LENDER LANDSCAPE[1]

By Alexander Short

The "Lender Landscape" panel covered questions relating to lender-side fund financing issues of today.

- **What new lender strategies have been adopted?** Slow fundraising has led to a more concentrated day one borrowing base recently. Borrowers want earlier liquidity, so are approaching lenders earlier (so lenders are seeing more continuation vehicles). Similarly, they are seeing a lot more demand for more structured products. For example, ESG is moving from being driven by lenders to being driven by borrowers (along with a bit of tightening of terms).

- **What new competition is there and how are banks responding?** Set policies and procedures are quite rigid, and banks are often reluctant to change lanes. While they will consider HNWIs, these need more consideration and work, with different adaptations. It is a misconception that non-bank capital deployment is limited to term loans and many non-bank lenders can provide RCFs, and deal with all currencies etc. (depending on who the investors behind the non-bank lender are). Benefits of using non-bank lenders is that they don't compete for ancillary business and could free up more capital for bank lenders when partnering on a facility.

- **What products are borrowers looking for?** Borrowers are looking for flexibility, and so there's an increasing element of products being combined together – non-bank and bank lenders are moving towards cross-selling each other's traditional products. This could lead to tensions. While there's appetite and space for everyone, going forward lenders need to be flexible about what they're offering. However, non-bank lenders still have ongoing requirements, and still have standard levels of involvement at all stages. Sublines will remain the largest stake of the fund finance products being offered. Ultimately, it comes down to liquidity need, so second lien security packages or more concentrated borrowing bases are products that some borrowers will request.

- **Latest market updates?** Discussions on Basel 3.1, predominantly ratings focused. Some GPs are keen to consider ratings, but many are adopting a "wait and see" approach. There were initially concerns about public disclosure of LP lists for example, but this has not been an issue to date. Borrowers and lenders are focused on the reference rates and looking for them to go down.

- **Predictions for the next three to five years?** Funds will get larger and larger, requiring more syndication. Use of ratings will become commonplace, albeit slowly. Rates will stay high for a while

[1] Panelists included Findlay Hyde (abrdn); Charlotte Jones (ING); Leigh O'Brien (Mizuho EMEA); Victoria Stewart (Partners Group); Paul Tannenbaum (Proskauer); and Steven Tremblay (Assured Guaranty).

so change will be slow. With regulation like CRD VI on the horizon there's lots for lenders to consider in the next few years. Funds anticipate more financing at all stages of the lifecycle of the fund. There should also be more space for insurers, both to provide their products and to lend.

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