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WHAT YOU NEED TO KNOW ABOUT SUCCESSOR AGENTS

As their name suggests, administrative agents handle a variety of routine functions related to the administration of a syndicated loan.

Among other responsibilities, administrative agents provide lender communication when deals close and throughout the life of the loan, they monitor and distribute receipt of funds from lenders and borrowers, monitor and store collateral, record amendments, and comply with tax reporting requirements.

At the end of 2019, outstanding leveraged loans totaled almost \$2 trillion, of which \$1.3 trillion belonged to institutional investors, according to Middle Market Growth. But since the onset of COVID-19, more and more companies are cash-strapped and not all will be able to meet their payment requirements or be able to refinance. Between March 5 and April 9 of this year, businesses drew down \$215 billion on existing revolving loans. Many companies also deferred or modified cash payments to save cash or tapped PPP loans if they were eligible.

No one knows what the long-term effects of the pandemic will be, but Fitch Ratings recently revised its default forecast for U.S. leveraged loans. It now predicts a 3-point increase over its previous prediction of 5 to 6 percent. That amounts to about \$80 billion, which is higher than the previous high of \$78 billion in 2009.

What does this mean for borrowers, syndicated lenders and the professionals who represent them? It's difficult to predict the outcome, but one thing is clear: Borrower defaults on debt service payments or loan covenants may trigger the resignation or removal of an administrative agent. This will disrupt the orderly administration of a credit facility and require replacement by a successor agent.



Did you know...

Alter Domus provides a global solution for borrowers and lenders when the existing administrative agent of a syndicated bank loan steps down or is replaced on US, Europe, and Asia-based credits.



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Why and When Would an Administrative Agent Resign?

As the consequences from COVID and the lockdowns become clearer, we are likely to see more restructurings. That may lead to the resignations of more administrative agents. In general, when a company is able to pay its debts as they come due, it is common to have the same administrative agent for both or all tranches of debt. But if there is a default or dispute between the company and/or its creditors and there are tranches of debt with shared collateral, each group may desire to have its own administrative agent.

Other reasons the agent may resign include:

1. The lenders may determine there is a conflict of interest with the exiting agent, or have a disagreement with them, and seek their removal.
2. The agent has no financial stake and does not want to continue its role as agent during a restructuring process
3. The agent may want to preserve a close corporate relationship with the borrower or sponsor and step aside as the agent during or after the restructuring.

If the company goes into bankruptcy, the successor agent can act as a Debtor-in-Possession (DIP) agent and they can step in and help facilitate and administer the exit facility.

What to Consider When Selecting a Successor Agent

Syndicated lenders have many options when selecting a successor agent. Joanna Anderson, Managing Director at Alter Domus notes, "When we act as successor agent, we are truly a neutral party that has no financial stake. Our job is to facilitate the transaction and provide a service—not look after our own economic interests." By working with a non-conflicted entity like Alter Domus, borrowers and lenders experience a range of benefits.

Multinational capabilities:

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Experience: Alter Domus has a dedicated successor agency team made up of seasoned credit professionals who have experience on both the buy and sell side with workout and restructuring experience.

Facilitator of processes: We help lenders, borrowers, and professionals achieve outcomes by facilitating the restructuring process and being widely available and accessible. Fully understanding the dynamics of a syndicated bank loan, we focus on developing and maintaining positive and cohesive relationships with management teams, lenders, and professionals. This ensures the agency transition is smooth, and the working relationship is seamless throughout the life of the loan.

Timely trade processing: We understand the necessity of closing bank loan trades promptly. Our responsiveness in the trade closing area is a key component to our service offering for large syndicated bank loans.

Conflict-free: Alter Domus has none of the inherent conflicts other administrative agents do because we do not take lending positions, nor do we have proprietary trading positions.

What Does the Transition Period Look Like?

The smooth transition from the bank agent to Alter Domus as the successor agent prevents lenders from worrying about the availability of data, professional relations, or anything else. Alter Domus' Successor Agency team accommodates lenders that, for example, may want to retain their attorney as agent's counsel, to ensure a smooth and collaborative transition and process.

Once the bank agent has produced the required information including the participating lenders, their positions, and the interest rate, Alter Domus conducts Know Your Customer (KYC) compliance and executes the successor agent agreements. Once the transition agreement closes, Alter Domus launches a data site that mirrors the former agent's data site. This makes the transition from bank agent to Alter Domus as the successor agent as seamless as possible.

You Have Choices When It Comes to Successor Agents

Some agents are bureaucratic in nature, which can make it difficult to get things done. But others, like Alter Domus, operate more commercially and flexibly so decisions are made quickly and everything tends to run smoother. "We don't see deals or transactions as existing in a box," Joanna Anderson says. "Instead we thoughtfully look at each situation and do what makes the most sense given the situation and the facts."