Wilmington Trust
MEMBER OF THE M&T FAMILY

The 2020s: A Decade in Transition

LOAN MARKET INSIGHTS

TABLE OF CONTENTS

Introduction

The global loan market has seen unprecedented change since the beginning of the 2020s. We began the decade with a pandemic. The macroeconomic ripples from that rough start have continued to create structural shifts. We're excited to share our Trust, Trust Agent, and Custody insights on the decade so far.

- The loan market has undergone significant structural changes. From our observations, economic uncertainties and rising interest rates affected borrower needs, lender priorities, and deal structures. The pressure to adapt is intense. ("New Norms, New Needs")

- In our interactions with clients, we have seen both borrowers and lenders amending and extending current loans rather than refinancing because interest rates and credit risk factors have become more complex. We've also noted that hybrid financing has continued to restructure the loan market with seemingly infinite combinations of private and bank participation. ("Deal Structures and Trends")

- As we have seen, private lending has captured market share from traditional commercial banks and broadly syndicated lending. ("The Evolving Landscape of Private Lending")

- In our experience, Collateralized Loan Obligation (CLO) managers are increasingly focusing on refinancings and resets to extend deal life and adapt to lower cost structures. The availability of primary loan supply remains a crucial factor for new CLO origination. ("CLOs in the Spotlight")

- We believe flexibility and innovation will set the loan servicing agenda. We find that nimble responsiveness adds more value than pure scale, with greater efficiency. ("Loan Agency Services: The Scale Trap")

- Service providers must lean aggressively into technology and data transformation efforts. In our interactions, new transaction structures and higher scrutiny from regulators are changing data needs among loan market participants. ("Tech in the Balance")

- From our perspective, market changes and emerging client needs have unexpected benefits for loan professionals at every level, offering greater engagement and providing reinforcement of essential valuable skills. ("New Skills and Careers in Loans")

Deal Structures in Transition

New Norms, New Needs

The loan market has undergone significant structural shifts in recent years. From 2020 to 2024, economic uncertainties and rising or high interest rates changed borrower needs, lender priorities, and approaches to constructing deals.

The loan market has undergone significant structural shifts in recent years. From 2020 to 2024, economic uncertainties and rising or high interest rates changed borrower needs, lender priorities, and approaches to constructing deals.

Unfinished Business

Central banks have by no means finished their efforts to tamp down inflation. Although inflation has cooled and initial rate cuts have occurred, other data, such as continued labor market strength or the risk of energy cost spikes, make the timing of further rate cuts hard to pin down precisely.

Overall, these macroeconomic uncertainties cast a shadow on loan market outlooks. If recessionary tremors continue, corporate borrowers will face heavier debt burdens due to higher-cost loans. Prospects for upticks in distress scenarios and defaults persist.

However, the situation differs from 2008 in several critical ways. Liquidity remains ample. Private credit adds flex to the market with more opportunity to extend, amend, or restructure deals than in past cycles. Structural shifts make room for creative solutions, provided stakeholders remain agile and adaptable to what emerges in the coming year.

Structures and Players in Transition

Conditions for the next few years resemble periods of Earth's history where rapid evolution and diversification created massive numbers of new species. Deals grow more complex and customized—the coming year will be no exception.

> Looking out over the next three to five years, a number of factors will coalesce to keep average inflation at or slightly above the Fed's target.
>
> — Wilmington Trust 2024 Capital Markets Forecast

The Loan Market Has Experienced Dramatic Shifts 2020-2024

In this context, service providers must help clients navigate risks, capitalize on opportunities, and transform operations as needed.

2020

- COVID-19 forces a hard pivot to remoter work.
- Stakeholders brace for uncertain impacts.
- Central banks institute quantitative easing programs and rate cuts.
- Private debt shows strength.

2021

- Recovery and hybrid work emerge.
- Loan market awaits impacts from COVID-19.
- ESG in loans surges with Sustainability-Linked Loans (SLL).
- Non-USD LIBOR ends.
- CLOs are under pressure.

2022

- Wave of distress does not materialize.
- Rate hikes begin in response to inflation.
- Private credit continues to climb as bank lenders hold back.

2023

- USD LIBOR ends.
- Macro and geopolitical uncertainties persist.
- Complexity and customization increase.
- ESG attracts political fire (U.S.).
- CLO issuance strengthens.

2024

- The market continues to hope for a durable "new normal."
- EU, U.K., and U.S. rate cuts begin.
- Adaptability and resilience remain fundamental.

The term “hybrid financing” is used in many contexts. We use “hybrid” to refer to any transaction that includes multiple asset class structures in a single holistic transaction. Combinations can consist of various types of loan (bank, syndicate, and private lender) and/or debt (loan-and note-based, including bonds and structured products).

