

LOAN SYNDICATION IN THE NIGERIAN MONEY MARKET

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Abstract

Loan syndication is a process in which a number of banks form a consortium to make a large loan which one bank cannot make due to financial or legal constraints. Looking back to bankers of the middle ages, the system was more on participatory basis than formalized syndication. The aims of the study include ascertaining the extent to which loan syndication has been applied by Nigerian enterprises, examining the extent to which loan syndication has contributed to the performance of Nigeria enterprises, the adequacy of syndicated loan provided by banks to industries, the effort of long-term nature of syndicated loan on liquidity position of bank in Nigeria and to identify the process of syndicated loan. Loan syndication has not been applied significantly by Nigerian enterprises but it contributes to the performance of banks in Nigerian. The payment of interest and principal when due occasionally poses some problem. The borrower may be facing liquidity plight, low sales turnover and diversion of working capital into acquisition of fixed assets. Conclusively loan syndication provides a quick source of mobilizing such as capital and is beneficial to the client in that he gets the required loan which otherwise he would not get. We also recommended that for the purpose of improving the activities of banks in Nigeria, it is prominent to note and recommend loan syndication which is one of the functions of the banks.

Financial intermediaries are desirable because they increase the efficiency of the savings/investment process. The economic agents that are responsible for transfers are called financial intermediaries and process through which it is done is called financial intermediaries

(Umoh,2014). Financially intermediaries become an engine of growth and development by the process of financial intermediaries. Okereke (2014) stressed that channeling of funds surplus to deficit units of the economy will encourage productive innovation even though it is also risky. Nzotta (2004) stated that, the financial system consist of various financial institution that operate in an orderly manner to ensure the smooth flow of funds and thus accord the system its character and uniqueness. Ezirim (2005) also described the financial system as the arrangements, institutions and agents that interact with each other and other economic units, together with guide their interactions. Onoh (2002) observed that the Nigerian financial sector comprises various segments including the regulatory and supervisory authorities for banks and non-banks financial institutions; others are the money and its institution, the capital market and its players. They system also consists of the development of financial institutions and funds. Usually, financial instrument are traded in the financial market by the financial institutions. Jerome (2000) asserted that, the surplus spending units and moves these funds to deficit spending units.

Loan syndication may be defined as the act and process where by a group of financial institutions use to provide credit facilities) to a borrower with an agreement terms and condition of a single loan documentation. Also its service involve a member of bank who form a consortium to make a large loan which one bank cannot make due to financial or legal constraints. Loan syndication is beneficial to the client in that, he gets the required loan which otherwise he would not get. Anyanwuokolo (1996) vital features of syndicated loans are:

- a They are typically very large amount
- b They are at least two lenders and one borrower involved.

c. Reduces risk in large loans

The borrower is usually a large or medium size corporate body, government parastatal with considered technical and managerial expertise. In the loan syndication, there is always two or more lender banks to co-ordinate, facilitate and manage the lending. This lending is governed by a single common loan document. The organs of syndicated loans are traced back on bankers of the middle age who distributed their financial risk among several houses to support trade flows. This system was more on a participating basis than a formalized as the lenders not adopt one common loan documentation Adenyi (1990). What may be regarded as modern loan syndication commenced in the United States of America was for banks to lend money to their customers only on short term basis hardly exceeding one year and such loans were matched with specified deposits. But United State Government later introduced attractive incentives which encourage banks to undertake large capital investment programmes designed to match the high growth rate of the economy. However, since the banks were controlled by government mainly in areas of loan growth and reserved requirement (liquidity and cash ratio), it became hard for a single bank to lend all the money required by a corporation to meet its projected investment programme.

History of Loan Syndication

Loan consortium can be traced to the 1960's in Nigeria when consortium of commercial banks and acceptance houses produced bill finance scheme. Formalized loan syndication came into being during the oil boom of 1970's when there was need for sufficient, capital to finance the industrialization programme. Adenyi (1990). Loan syndication has assumed international dimension because of its need to provide capital to finance the fast growing world economy. An international syndicated credit is managed and underwritten by one or more financial institutions normally from a location other than the domicile of the borrower to include lenders from different countries which provide the borrowers access to more than its own currency of domicile.

The Borrower and the Lead Bank in the Loan Syndication **the Borrower:** When the borrower conceives the idea to embark on an investment programme, they commission management consultants to prepare a feasibility report on the proposed projects. The borrower submits the feasibility report together with other pertinent document to the bank. Moreover, that information such as articles and memorandum of association, certificate of incorporation, audited account if the business is already existing etc banker to provide the loan.

