




## Debt raising and refinancing in 2009

### Down to business issue #21

The bank loan market has changed for all types of borrowers, be they large well known Australian public companies, through to smaller privately owned businesses.

As has been well documented in the press, changed market conditions are a function of a tightening in the global supply of credit, which has affected all banks, including the four Australian majors, coupled with a general slow down in economic conditions.



There are clear signs that the availability and cost of bank debt has changed markedly over the past six months for the broader market. Additionally, a number of foreign banks have either exited the market or wound back their lending activities in Australia.

What does this mean for borrowers?

- for most of 2009, banks will likely focus on supporting their preferred clients, albeit on terms which reflect current market conditions
- complex borrowing structures are no longer flavour of the month
- acquisition debt multiples (Debt/EBITDA) have contracted significantly, although capacity remains available for quality transactions supported by appropriate due diligence and sponsors
- for each larger use of bank debt (i.e. \$50m+), this may mean that a greater number of banks is needed to provide the required level of funding. This, however, may be hampered by a lack of underwriting capacity in the local bank market
- for large and small borrowers, current market conditions may result in an increase in the credit margin charged by banks for the same level of historical funding. Typically, the process of pricing review will coincide with the annual review of clients' existing facilities
- transaction lead times have increased due to the additional level of scrutiny being applied by the major lenders
- loan to valuation ratios on property loans are likely to reduce in comparison with previous levels and to come under more scrutiny as the property revaluation cycle moves through 2009
- undrawn facilities may only be made available where accompanied by a 'line fee' commensurate with the term of the facility and the credit profile of the borrower
- borrowers showing signs of stress are likely to be filtered out and dealt with by specialist teams within banks.

How should borrowers respond to the changed market conditions?

- anticipate and plan for longer lead times when refinancing or seeking additional facilities
- seek guidance on current market conditions and the potential impact on their specific individual circumstances
- enhance the quality of their analyses around debt and capital structuring decision-making with the use of financial modelling
- qualify and quantify the value of their relationships to their banks and aim to leverage cost savings in relation to non-loan bank products

- independently analyse alternative funding structures (i.e. asset-based finance) that may provide a wider pool of alternative funding sources, coupled with longer term funding.

For further information please contact [Michael Johns](#), Director – Debt Advisory, Deloitte Corporate Finance, or your local Deloitte client service partner.

[Contact us for more information about this topic.](#)

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