As companies grow, a wider variety of financing opportunities become available to them, including syndicated loans. The big question is: When is it appropriate to access the syndicated loan market?

There is a common misperception that the syndicated loan market is only appropriate for transaction sizes that are north of $1 billion. That's simply not the case. In fact, according to Thomson Reuters Loan Pricing Corporation, the annual volume of middle market syndicated loans—defined as loans of less than $500 million—is approximately $200 billion. And about $60 billion of that represents “club deal” financing, or transactions of less than $100 million. Since there's no definitive answer for when companies should look to enter the syndicated loan market, it’s certainly an option worth investigating if your financing needs exceed $50 million.

Why? Syndicated loans offer the same benefits to middle market borrowers as they do to large corporations. Among these are greater efficiency, increased flexibility, and better access to other bank products and services.

Greater simplicity and efficiency
A syndicated loan is a convenient alternative to maintaining multiple bilateral lending arrangements with multiple banks. A syndicated deal allows the borrower to maintain multiple bank relationships through one credit document. This arrangement takes a lot of pressure off of a company’s Treasury staff by simplifying financial reporting and establishing one standard set of covenants for all lenders. Furthermore, a syndicated loan facility can generate significant internal cost savings because much of the responsibility for the day-to-day management of bilateral lending arrangements is shifted from the company's Treasury Department to its administrative agent or lead bank for the syndicated loan.

Financial firepower to pursue growth
Having a syndicate of lenders also provides the client with a great deal of financial flexibility to pursue growth opportunities. Nowadays, it's customary to embed an accordion provision in syndicated loan agreements, which gives the client the ability to increase the deal's size without having to re-document the loan. Not only do companies save the legal expense associated with executing a new deal, but they also don't pay for the accordion feature unless they ultimately decide to use it. This could provide a distinct competitive advantage as it allows a company to act more quickly than the competition when opportunities arise.
Improved access to banks and bank products/services

As of Q3 2017, syndicated loan issuance in the U.S. has reached $1.8 trillion, $114 billion of which is accounted for by Middle Market issuance.¹ This large volume of syndicated loans provides two significant advantages for borrowers: access to a wide array of lenders, and access to the even wider array of ancillary banking services they can provide.

Borrowers entering the syndicated loan market for the first time might be surprised by the number of new financing sources that could become available to them. Being known to a broader set of banks can prove useful as your company grows and its financing demands increase. A bank's loan strategies can change, so having access to more than one lender during periods of instability can work in your favor because it dramatically lowers the risk of financing disruption.

Also, because most banks aspire to have multi-product relationships with their clients, members of the syndicate will often offer competitive pricing on the array of ancillary services they can provide, including cash management, deposit products, foreign exchange, and hedging products.

Finding the right lead lender

Some important questions to ask when shopping for the right lead bank for a syndicated loan:

- Is the bank the "right size" for you? Will your transaction command senior-level attention and be considered a priority by the bank you pick?
- Does the bank have expertise in your industry; will it be a true partner as you grow? Which other banks is the lead bank likely to bring into your relationship?
- What additional products and services can the lead bank offer?

Syndicated loans offer an array of potential advantages to support middle market borrowers seeking access to growth capital. Exploring whether or not the syndicated loan market is right for you should include a number of considerations. And choosing a lead bank is one of the most critical steps in the overall process.

Please contact your Santander relationship manager if you’d like to learn more.

¹ Thomson Reuters, 2017.