Deal Structures and Trends

High inflation, rising interest rates, and recession fears reshaped the market’s appetite for new loans, even as the inflationary vortex of the first half of 2023 dissipated. There have been several impacts on deal structures, including amendments, add-ons, and a proliferation of hybrid deals.

New Loans Stalling While Amendments Abound

U.S. leveraged loan issuance in 2023 declined by 17.3% versus 2022 to $876.9 billion. In Western and Southern Europe, issuance declined by 10.2% to $174.1 billion. First quarter issuance for 2024 shows signs of a potential rebound, reaching $365.3 billion and $76.4 billion respectively.[1] Yet, even while loan markets seemed calm from the point of view of issuance data, they remained highly active as existing deals found new life to continue credit- driven activities from capital to leveraged buyouts.

With uncertain conditions, borrowers and lenders often find it simpler to amend and extend current loans than to refinance. Recently, as borrowers sought new money, they added tranches more quickly and of greater size. This trend has resulted in more than increases in deal size. It has also added complexity.

The benefit has been continued interest income for lenders with lower repayment risk and without the need to restructure or manage default. Moreover, as “maturity cliffs” begin to occur in 2024 and beyond, lenders will likely continue to amend and extend or grant forbearance to preserve original investments and avoid expensive restructurings or bankruptcies. The priority is maintaining stable interest income.

Add-Ons for New Deals

Private equity sponsors play an essential role in the amendment phenomenon, too. They increasingly add incremental facilities to current leveraged loans to finance new acquisitions or provide additional financing. Sponsors also utilize add-ons for “buy-and-build” roll-up strategies within existing borrowers. This add-on activity stems partly from tighter lender approval of new issuances. When loan committees are applying higher standards for unfamiliar assets and borrowers, lenders can avoid extensive due diligence with incremental loans instead of considering new companies.

Secondary Markets

Secondary markets have also been vibrant. The first years of the decade resulted in a supply glut that pushed secondary market offerings to trade at noticeable discounts, making them more attractive to some investors who see opportunities to buy at a discount. Opportunistic investors may favor targets in poor shape where they can gain influence over the borrower’s future. Finally, because there is still a lot of money in the market looking for investible assets, some investment managers are still keen to deploy capital even if they have paused fundraising.

[1] “Global leveraged loan markets spring to life,” White & Case, 22 May 2024.

Factors contributing to hybrid structures include:

- Tighter bank lending
- Accumulated private dry powder
- Credit manager loan aggregation
- Insurance company participation

Holistic Approaches and Hybrid Financing

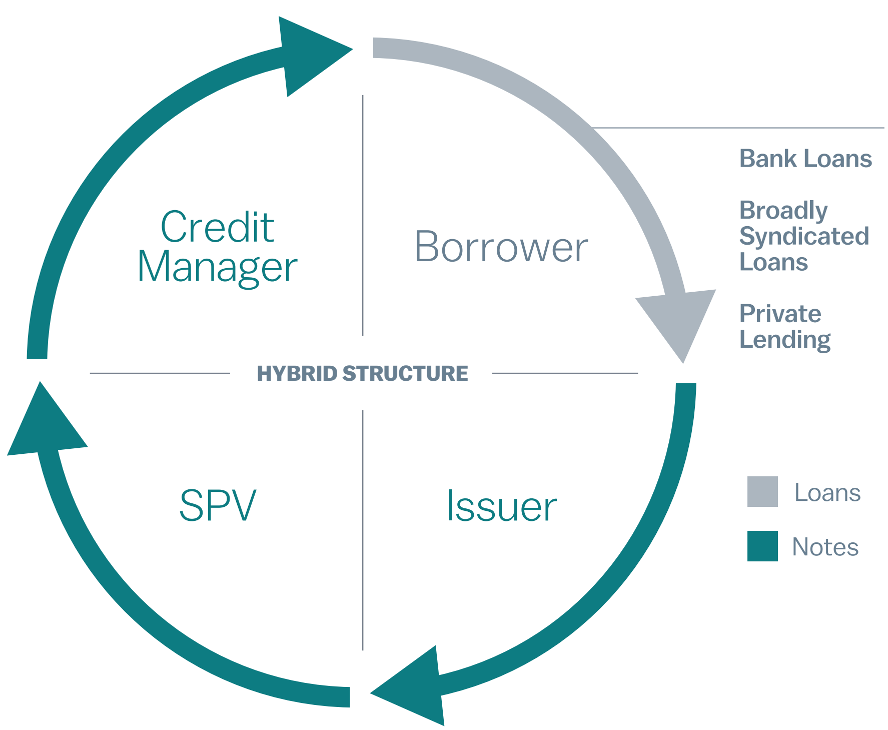
Finally, the proliferation of debt and equity capital products and the rise of private non-bank lenders (see "The Evolving Landscape of Private Lending") also create seemingly endless combinations for borrowers, from those with the highest credit quality to those with high risk. In our roles as agent and trustee across a wide range of transactions, we are finding strong demand for hybrid solutions.

