Syndication – Briefing Pack

Bankers without Boundaries (BwB)

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In partnership with

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Fit4Finance

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What is syndication?

Definition

A **syndicated loan** is a financing arrangement where a single loan facility is provided to a borrower by a group of lenders (the 'syndicate'). While there are multiple lenders, there is only one loan agreement, and the borrower interacts primarily through a single agent bank.

Why it matters for Local Authorities

Syndication allows Local Authorities (LAs) to raise larger amounts of capital than a single bilateral lender might provide, particularly if operating through an arms-length company, diversifying their funding sources while maintaining a streamlined administrative process. It is governed by standardised documentation that is well-understood by institutional investors.

Key Terms

Arranger / Mandated Lead Arranger (MLA): The bank(s) responsible for structuring the deal, pricing the loan, and marketing it to other lenders to form the syndicate.

Facility Agent: The bank that acts as the administrative interface between the borrower and the lenders, processing payments and notices. It could be one of the MLAs.

Security Agent / Trustee: An entity that holds collateral (if any) on trust for the benefit of all lenders, simplifying enforcement if required. MLAs or a facility agent takes on this role.

Syndicate Members: The various banks and institutional lenders that each lend a portion of the total loan amount.

Pro-Rata: Rights and repayments are usually distributed proportionally among lenders based on their share of the loan.

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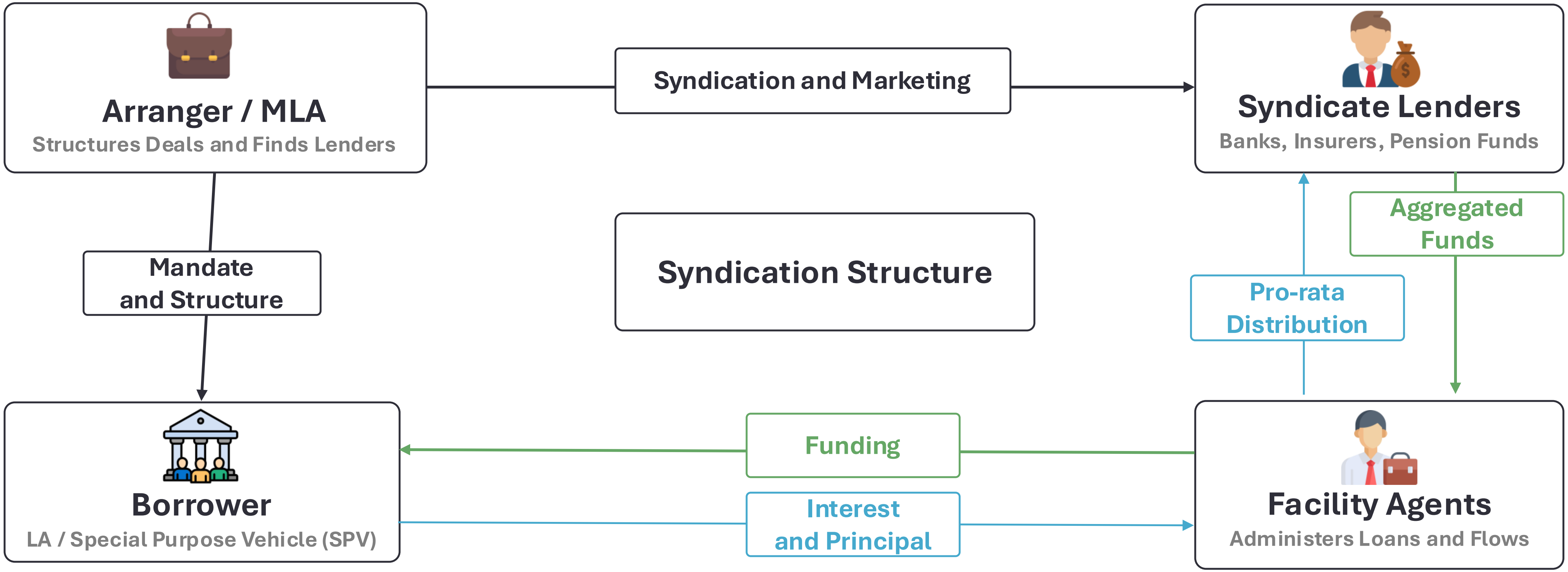
How syndication works: money and risk flows



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Understanding syndication

Syndication IS:

A Coordination Tool
It is a mechanism to pool multiple lenders under one facility agreement with a single set of terms and conditions.

A Risk Management Strategy
It allows the spreading of credit risk across a group of lenders, enabling access to larger funding volumes than bilateral deals.

Market Standard Practice
It is typically based on robust Loan Market Association (LMA)-style documentation that is widely accepted in the UK financial markets.

