For middle market companies, growth is not a given; it’s the result of many moving parts working in sync. That includes a product that continually meets customers' needs. The right financing. The right timing. And, of course, having the right team to support you along the way. When these parts flow most efficiently, growth can come quickly—and your team may soon require additional members who can provide the growth capital needed to keep you moving forward. Here, Bill Maag, Managing Director of Global Banking & Markets, Loan Syndications at Santander, gives his perspective on when it's time to consider a syndicated loan—and the array of potential advantages it can offer as your business evolves.

Businesses can gain more and more financing opportunities as they begin to grow—including access to the syndicated loan market. When is the right time for a middle market company in the U.S. to enter this arena?

There's not really one answer to this question, but as a general rule, some banks start to get a little uneasy when client exposure exceeds $50 to $75 million. So if you're a company with $20–$25 million of EBITDA and you lever it three to four times, it might be time to start thinking about a syndicated facility. There are several types of syndication to choose from, depending on a company's objectives.

If a client is making an acquisition and the seller won't accept a financing contingency, they might opt for an underwritten deal—which is when the agent bank commits to the entire amount of the financing and is on the hook for syndicating it to other banks. Underwritten deals are the most expensive type, because the agent bank is taking on the market risk that they can sell the exposure down and therefore are expecting to be compensated for it.

Another syndication approach is to do an arranged facility. In this approach, the agent bank only commits to the portion it intends to hold, but agrees to “arrange” the rest of the syndicate with the client's other relationship banks.

Arrangements are less expensive for the client because the agent isn't taking underwriting risk. Deals that exceed $250 million are considered broadly syndicated transactions. At that size, clients often invite several banks to pitch a set of financing terms, and they pick the lender with the most competitive proposal to lead the deal as their administrative agent. The administrative agent generally lines up other members of the syndicate, many of whom will already have a relationship with the client.

What are the major benefits of a syndicated loan for middle market borrowers? How does it differ from, say, a series of bilateral lending arrangements?

There are several benefits to a syndicated facility. It's more efficient; rather than having individual bilateral agreements, each with a unique set of terms and conditions, a company can get the amount of financing they need with common terms and conditions governed by one credit agreement. One set of documents cuts down on legal expenses and is much easier for the client's treasury staff to manage. Moreover, the agent bank manages all the day-to-day operational aspects of the deal, further reducing the burden on the finance department.
Syndicated deals can also introduce lenders with different areas of expertise who were previously unknown to clients. For example, The Santander Group has a strong network of affiliates throughout Latin America, which may help a client gain access to those markets. LATAM is an area where we can add value that some of our peers cannot.

Syndicated deals can also be structured with “accordion provisions,” which provide rapidly growing companies with the ability to increase the size of their financing without having to re-document an entirely new deal. The accordion is not committed, so the client doesn’t have to pay for it unless they decide to use it. But it is documented in the credit agreement so the client avoids the legal expense associated with re-documenting a new facility. If they need the money, they simply ask their syndicate of lenders to upsize. As long as their performance is in line with projections, more often than not, the lenders are more than happy to upsize.

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Another benefit of syndicated loans is that they can be refinanced at any time at no cost to the client. Unlike their fixed-income alternative, most syndicated loans do not include call protection, which can be expensive if the client decides to refinance their deal early. The fixed-income alternative usually includes a five-year no-call requirement and then hefty fees, even after the client waits the five years.

When a company is ready to explore a syndicated loan, what traits should they be looking for in a lead bank to oversee it?

It’s no surprise that the biggest banks in the country dominate the league tables for syndicated finance both in the U.S. and globally, but that may not be a reason to pick them as an agent bank. The big banks are big-game hunters who have built huge infrastructures to support their syndicated loan businesses, so they focus most of their attention on the largest deals in the market. Banks like Santander, which view the middle market as core to their strategy, might better serve clients. We know what we are and what we’re not. We consider transactions in the $100 to $300 million range right in our sweet spot and those deals get the highest priority.

In general, you want to look for a bank that values your business. You want a bank that will put its most senior people on the transaction. And, obviously, you want a bank you can depend on—a bank with a strong track record that can execute.

Can you share a personal experience or a case study about a middle market client who successfully secured a syndicated loan to meet its financing needs?

We have a client that's banked with us for a long time. The deal started as a $25 million working capital line that grew to $35 million and then $50 million. Santander was their sole lender, but as the client's financing needs grew, it got to the point where it was more exposure than was prudent for one bank to hold. At $60 million we started to talk to them about the possibility of introducing them to other lenders as part of a syndicated facility.

Eventually, the client's needs increased to $100 million and we had no choice but to bring in another local lender to join us in a club deal. When the company wanted to upsize to over $150 million, we added a couple more lenders.

The company then reached an agreement with a private equity group. This made it a $200 million deal for us to underwrite because the sponsor couldn’t have any financing contingency. The strength of our relationship with the client played an important role in winning the mandate.

We syndicated the $200 million deal to a number of other lenders and it was oversubscribed, such that six months later we were able to increase the deal to $260 million with the existing lenders under the accordion provision. And just this past fall the client requested an upsize to over $300 million, which we did with the existing group—plus a few new lenders.

This is an example of just how flexible and convenient a syndicated loan can be for a client.

If continued growth is your objective, tapping into a syndicated facility can offer a host of advantages, from day-to-day efficiencies to easier refinancing to the flexibility to pursue new opportunities. Moreover, you get the added benefit of having multiple financing sources without the burden of managing multiple bilateral agreements. You can gain exposure to lenders with different specialties and ancillary services that can help you review and refine your goals as you move forward together.