Loan Syndication

- Loan syndication is a lending process in which a group of lenders provide funds to a single borrower.

Loan Syndication

- The process of involving several different lenders in providing various portions of a loan. Loan syndication most often occurs in situations where a borrower requires a large sum of capital that may either be too much for a single lender to provide, or may be outside the scope of a lender's risk exposure levels. Thus, multiple lenders will work together to provide the borrower with the capital needed, at an appropriate rate agreed upon by all the lenders.

How it works

- When a project is unusually large or complex, it may exceed the capacity of a single lender. For example, the amount of the loan may be too large, the risks too high, the collateral may be in different locations, or the uses of capital may require special expertise to understand and manage it. In these cases, a financial institution may bring other lenders into the deal

How it works

- Loan syndications involve a large amount of coordination and negotiation. Typically, loan syndications involve a lead financial institution, or syndicate agent, which organizes and administers the transaction, including repayments, fees, reporting and compliance, and loan monitoring.

Loan Syndication Process

- Merchant bankers should have correct assessment of the projects , products, promoters, project cost and profitability projections based on sales forecasts. In this direction the merchant baker has to take the following steps:

1.Initial discussions with Promoters

The initial discussion should be devoted to know the following aspects :-

- background of the promoters in detail
- promoters contribution to the project
- details about the project report and
- progress of the project.

2.Assessment of Project

- An estimate of the capital cost of the project should be worked out to find out its long term feasibility and whether the merchant bankers should actually go in for the project.

3. Locating sources of funds

- The choice for sources of funds will depend upon the following :-

i) Nature of the project

ii) Quantum of the project costs

Sources of funds can be divide into three categories :

i. Short Term

ii. Medium Term

iii. Long Term

Required Fund

i) **Short term finance** where the funds are required **upto a period of 1 year.** Such finance is require **to meet the working capital requirements** or special seasonal needs.

ii) **Medium term finance** where the funds are needed **for a period of 1-5 years.** Such finance is needed to provide funds **for permanent working capital , expansion or replacement of assets etc**. These are available from SFCs , commercial banks and All India Financial Institutions through special schemes.

iii) **Long term finance** where the funds are needed **for a period of more than 5 years.**

4. Preliminary discussions with the lenders

The merchant bankers should have clarifications from lenders on the following questions whether the particular industry is in a priority framework of the development finance institutions.

5. Preparation of the loan application and follow-up

Before filing the loan application the merchant bankers must ensure that the client company has complied with the following formalities so that appraisal of the application is not delayed. In the case of consortium approach or joint financing of the project , the application will be filed with one development finance institution and the company or the merchant banker will deal with only one institution termed as ‘lead institution’ . The project will be appraised and sanctioned under ‘single window’

6. Rendering assistance in project appraisal

The project is appraise from different angles viz. technical, financial, managerial , economical and social.

7. Obtaining letter of intent from the lending institution or bank

The appraising institution takes the matter to its board of directors or the appraising office may put up the proposal with full appraisal note before the sanctioning authority for according necessary sanction. Then the financial institution informs the applicant borrower of such sanction along with the detailed terms and conditional and arrangements of any with other lending FI s in case of consortium financing. The sanction letter mainly covers the following :

Conti..

- Amount of loan
- Interest
- Commitment charge
- Security for the loan
- Repayment of loan

THANK YOU…