eClerx Markets

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Introduction

A syndicated loan is a powerful vehicle for providing large amounts of capital to a borrower. The loan is structured to distribute the financial burden and subsequent risk among a collection of lenders. Once constructed there is an extremely active secondary market in these loans. Smaller lenders and buy-side firms thus have the ability to participate in lending at a level that would otherwise be impossible for them. At the same time, the original participants can hedge their investments and further distribute risk. The complexity of the origination, secondary market and maintenance of both cannot be understated. eClerx is here with over a decade of experience, tried and trusted experts and the technology to quickly build and enhance the syndicated loans function at your firm.

Understanding the Syndicated Loan

A syndicated loan is a financing option, also called a syndicated bank facility, where a group of lenders works together to provide a loan to a single borrower. The group of lenders taking responsibility to provide the funds is a syndicate. On the other side, the borrower can be an enterprise, a large-scale project, or even a government. The loan can consist of a fixed amount of money or a credit line, or it can be a combination of both. The lenders and borrowers are often labeled as hybrid entities considering that they combine the features of relationship lending and public trading debt.

When a project needs a lender specializing in a particular asset class, such as fixed income, syndicated loans are a good option. The need for syndicated loans also arises when a project is in dire need of a large loan beyond a single lender's capabilities. A syndicated loan proves to be a viable solution as it spreads the involved large sum of money across numerous financial institutions. This also diminishes the risk to the lenders since they share the loss if the borrower defaults.

When originating a syndicated loan, a borrower approaches a Financial Investor or FI for a loan. Within the syndicated loan market, an FI is typically a bank. It is also known as the lead arranger, the lead lender, or the agent responsible for sourcing prospective lenders. Once a borrower approaches an FI, the FI runs a background check. They investigate to deduce the borrower's financial health. This gives insight into the borrower's creditworthiness and how much of a risk it could be to loan such an amount to the borrower. Considering that a syndicated loan amount is usually much higher than that of a standard bank loan, even one borrower defaulting can severely cripple the lenders.

Following the agreement of terms, known as a covenant, the syndicate members commit to their part of the overall risk per their tolerance levels – their contribution percentage. The lead arranger may take a bigger share of the risk or an administrative role. The administrative responsibilities include servicing throughout the lifetime of the agreement or undertaking duties such as dispersing payments among the syndicates.

This loan origination and syndicate building process is intricately complex and time-consuming. It is also only the very start of the work to be done for a loan. There is also monitoring, gathering and storing numerous loan documents. There is the tracking of changes in the financial conditions of the syndicate partners. These changes can affect their ability to be part of the syndicate and must be reflected in the risk system for the loan. Next is servicing the loan for its lifetime. Servicing is the workflow of loan notices. Notices of payments to be made, distributions, redemptions, etc. Also the archiving of these notices for regulatory purposes.

There is a strong secondary market in loans. Many companies would like the repayment revenue of loans but are not large enough or credit-worthy enough to be in the syndicate. Lenders in the syndicate can sell parts of their portion of the loan, thus allowing others to participate in loan repayments. Processing, tracking, and reconciliation of these secondary trades is another aspect of the syndicated loans lifecycle.

Finally, there is the task of cash reconciliation. Payment and repayment of loans occur constantly, and this cash movement must be audited and compared between systems.

Introducing eClerx – Loan Processing Experts

Due to the complexity and shear amount of work to be done during the life of a loan, an experienced partner is critical. As a long-trusted service provider in the syndicated loans industry, and one of India's leading process management and data analytics companies, eClerx' team is fully prepared to help your firm succeed in this arena. eClerx has relationships with 6 of the 10 largest banks in the world. We have over 9000 employees. We've been in the loans processing business for over 10 years.

eClerx Markets also stays well aware of the constantly evolving challenges facing the industry and is always working to address and overcome these issues. One example is the issue of time. Settlement can be slow, with par trades facing seven days, and distressed trades facing 20.