The Lead Bank: This has major roles to play in syndication. The borrower chooses the lead bank and submits the feasibility report together with other pertinent documents to the bank with a regard that the bank should lead a syndication of lenders to provide the required credit facilities. Occasionally, bank solicit to lead the syndication, they have prior knowledge of the customers intention to borrow large sum of money. In the words of "Okigbo", before accepting to spearhead loan syndication, a bank must have taken the following factors into consideration:

- a. Availability of source of raw materials.
- b. Market for finished product locally or overseas. If overseas what quality will be exported and what amount of foreign exchange will be earned.
- c. Is labour skilled/unskilled readily available and at what cost.
- d. Effect of frequent changes in government politics on the project.
- e. Debt/equity coverage: Is the leverage/gearing appropriate for the company and the industry.
- f. Is working capital sufficient for the continuing operational needs?
- g. Has sufficient provision been made for bad debts: Is the depreciation in line with industry's standards?
- h. Is provision for tax liability in line with government policies: Who are the company's auditors?

Viability of the Borrower and the Lead Bank in the Loan Syndication.

Loan Syndication in the Nigerian Money Market

There are two main parties to loan syndication, the lender and borrower but since there are many lenders, we many them categorize them according to their active role in the loan syndication. These parties involve.

- i. The lead bank
- ii. The participating bank
- iii. The Agent Bank

The Lead Bank

This is the borrower agent it is the choice of the borrower's bank to raise the required amount (either on a best effort base or an underwriter obligation). The borrower channels its request to a bank with which it has already established relationship.

The lead bank initial ways and means of raising the required amount is by inviting other, banks to participate in the syndication, in conjunction with the borrower often it is bank which puts it to the borrower than committing itself to the total amount or reject the application outright for portfolio, constraints, mandate is given for the required amount to be raised through syndication, also it states the terms and condition under which the loan will be syndicated having satisfied itself that the project is feasible and economically viable.

The Participating Bank

This bank appoints one of them to participate or represent their interest in certain regards of the syndicated facility. A bank elected or appointed is known as Agent Bank.

The Agent Bank

This is the agent of the lenders and its main function is to monitor the disbursement utilization and repayment of the credit as per the lending agreement. It lies between the borrower and the lender and handles matter relating to the general administration of the syndication such as calling periodic meeting of the lenders, notifying them of plights arising on credit and giving progress reports, Asuzu (1995).

Moreover, loan syndication through the commercial banks or financial institutions have continued to support the stabilization policy of the government including economic growth and reduction in level of unemployment. We have seen how the regulation in the banking act and central bank credit guidelines make it difficult for a single bank to grant loan of certain amounts to single borrower. The industrialization policy of the government demands large capital outlay and such funds can only be made available either through government grants on syndicated loans from the financial institution.

Effect of Loan Syndication in the Nigerian Economy

The effect of loan syndication in the Nigerian economy today is that loan syndication has tightened up the global credit on the primary market and the secondary market, thereby reducing the volume of the investors in the secondary syndicated loan market in Nigeria and bringing down the value of shares in the stock market.

Also, syndicated loan market lacks an all encompassing standardized reposing process for position reconciliation in the economy of the Nation.

Challenges of Loan Syndication

The challenges of loan syndication in Nigeria are lack of standardization which has hindered the introduction of automation originally designed for Nigerian markets, Adeniyi (1990). Secondly the global credit tightening that began around mid 2007 has affected the primary market in syndicated lending as it has affected almost every sector of the loan market place. But the credit crunch has also created potential value for investors in the secondary syndicated loan market volume in Nigeria, Adeniyi (1990).

Conclusions

Syndicated lending involves dividing a loan among many lenders, a strategy that allows lenders to share risk and borrowers to have access to multiple source of funding. Loan syndication which can be said to be new in Nigerian is gradually taking wide dimension in bank lending as it appears to be the easiest way of lending large amounts of borrowers without validating regulation. Previously, merchant banks were more involved in loan syndication but the coming of universal banking had brought about competition in the banking industry, many commercial banks have established co-operate banking and finance department in order to participate effectively in this type of lending. As a developing country, there are lots of chances for the banks to provide capital needed for the industrial and social services. Loan syndication provides a quick source of mobilizing such as capital and is beneficial to the client in that he gets the required loan which otherwise he would not get.

Recommendations

For the purpose of improving the activities of banks in Nigerian, it is pertinent to note and recommend loan syndication which is one of the functions of the banks. Also, it is the intention of the researcher to recommend that participating bank in loan syndication business should endeavour to have clear cut department or section and sound management structure capable and willing in dealing with corporate borrowers in the activities of loan syndication. However, banks should ensure the type of project to be executed by intending borrower before giving money or funds so that it can be paid back the principal and interest at maturity. Furthermore, banks should provide conscious polices with top management officials who can handle the loan syndication business so as to avoid delays in taking decision, it had helped banks to transform mobilized funds into real capital with regard to some promising investment chances which could have been lost for if the funds were properly managed and turned into viable projects, with the existence of loan syndication, the borrower has the opportunities of avoiding negotiating on one on one with different lenders as regards to terms and conditions.

Lastly, it is the believe of the researchers that the syndication of loans by financial institutions has done little in wasting the economy of the Nation.

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