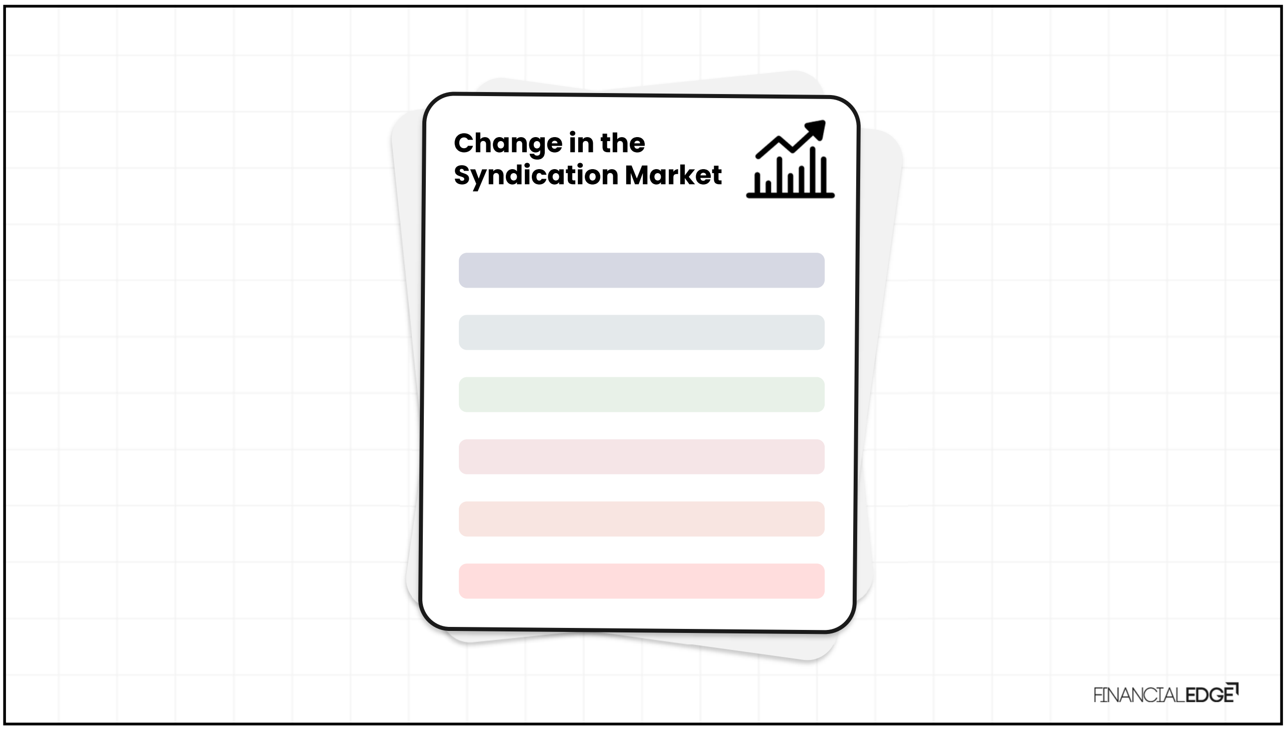
Change in the
Syndication Market
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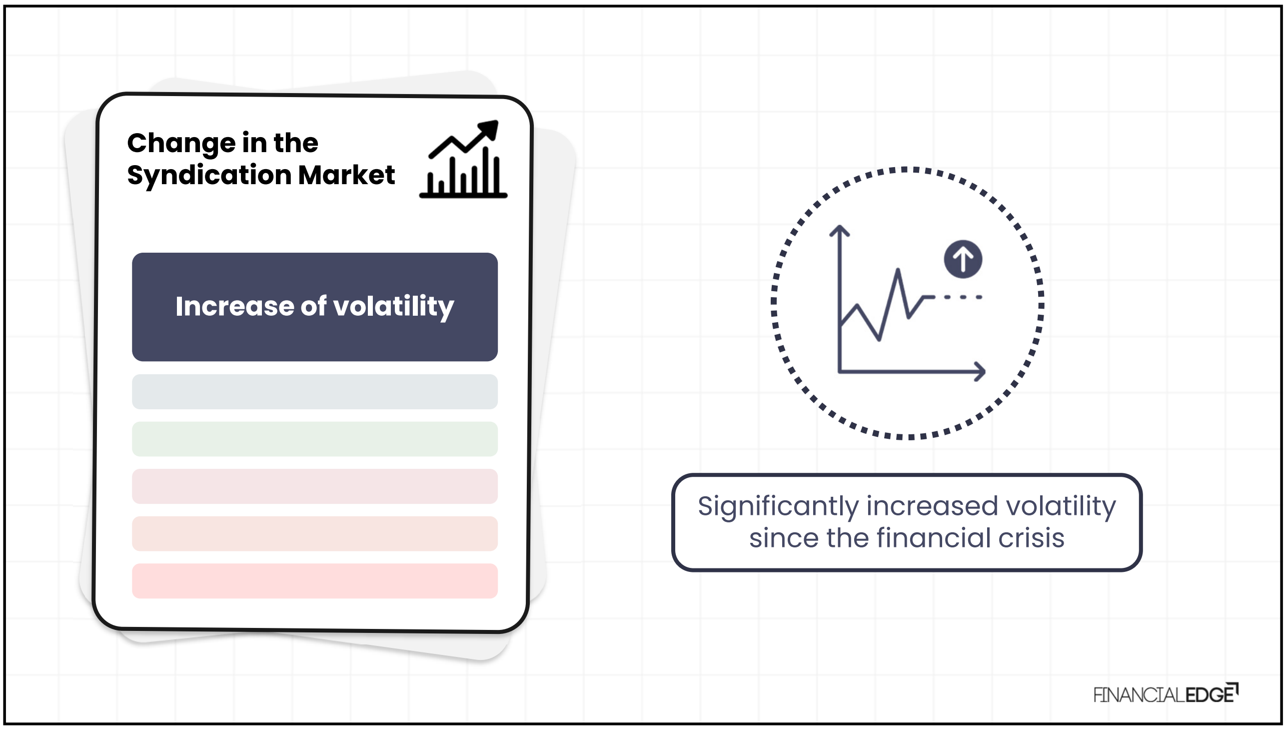
Change in the
Syndication Market
Increase of volatility
Significantly increased volatility
since the financial crisis
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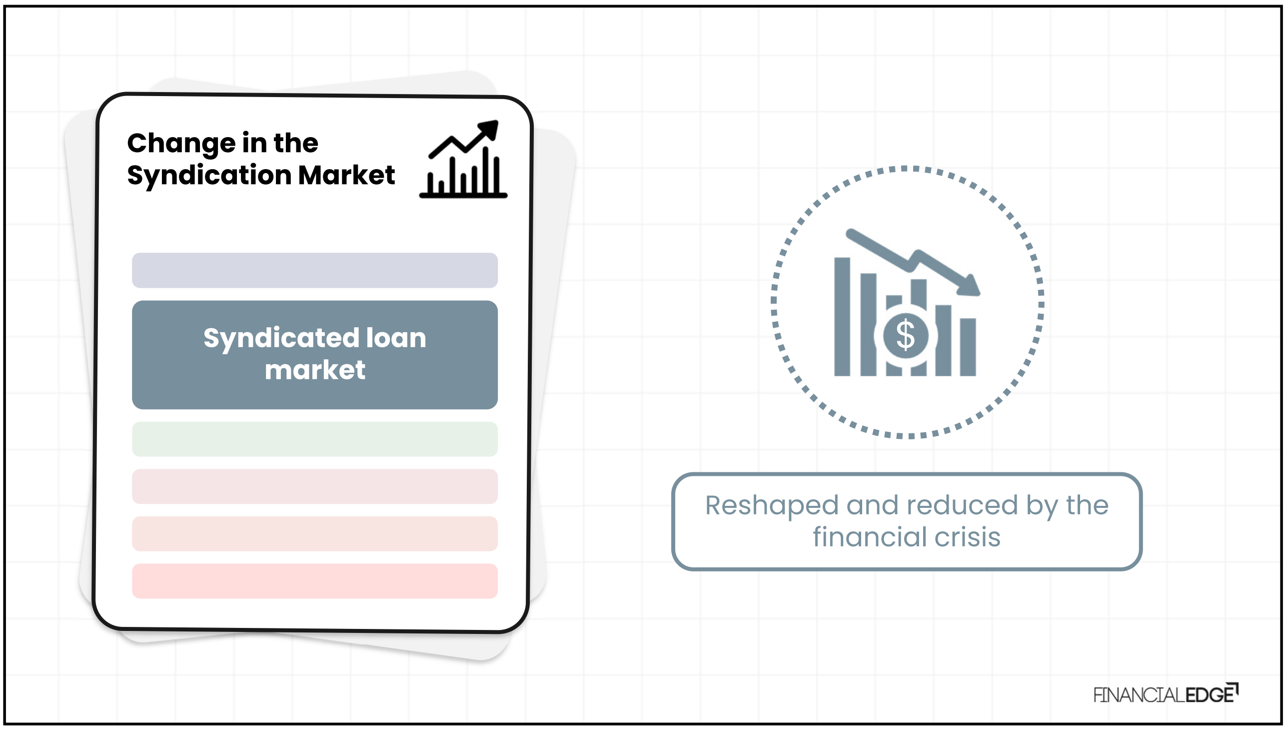
Change in the Syndication Market
Syndicated loan market
Reshaped and reduced by the financial crisis