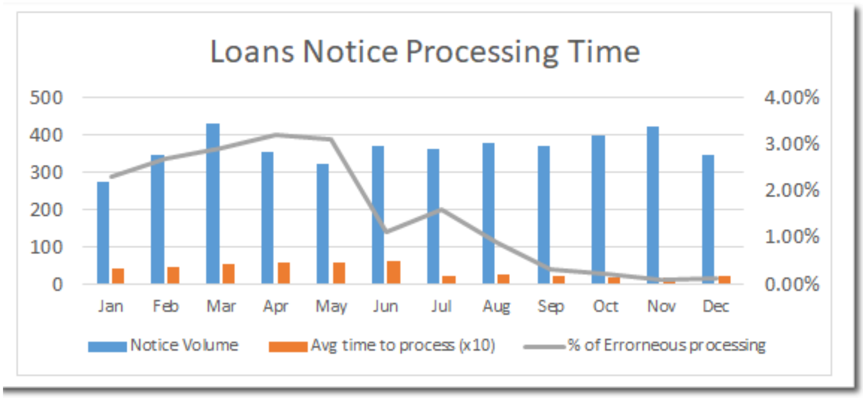
Regulators are constantly affecting business processes. Currently, the SEC is looking to improve liquidity risk management for open-end mutual funds and ETFs. Regulators want syndicated loans to meet redemption request timelines, citing the potential liquidity risk of long settlement times, as well as trades in the massive US leveraged loan market that take nearly twenty full days to close. These are both long term issues that need addressing.

Some issues have arisen due to the current global climate, namely, the pandemic. The effects of COVID-19 have led to a dramatic increase in demand for working capital loans, and consequently, secondary trading has increased. March and April of this year have seen massive volume increases, with a 100% growth in the secondary market from $60 billion a month to $123 billion a month.

Challenges and How eClerx Can Help

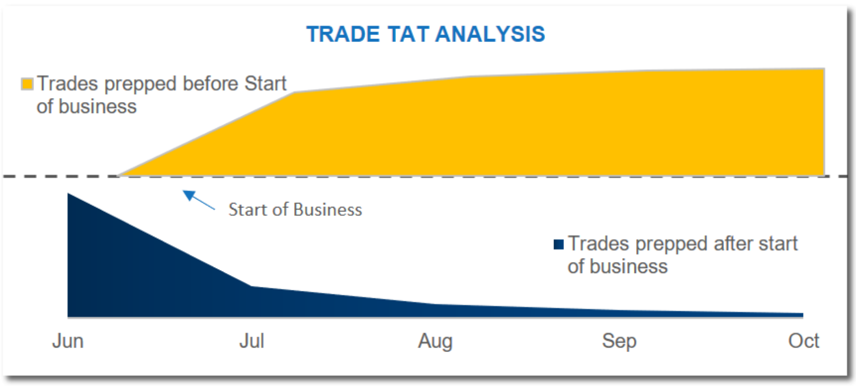
Loan Origination

Challenge	Solution
Manual digitization of credit agreements makes for slow processing times, errors and delays when it comes to sourcing documents from the agency.	Our solution is to make use of eClerx' DocIntel, an OCR and Natural Language Processing (NLP) technology that allows for auto-capture, bypassing this need for manual data field input. Further, DocIntel makes use of trend analysis (machine learning) to review credit agreements and observe changes made by processors and adapt. This allows information capture to be based on their behavior, improving over time.



Trades

Challenge	Solution
Trade volumes are high, and there is volatility in volume. Manual trade reviews and prepping in Loan IQ are slow and cumbersome.	Our solution to this issue is a staggered shift to prep the trades before the start of the day. Automating trade review using RPA and to automate document sourcing for Clearpar improves secondary settlement further.



