# Chart in focus

## Syndicated loans: Hit by the financial crisis and recession

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Last year, banks provided new syndicated loans of a gross global total of USD 1.6 tr, a drop by 41% yoy, following a similar decline in 2008 already. New lending thus reached a 10-year low, despite having doubled between 2003 and 2007.

Two factors may have played a crucial role in this dramatic fall: in the financial crisis since summer 2007, demand e.g. for leveraged buyouts by private-equity firms fell strongly as did banks' readiness to finance large-volume transactions. Moreover, with the financial crisis developing into a global economic crisis in late 2008, loan demand by industrial corporations plunged and many firms saw a deterioration of their credit ratings. In addition, liquidity and solvency problems in parts of the banking sector made banks reluctant to lend, especially to large companies. Those, in turn, offset the tighter access to loans partly by an increase in debt and equity issuance.

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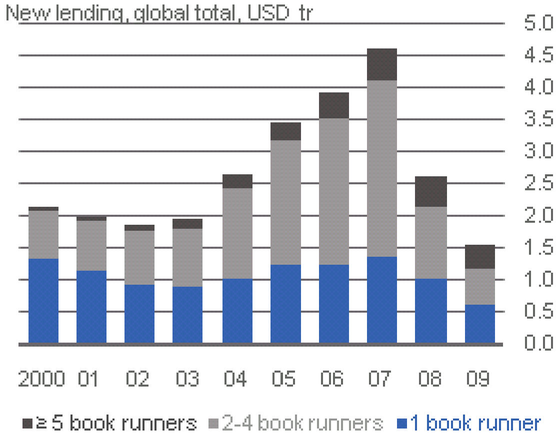


Source: Thomson

There was also a remarkable shift in the structures of the consortia: while transactions led by five or more book runners were virtually negligible just ten years ago, they now account for one-fourth of the market. The prime reason may be banks' desire to share the risk from large loans with a greater number of partners and to bear a smaller share themselves. Consequently, the share of consortia led by two to four banks fell substantially in the crisis to hardly more than a third, down from more than every other transaction in the boom phase. Syndicated loans with only a single book runner are usually much smaller (USD 226 m vs USD 773 m for deals with two to four book runners and USD 1.38 bn for at least five book runners) and hence held up better recently, due to the lower risk involved for banks.

With the global economy returning to the growth path, the syndicated loan market should revive, too, in the next few years. Still, growth rates are likely to be rather moderate: for one thing, investment needs may remain limited in several industries given structural overcapacity. Besides, banks' lending capacity is set to suffer from a significant tightening of regulatory standards.

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