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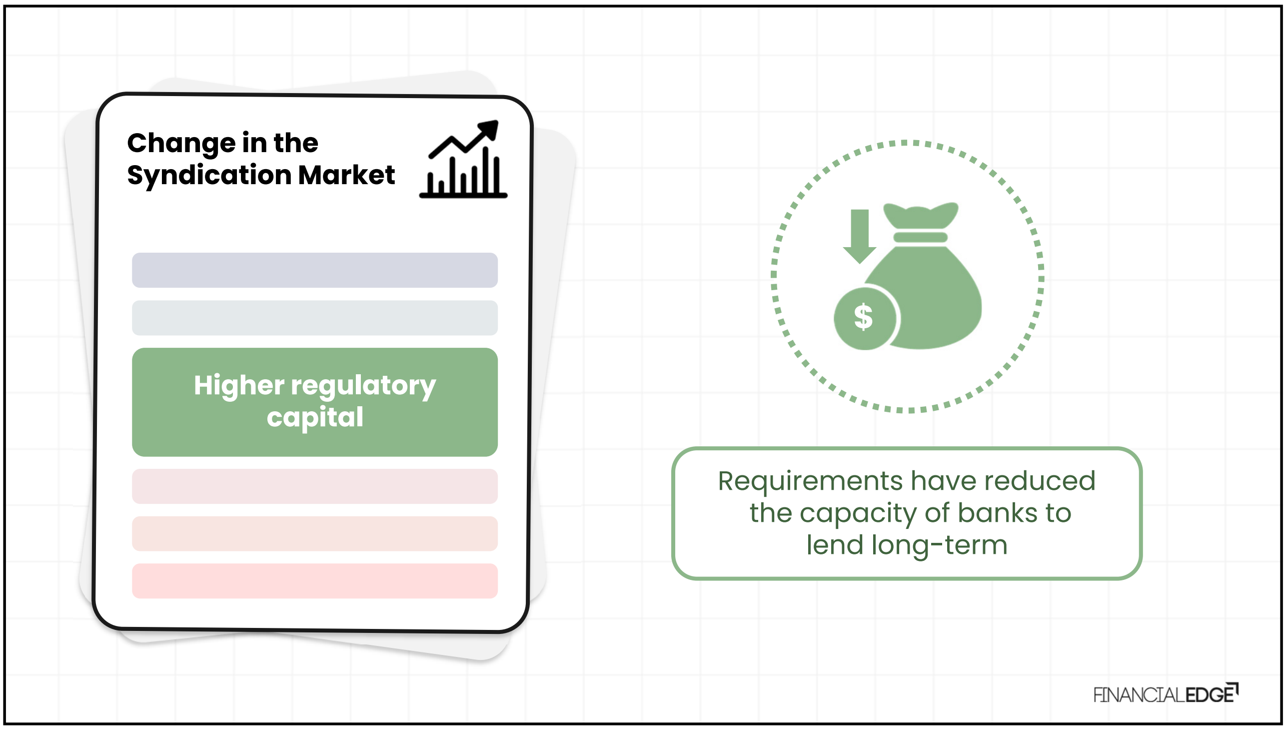
Change in the Syndication Market
Higher regulatory capital
Requirements have reduced the capacity of banks to lend long-term
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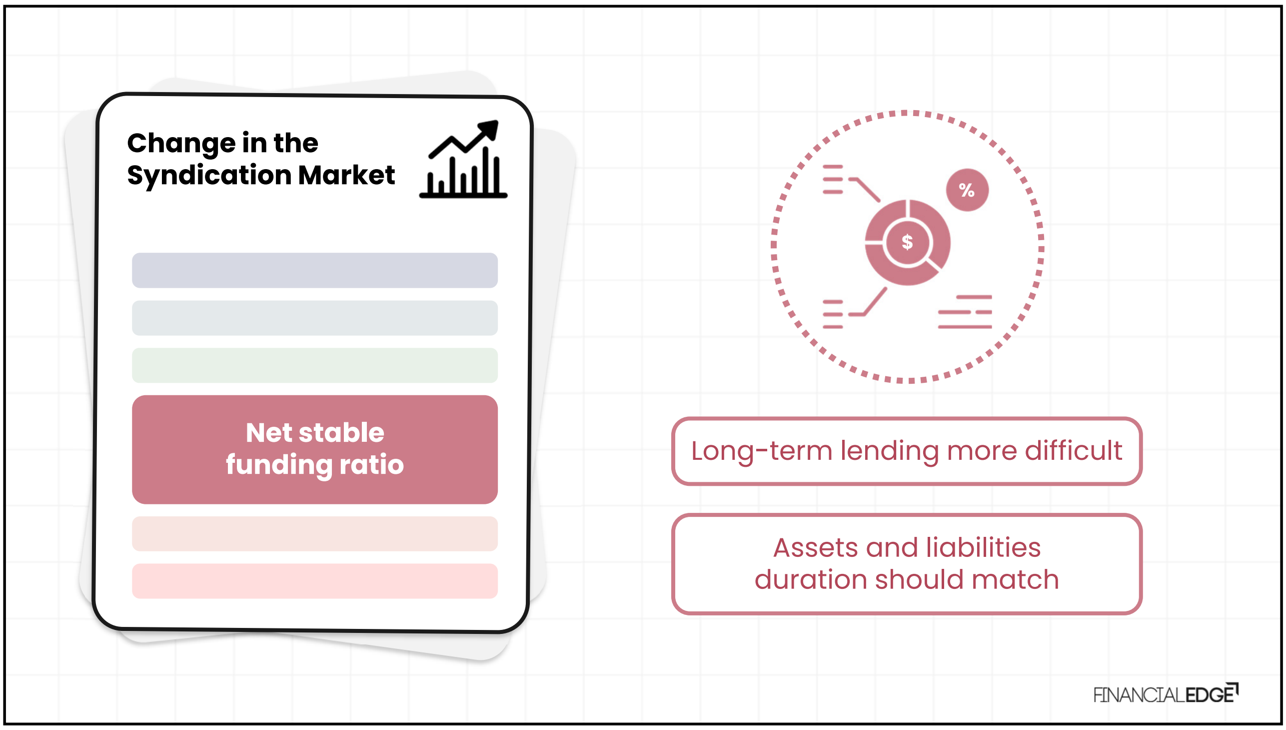
Change in the Syndication Market
Net stable funding ratio
%
$
Long-term lending more difficult
Assets and liabilities duration should match
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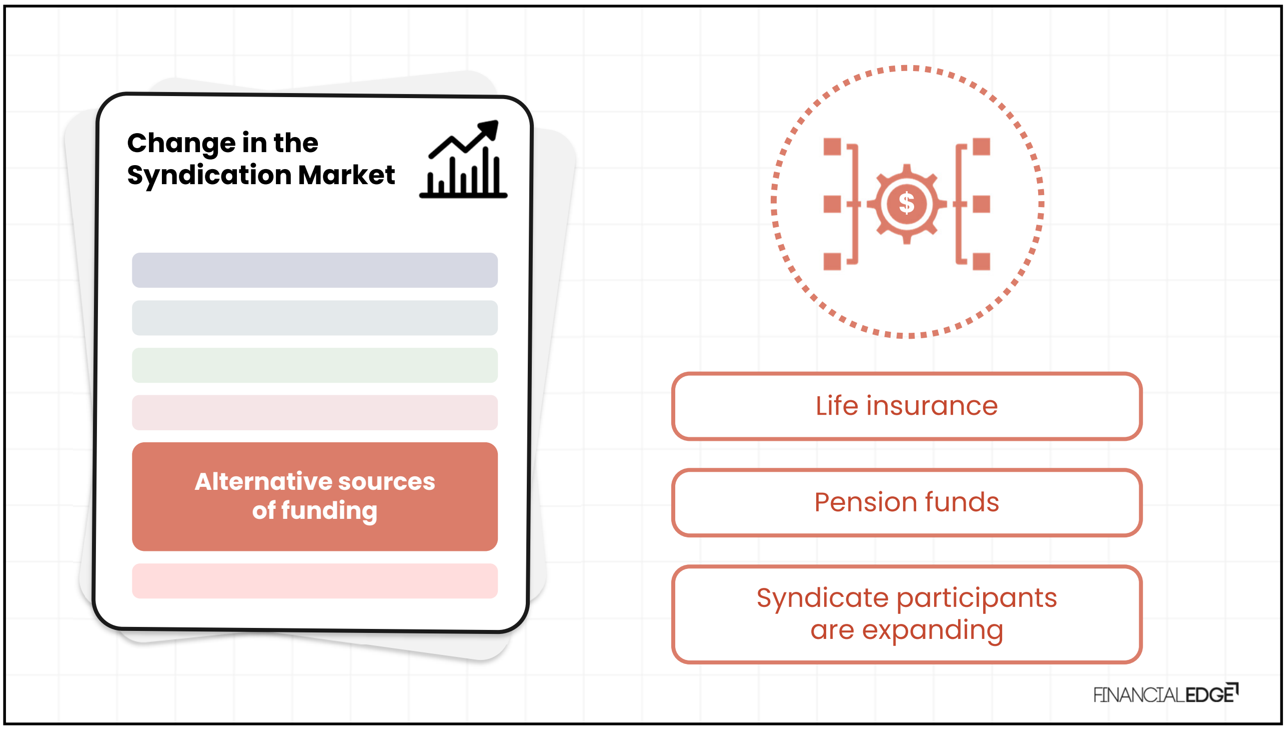