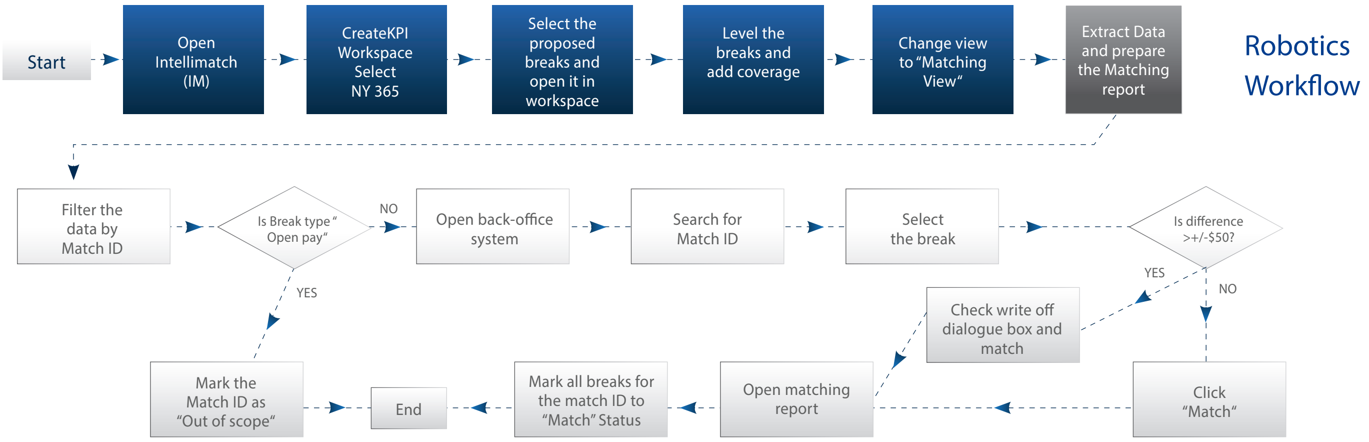
Reconciliation and Control

Challenge

The industry is currently using inefficient cash recon systems. There are hundreds of cash breaks received daily. Labeling each is an issue that requires slow manual matching. A volume spike during the quarter-end can compromise turn around times.

Solution

An intelligent automation (RPA) solution to match the credit and debit breaks without intervention is an excellent alternative. Only exceptions need to be processed manually. Combining tactical automation and dashboards with human intervention for maximum output.



Covenant Tracking

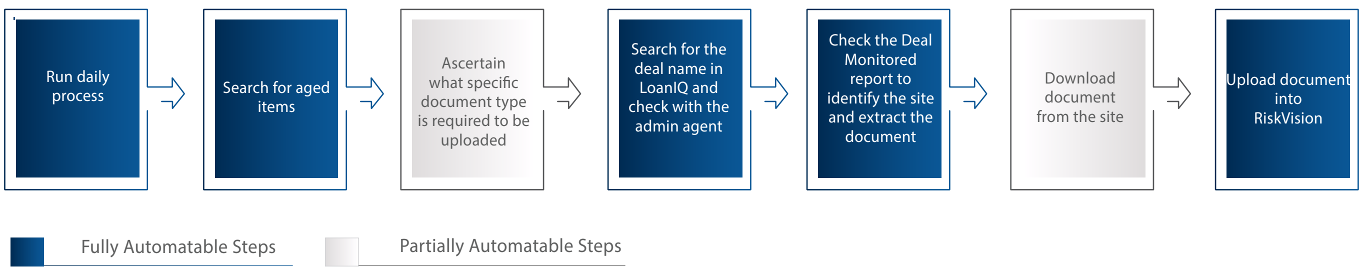
Challenge

Covenant tracking currently has no standard workflow and is a manual process. Covenant tracking also requires access to third-party sites such as Debtdomain or Intralinks. It can include chasing the borrowers themselves – which is time consuming.

Solution

Creating a standardized workflow to track the creation of scheduled documents and events speeds up the process and makes it more efficient. This also creates the ability for risk and portfolio managers to track borrowers and key events. eClerx has its proprietary tool, Intelligent Workflow Manager, to improve these processes quickly.