Syndication IS NOT:

A New Purpose of Borrowing
It is a financing method for existing capital needs; it does not change what the money can be used for.

Automatically Cheaper
Pricing reflects market risk and includes arrangement fees; it is not guaranteed to beat Public Works Loan Board (PWLB) or bilateral rates.

A Governance Bypass
It does not remove the need for internal approvals, prudential affordability checks, or proper due diligence.

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Fit screening

1. **Amount and Scale:** Is LA planning a large programme (typically >£100m over 10–30 years) requiring committed funding that could benefit from a syndicated loan?
   - No → **Consider Bilateral or PWLB:** Transaction costs of syndication are likely to outweigh the benefits.
   - Yes ↓
2. **Standardisation:** Is LA willing to use standard (LMA-based) terms to attract a broad lender base?
   - No → **Simplify Terms:** Bespoke terms limit lender appetite. Align with market standards first.
   - Yes ↓
3. **Capacity:** Does LA have sufficient treasury, legal, and advisory capacity to manage lender due diligence, Q&A, documentation?
   - No → **Plan Advisor Support:** Engage financial/legal advisors to handle the administrative load.
   - Yes ↓
4. **Timeline:** Is the timeline compatible with a syndication marketing period (6-10 weeks post-launch)?
   - No → **Consider Bridge Loan:** Use faster bilateral bridge financing, then refinance via syndication later.
   - Yes ↓
5. **Governance:** Are Prudential Code affordability and internal borrowing approvals fully in place?
   - No → **Complete Internal Gates:** Lenders require certainty of execution. Secure approvals first.

✅ **Good Fit: Proceed to Mandate**

All criteria met. Engage Arranger to structure and market the syndicate

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Different syndication structures

Underwritten Deal

Description

Arrangers commit to providing the full loan amount upfront, then sell down parts of it to other lenders later. The Arrangers take the risk if they cannot find other lenders.

When it Fits

When funding certainty is critical (e.g., acquisitions) or timing is tight.

Pricing and Fees

Highest fees (underwriting fee plus arrangement fee) to compensate for risk.

Best Efforts Deal

Description

Arrangers commit to use their 'best efforts' to find lenders for the loan amount, but do not guarantee it. The loan is only funded if enough lenders sign up. This is not suitable if the borrower is looking for certainty of funds.

When it Fits

Standard corporate borrowing where market appetite is strong and time permits marketing.

Pricing and Fees

Moderate fees (arrangement fee only). Lower cost than underwritten.

Club Deal

Description

A small group of relationship banks (usually 3-5) agree to lend equal or similar amounts. No formal 'general syndication' phase occurs.

When it Fits

Smaller loan sizes (£20m-£100m) or when privacy/relationship control is desired.

Pricing and Fees

Lowest fees (often just an upfront fee). Simple structure, lower admin costs.

Documentation Note: All structures typically use standard LMA documentation. The key difference lies in the 'syndication' clause – whether the primary lenders can transfer their commitment freely or require borrower consent.

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Documentation and key considerations

Key Transaction Documents

Facility Agreement
Primary contract typically based on LMA standard forms. Defines loan terms, covenants, representations, and events of default.

Security Trust Deed
Governs relationship between lenders, especially if security is involved or multiple debt tranches exist (ranking and enforcement).

Legal Opinions
Formal letters from counsel confirming the LA's capacity to enter the deal and the enforceability of documents.

Fee Letters
Confidential side letters detailing arrangement fees, agency fees, and security trustee fees.

Key Legal Considerations

Borrowing Powers (Local Govt Act 2003): Must confirm borrowing is for a valid capital purpose (Section 1) and complies with the 'affordable limit' duty (Section 3). Lenders will require Section 151 Officer certification.

CIPFA Prudential Code: The LA must demonstrate that borrowing is affordable, sustainable, and prudent. Failure to follow the Code can render borrowing exceed the legal scope of its authority.

AML & KYC (JMLSG Guidance): Lenders must perform KYC checks. The LA will need to provide constitutional documents and authorised signatory details.

Competition Law: Syndicate interactions must comply with competition rules. Lenders cannot collude on pricing outside the specific deal structure; information sharing is strictly controlled.

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Operational mechanics and controls

Funding Mechanics

- **Drawdown Process:** Borrowing requests (utilisation requests) sent to Agent 3-5 days pre-funding; Agent calculates lender shares.
- **Pricing Model:** Typically, margin + benchmark (e.g., SONIA) + mandatory costs. Margin may ratchet based on credit rating or ESG KPIs.
- **Fee Structure:** Arrangement fee (upfront), commitment fee (on undrawn amounts), and agency fee (annual admin).

Decision Making (LMA Standards)

The loan agreement sets out who has to agree if terms are changed or waivers are granted.