Change in the Syndication Market
Alternative sources of funding
$
Life insurance
Pension funds
Syndicate participants are expanding
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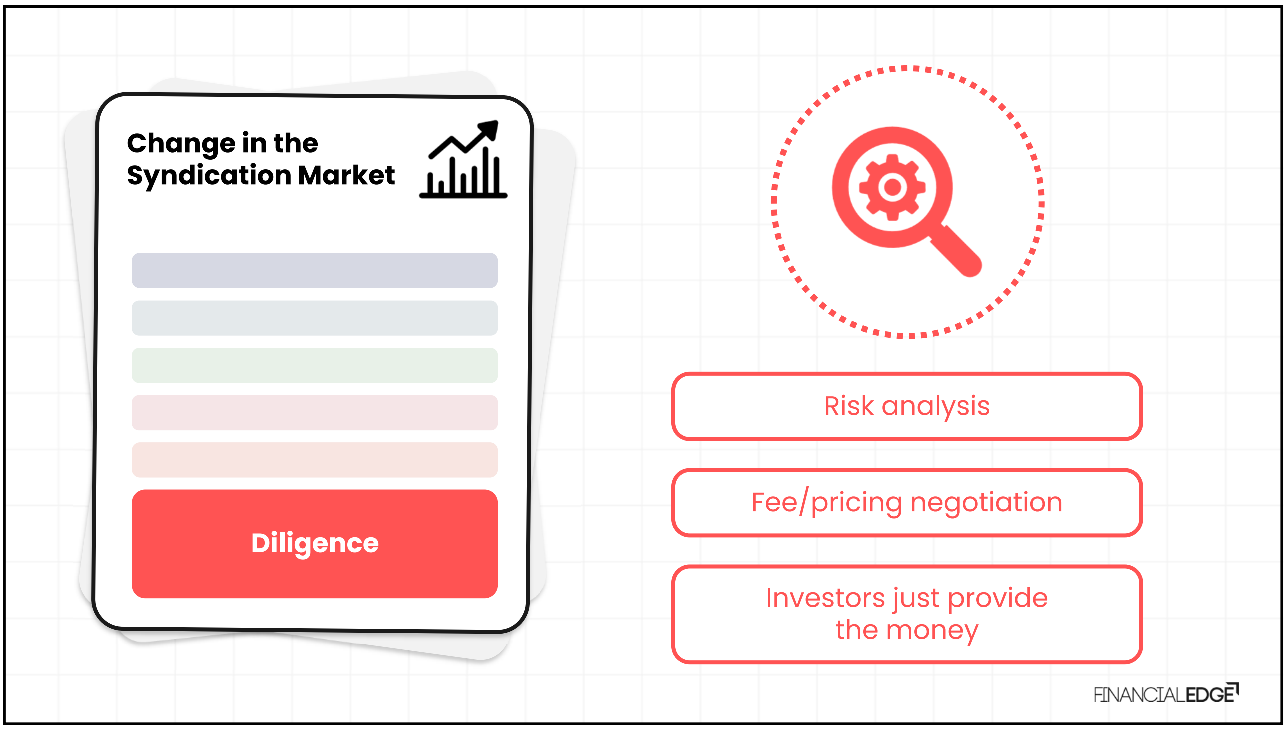
Change in the Syndication Market
Diligence
Risk analysis
Fee/pricing negotiation
Investors just provide the money
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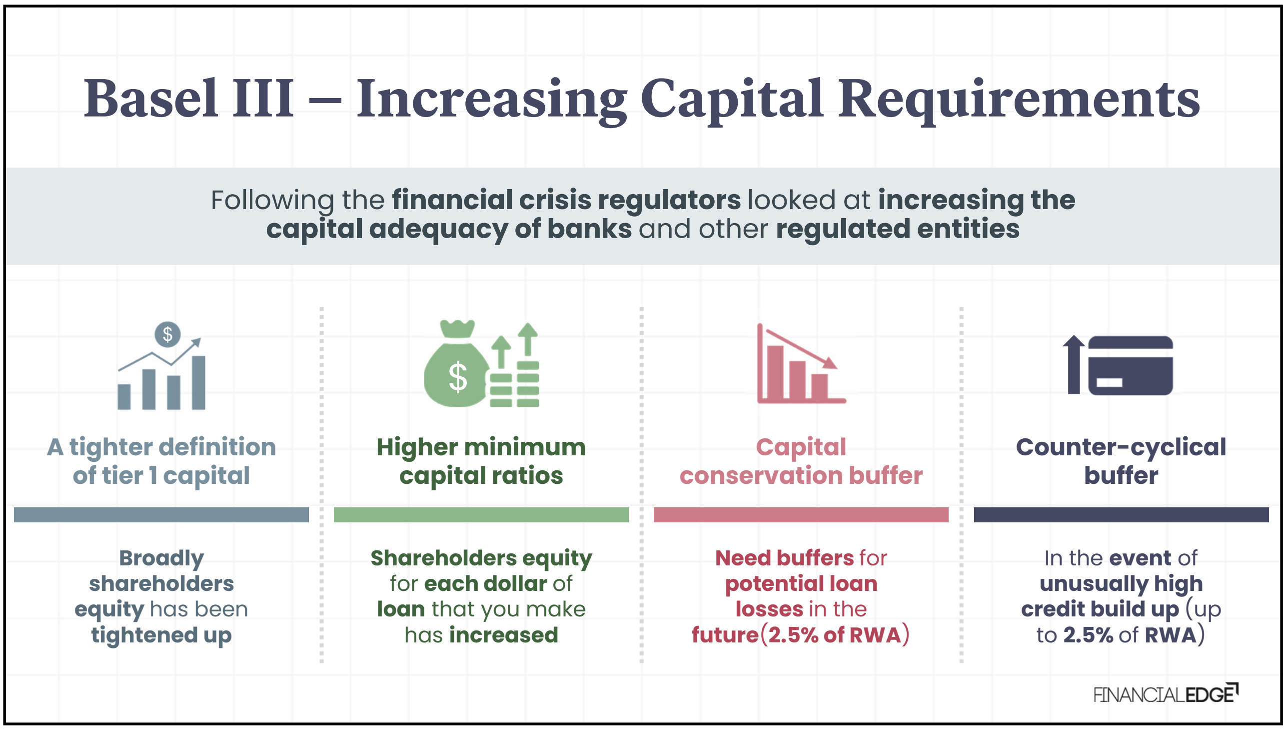
Basel III – Increasing Capital Requirements