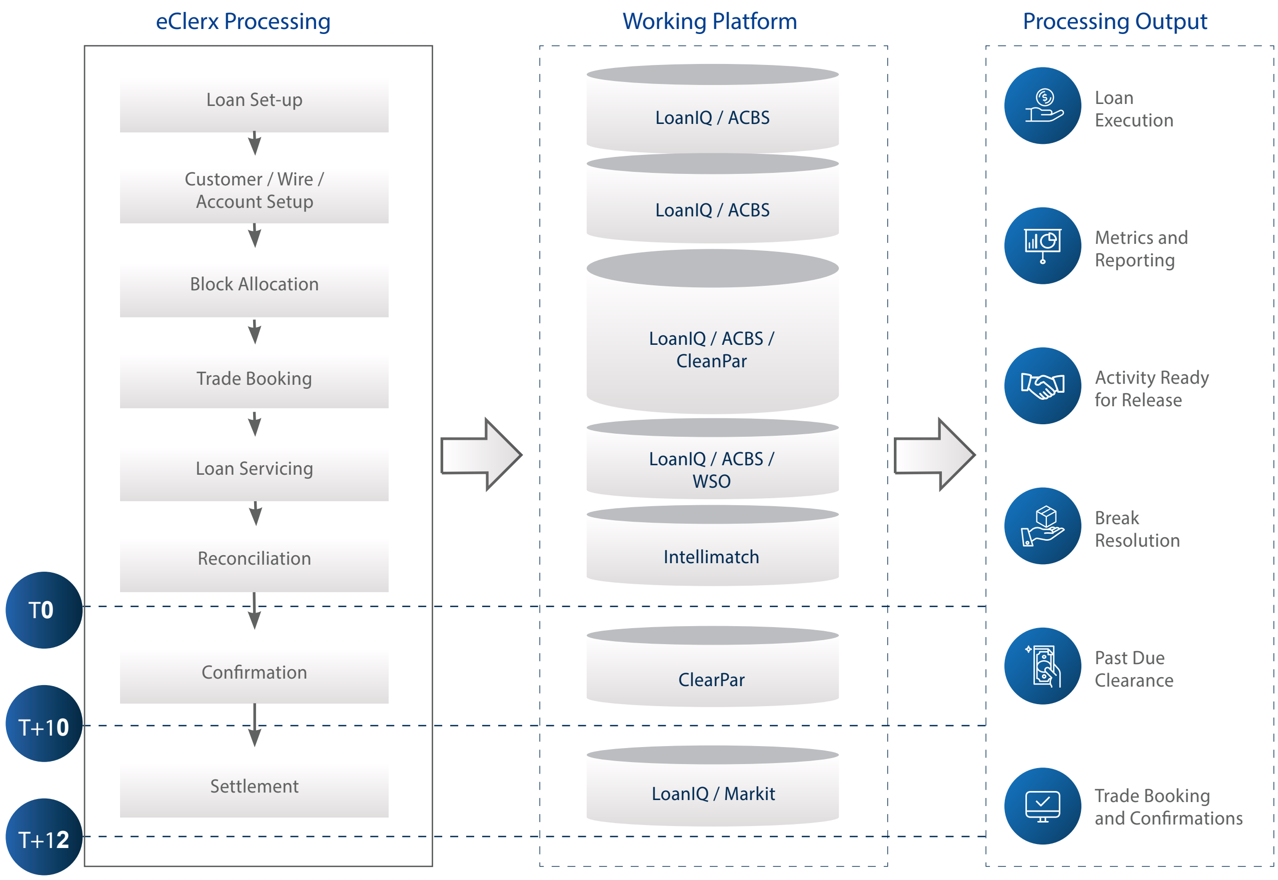
High Level Workflow



Challenges and How eClerx Can Help

As we have heard, syndicated loans are a useful and popular financial mechanism to borrow or lend money. They, however, are complicated or originate and maintain. Maintenance comprises monitoring, cataloging documentation, tracking of risk, distributions, redemptions and careful accounting of notices of the same. Regulatory requirements are extensive and constantly changing. eClerx and its hundreds of experienced loans experts keep their fingers on the pulse of the industry. eClerx is a thought-leader in understanding the business and in developing technology to make all syndicated loans processing easier, less expensive and more efficient.

eClerx Role Across the Entire Loans Lifecycle



ABOUT US

For financial organizations across the world, eClerx Markets offers consulting, technological innovation, and process management expertise to uniquely solve operational challenges. With nearly two decades of industry experience complemented by the application of smart automation and robotics, our team of experts delivers holistic solutions across the trade life cycle, change management, data analytics, compliance, cash securities operations, document digitization and generation, and outreach.

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