- **Majority Lenders:** Typically, 66.67% of commitments. Required for waivers of covenants or standard amendments.
- **All Lenders (Unanimous):** 100% consent required for core changes: e.g., reducing margin/principal, extending tenor, or releasing security.

50% + 1	66⅔%	100%
ADMIN MATTERS	MAJORITY LENDERS	ALL LENDERS

Legal and Compliance

- **Recharacterisation Risk:** Ensure documentation clearly distinguishes debt from equity to avoid recharacterisation in insolvency.
- **Subsidy Control Act 2022:** Public support providing junior capital on non-market terms must be assessed for subsidy compliance.
- **AML / KYC:** Strict due diligence on junior investors required; verify source of funds for private placements.

Risk Controls

- **Conditions Precedent:** Drawdown blocked until legal opinions, board resolutions, and KYC are satisfied.
- **Events of Default:** Standard triggers (e.g., non-payment, cross-default, insolvency) allow lenders to accelerate debt.
- **Pari Passu Ranking:** Clause ensuring unsecured syndicated debt ranks equally with other unsecured obligations.

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Governance mechanisms

Tax Considerations

VAT Exemption: Interest payments on loans are generally exempt from VAT under the financial services exemption (VAT Act 1994, Sch 9, Group 5).

Advisory Fees: Fees for arrangers, agents, and legal counsel typically attract standard rate VAT, which LAs can usually recover under Section 33 of the VAT Act.

Withholding Tax: UK-to-UK lending generally has no withholding tax; check treaty status if international lenders are involved.

Accounting (CIPFA)

Amortised Cost: Loans are typically measured at amortised cost using the Effective Interest Rate (EIR) method under IFRS 9 / CIPFA Code.

Fee Amortisation: Arrangement fees are not expensed immediately but capitalised and amortised over the life of the loan via the EIR calculation.

Disclosure: Financial instrument notes in accounts must detail carrying value, fair value, and risk exposure.

Regulatory Compliance

AML / KYC: Strict lender onboarding checks required under JMLSG guidance and Money Laundering Regulations.

Sanctions: Verify no lender/beneficiary is on the Office of Financial Sanctions Implementation (OFSI) consolidated sanctions list.

Procurement (PCR 2015): Raising capital (borrowing) is typically exempt; however, procuring advisory/legal services usually requires a compliant tender process.

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Syndication case study 1: UK M25 widening syndicated lending

Project Overview and Structure

Deal Type
Syndicated loan facility (LMA terms)

Key Reference
M25 Design-Build-Finance-Operate financing (commercial bank syndicate)

Key Mechanism
Agent bank administration and majority voting

Structure Role
Pooled liquidity from multiple lenders

Context: Large UK PPP projects, such as the M25 widening scheme, required funding volumes too large for single banks. Arrangers structured a syndicated facility where multiple commercial banks lent under a single agreement. This model is standard for large infrastructure debt.

Relevance for Local Authorities (LAs)

Demonstrates the agent/arranger model used when LAs need to raise large capital sums (£50+ million) that exceed single-lender limits. Highlights the efficiency of standardised documentation (LMA) and the administrative simplicity of dealing with one agent despite having multiple lenders.

Key Mechanisms and Lessons

Arranger Role
Mandated lead arrangers (MLAs) structure the deal and market it to other banks, taking the placement risk off the borrower.

Single Point of Contact
The facility agent acts as the sole administrative interface for payments and notices, streamlining operations for the borrower.

Majority Voting
Operational waivers usually require 'majority lender' consent (e.g., 66⅔%), preventing a single small lender from blocking routine decisions.

Security Agent
A security trustee holds collateral on behalf of all lenders, simplifying enforcement and ensuring pari passu treatment.

Source: UK NAO reports on major PPP financings (e.g., M25 DBFO procurement and financing)

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Syndication case study 1: UK M25 widening syndicated lending

Project Timeline

2009
Financial close

2009–2012
Construction phase (widening of M25)

2012–2040
Operation and maintenance phase (~30 years)

Quantified Scale

Total Project Value	Senior Debt
~£6.2 billion	**~£3.4 billion**
Total investment	Syndicated loan

Consortium and MLAs

Consortium Members

- **Balfour Beatty** — Lead constructor, operator
- **Skanska** — Construction joint venture
- **Atkins** — Design, O&M services
- **Egis Projects** — Operations, maintenance specialist

MLAs

- **Royal Bank of Scotland (RBS)** — Lead Arranger and Facility Agent
- **HSBC** — Lead Arranger
- **Banco Santander** — Lead Arranger
- **Société Générale** — Lead Arranger
- **BayernLB** — Lead Arranger

Source: UK NAO reports on major PPP financings (e.g., M25 DBFO procurement and financing)

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Syndication case study 1: UK M25 widening syndicated lending

Project Scope

- **Widening ~63 km** of motorway infrastructure to increase capacity
- **Upgrading ~400 km** of existing road network to modern standards
- **Long-term maintenance** of the motorway network for 30 years

Governance Structure

Facility Agent

Royal Bank of Scotland (RBS): Primary interface for loan administration.

