



Celebration of “Decade of Loan Syndications”

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Chief Guest

Loan syndication becomes necessary in meeting large financing needs of large projects. High credit risk exposure on any single borrower can be hazardous; default on such a loan can wipe out a lender's capital base. This is why prudential regulations limit permissible single borrower exposure in terms of percentage of a lender's capital base.

Borrowing needs of large new industrial and infrastructure projects coming up in Bangladesh now typically run into billions of taka. Sharing of the credit risk burden of large loans to large projects by syndication has enabled fast expansion of industrial term lending, particularly since the late nineteen nineties (table 1, chart 1). Prime Bank's engagements in syndication activities have been significant, acting as lead arranger in 21 syndications (including one that was shariah based) totaling Taka 11.5 billion for various projects in physical and telecommunication infrastructure, glass and ceramics, textiles, chemicals, pharmaceuticals, tourism and hospitality.

BB does not as yet collect and maintain systematic time series data on loan syndication activities in Bangladesh, which need to begin forthwith. Informal query reveals that so far none of the syndicated loans in Bangladesh were rated by independent credit raters. The Basel II capital regime assigns 125 percent risk weight (i.e., capital charge of Taka 125 for every Taka 100 of loan) on unrated syndicated loans, whereas favorable rating by independent raters can bring the risk weight and capital charge down to as low as 20 percent, freeing up substantial capital resources for other lending. *Syndication partner banks will therefore be well advised to obtain independent rating on syndicated loans, to bring down the risk weight and capital charge.*

The syndication process splits and spreads the credit risk to sizes manageable by individual syndication partner banks, but in itself has no mechanism to minimize the *liquidity risks* and *interest rate risks* from term mismatch (funding long term assets with short term deposits). In the advanced markets *trading* in loans (or in securities backed by the loans) mitigates liquidity risks for syndication partners; and *floating rather than fixed lending interest rate* mitigates their interest rate risks. None of these devices are yet in significant use in our market. Syndication activities have lot further to grow in Bangladesh in financing various large real sector projects. *Banks arranging / partnering in loan syndications will be well advised to begin adopting these risk management options;* for sound and surefooted growth in loan syndication free of stumbles from liquidity and interest rate risks. *BB will provide such policy and technical support as may be needed.*

Syndication partner banks need to bear in mind the risks in excessive leveraging that in the recent global financial crisis brought numerous major corporates and financial markets in mature developed economies down to their knees. *In Bangladesh, syndication arrangers and partners need to limit their lending to cautiously conservative levels of debt equity ratios; with careful eye on*

any overvaluation of owners' equity. The loan agreements should include covenants requiring the borrower projects to go for public issue of equity after pre-specified periods, with appropriate penal clauses to be activated on default.

Annual movement of Industrial term loans (Disbursement & Recovery)

(Tk. in crore)

Year	Disbursement	Recovery
1994-1995	1281.20	481.11
1995-1996	1230.44	519.69
1996-1997	1200.00	887.19
1997-1998	1120.34	859.43
1998-1999	1330.10	1093.31
1999-2000	1627.26	1653.34
2000-2001	3057.07	2795.10
2001-2002	3505.15	3212.97
2002-2003	3961.99	3835.12
2003-2004	6675.99	4963.44
2004-2005	8704.52	8546.98
2005-2006	9650.02	6759.52
2006-2007	12394.78	9068.45
2007-2008	20150.82	13624.20
2008-2009	19972.69	16302.48

Source: SME & Special Programmes Department, Bangladesh Bank.