Following the financial crisis regulators looked at increasing the capital adequacy of banks and other regulated entities
A tighter definition of tier 1 capital
Broadly shareholders equity has been tightened up
Higher minimum capital ratios
Shareholders equity for each dollar of loan that you make has increased
Capital conservation buffer
Need buffers for potential loan losses in the future(2.5% of RWA)
Counter-cyclical buffer
In the event of unusually high credit build up (up to 2.5% of RWA)
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Basel III – Increasing Capital Requirements

Following the **financial crisis regulators** looked at **increasing the capital adequacy of banks** and other **regulated entities**

Systemically important financial	Non-risk based leverage ratio	Liquidity coverage ratio	Net stable funding coverage ratio
Institution buffer (up to 2.5% of RWA)	**Based** on just a **simple calculation** of your **assets versus** your **equity**	**Tests** whether the **bank** has enough liquidity to meet its **short-term obligations**	A **company** is **managing the maturity** of its **assets versus** its **liabilities**

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Other Financing Options

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Eurobonds

- **Medium** to **long-term marketable debt securities**
- **Up to 15 years** for **fixed rate** and **30 years** for **variable rate**
- **Regulatory jurisdiction** of **national governments**
- **Usually underwritten** by a **bank syndicate**
- **Can be listed** – often in **London** or **Luxembourg**
- May have an **original issuer discount**
- **Most trading** is over the **counter**

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Other financing

- **Guarantees**
- **Capital expenditure facility**
- **Letters** of **credit** and **standby letters** of **credit**
- **VAT facility**
- **Export credit guarantees**
- **Standby facility**
- **Working capital facility**