Security Trustee

Deutsche Trustee Company Limited: Holding security on behalf of lenders.

Voting Mechanism

- **Operational Waivers:** Typically require 66⅔% lender approval.
- Allows syndicate to operate efficiently without unanimous consent for routine matters.

Why was Syndication Used?

- **Capital Requirement:** Financing exceeded single-bank exposure limits.
- **Risk Management:** Syndicate of banks pooled capital to share project risk.

Source: National Audit Office (M25 Private Finance Contract), Project Finance International • IJ Global infrastructure database • UK Highways Agency documentation

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Syndication case study 2: Clarion Housing Group

Project Overview and Structure

Model Type
Syndicated revolving credit facility (RCF)

Key Partners
Clarion Housing Group and multiple banks

Structure
Multi-lender facility with facility agent

Purpose
Funding large-scale development programmes

Context: Large UK registered providers such as Clarion use syndicated facilities to access significant capital volumes. The structure involves multiple lenders pooling funds under a single agreement, managed by an agent bank, typically using LMA standard documentation.

Relevance for Local Authorities (LAs)

While this case study does not involve an LA as the central actor, it illustrates UK market practice for multi-lender coordination relevant to large LA borrowing. It demonstrates the roles of facility agents and security trustees, and standard consent thresholds (majority lenders vs. all lenders) applicable when syndicating LA debt.

Key Lessons

Coordination Mechanism

A single facility agent simplifies administration for the borrower, managing payments and notices for the entire syndicate.

Standard Documentation

Use of LMA-style terms ensures market familiarity, reducing legal friction and encouraging lender participation.

Consent Thresholds

Understanding 'majority lender' vs. 'all lender' decisions is crucial for future flexibility in managing the debt facility.

Scale and Efficiency

Syndication allows access to larger volumes of capital than bilateral loans, supporting ambitious development pipelines efficiently.

Source: Clarion Housing Group press releases/annual reports (syndicated facilities)

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Syndication case study 2: Clarion Housing Group

Project Timeline

- **Jan 2020**
  Clarion's sustainable finance programme formally initiated; Sustainibility bond issuance of £350m
- **2020**
  Clarion secures £100m sustainability-linked loan from BNP Paribas
- **Nov 2020**
  Second sustainability bond issued under 2019 Framework; £300m
- **April 2021**
  £100m sustainability-linked loan from NatWest; Clarion's first SONIA-linked facility
- **2020–2024**
  Total £450m in sustainability-linked loan facilities secured since 2020; total £1.2bn raised through four bond issues between January 2020 and May 2024
- **As at March 2025**
  £5.8bn total committed debt facilities; average cost of borrowing 4.19%; maturities extending to 2057

Syndicated Loan Structure

Structure: Multi-bank revolving credit facility

- Based on LMA documentation standards
- Diversified funding structure combining bank debt and bonds
- Supports large housing development programmes

Facility Agent Role

HSBC Bank

Acts as the primary interface between Clarion and the lending syndicate.

- Administers the loan agreement
- Manages drawdowns and repayments

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Syndication case study 2: Clarion Housing Group

Lending Structure

Participating Banks

- Barclays
- HSBC
- Lloyds Bank
- NatWest
- Santander UK
- MUFG

**These lenders collectively provided the £450m revolving facility.*

Key Financial Covenants

Interest Cover Ratio
Ensures rental income sufficiently covers debt servicing obligations.

Gearing Ratio
Limits total borrowing relative to asset value to maintain financial stability.

Asset Cover Ratio
Protects lenders with adequate property-backed security coverage.

Key Security Mechanisms

- **Asset Charges:** Legal charges over specific housing assets.
- **Guarantees:** Cross-guarantees from subsidiary entities.
- **Covenant Linkage:** Security value linked to asset valuation and rental income streams.

Key Benefits

- Access to large lending volumes via multiple banks
- Risk sharing across the banking syndicate
- Flexible drawdowns aligned with development timelines

Source: Clarion Housing Group Annual Reports Housing Finance Magazine • LMA documentation • IJ Global

Document Version Control

Version	Date	Purpose / Change	Produced by	Approved by	Date
0.1	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY
0.2	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY
0.3	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY
0.4	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY
1.0	DD-MMM-YY	Draft	Name surname	Name surname	DD-MMM-YY

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