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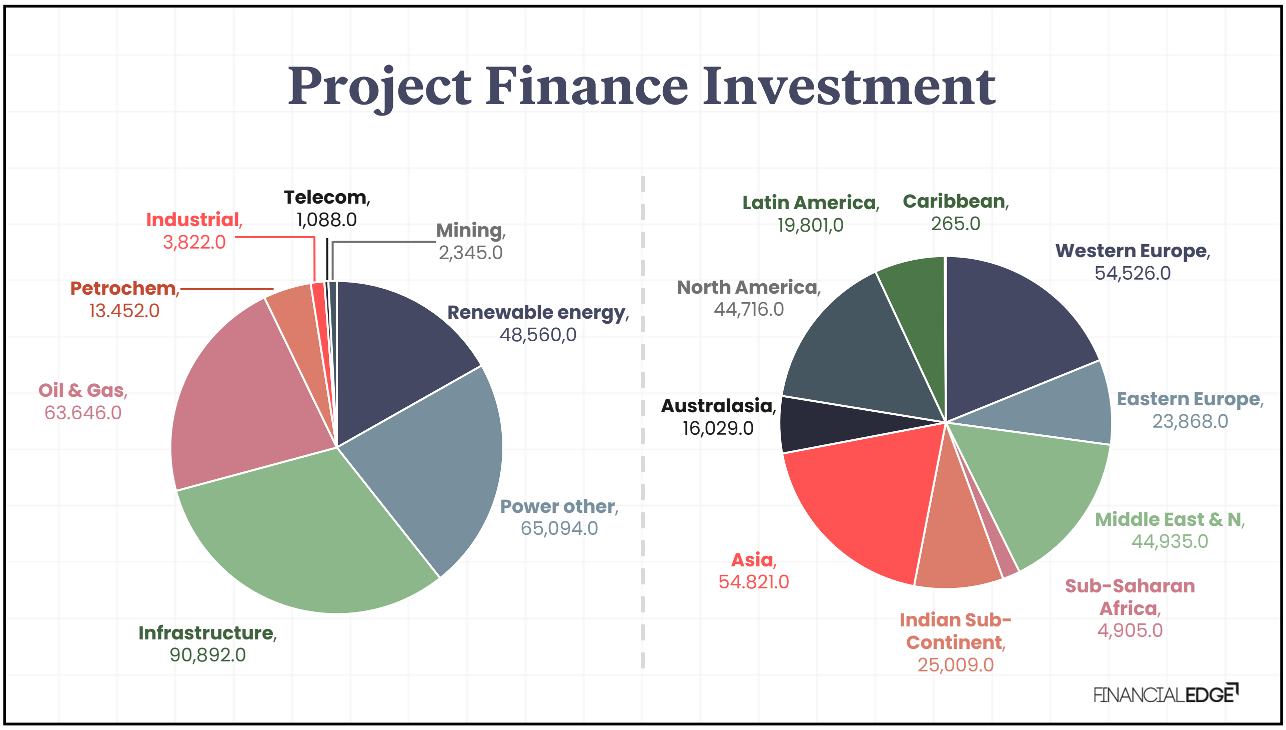

Abbreviation	Types of Projects
BOO:	**Build**, **Own** and **Operate** (**highest level** of **privatization**)
BOT:	**Build**, **Operate** and **Transfer**
BOOT:	**Build**, **Own**, **Operate** and **Transfer**
BOOS:	**Build**, **Own**, **Operate** and **Sell**

Abbreviation	Types of Projects
BLT:	**Build**, **Lease** and **Transfer**
LOT:	**Lease**, **Operate** and **Transfer**
PFI:	**Public Finance Initiative**
PPP:	**Public Private Partnership**