For lenders, hybrid financing allows banks to maintain relationships with clients while sharing the risks of larger or riskier loans with other lenders. Private or non-bank lenders, on the other hand, have an opportunity to participate in larger, often more lucrative, loan transactions that might otherwise be beyond their reach. Finally, noteholders can broaden the options available for their fixed-income strategies.

Three Hybrid Transaction Scenarios

From a capital raising perspective, hybrid financing offers several compelling advantages. It expands access to capital and creates flexibility in structuring the financing to meet their specific needs and circumstances. This flexibility can take various forms, such as adjusting the proportion of loans to bonds, bank to non-bank financing, negotiating repayment terms, setting multiple tenors, or tailoring documentation.

Components of a Hybrid Transaction



Scenario 1: Bank Plus Private Lending

The lending side of a hybrid financing facility brings together traditional bank lending and alternative financing from private or non-bank lenders. This combination offers borrowers a more extensive and diversified funding pool. It also allows lenders to share risk and potential returns, promoting a more resilient and dynamic structure.

Scenario 2: Loan Plus Note Lending Scenario

Combining loans and notes creates the option to raise capital as both a borrower and issuer. Some participants in such a debt structure have constraints that allow them only to participate in a loan or a bond. The loan component provides a flexible funding source with negotiable interest rates and payment terms. In contrast, the notes, issued by a Special Purpose Vehicle (SPV) offer a straightforward, less restrictive source of capital with few or no collateral requirements and lower levels of oversight.

Scenario 3: The Structured Facility Scenario

Structured facilities also combine the features of loans and notes. For example, a credit manager might issue notes and arrange loans to fund a portfolio of consumer loans, such as auto or home improvement loans. As a result, investors can access a broader range of assets than traditional loans or notes, including consumer-based asset classes that may not be available through other means.

The Role of Third-Party Providers in Hybrid Financing

Navigating the complexities of hybrid financing requires experience and dedication from third-party providers, including agents and trustees. These providers ensure timely and consistent communication among all parties, handle administrative tasks, and monitor compliance with the agreed-upon terms.

Our clients have been especially attuned to the benefits of having a consolidated footprint under a single provider who can simultaneously service many elements in a hybrid deal. This approach offers cohesive servicing and lower cost in scenarios that otherwise could be quite complex.

- Working with a single organization accelerates the transaction from close to maturity.
- Provider consolidation streamlines communication and escalation, reducing the potential for misunderstandings or information lag.
- Eliminating the need for multiple agents and trustees can result in significant cost efficiencies.
- A consolidated provider with broad experience can better manage complex transactions and creatively tailor support to all parties involved.
- A single provider’s experience across the debt capital structure helps lenders and noteholders understand the implications of combining loan and note components into a single deal.

Roles in a Hybrid Transaction

HYBRID STRUCTURE

Notes

- Registrar
- Collateral Administrator/Agent
- SPV Administration
- Paying Agent
- Cash Manager

Loans

- Administrative Agent
- Sub-Agent
- Facility Agent
- Security Agent

Syndicated Loans Middle Market/ Private Credit Consumer Assets

- Collateral Agent/ Trustee Custodian
- Document Custodian
- Paying Agent
- Calculation Agent
- Backup Servicer

Innovation Tradeoffs

Handling intricate, unique stipulations may strain operations built for efficient, consistent processing at a global level. The resulting rigidity can make it more challenging to manage portfolio exposures and risks.

Reporting is a compelling case in point. Managers and investors need visibility into deals, while high levels of customization risk becoming opaque. Many also need aggregated data across entire portfolios rather than siloed reports. Custom deals make “apples-to-apples” analysis more challenging. In addition to transparency, accuracy, timeliness, and accessibility in loan data and reporting, they need new ways to analyze risks and returns.

In this context, embedding data into static reports strains resources and makes extracting data for new insights harder. One intriguing prospect will be a potential shift in emphasis toward easily ingestible data that enables flexible, self-service insights. Recipients can thereby tailor and refine dynamic data views rather than wading through static reports. This possibility changes the role of a service provider from report creation to data delivery.

More broadly, careful steering is needed as long as the leveraged loan market faces prolonged complexity and uncertainty. For lenders and sponsors, loan agents and trustees’ operational excellence and readiness will be essential in navigating and managing the eventual return to higher volumes once pent-up credit demand sees supply returning.

The Evolving Landscape of Private Lending

Rising interest rates, geopolitical uncertainty, and recessionary concerns led to the lowest level of institutional loan issuance since the second quarter of 2020, down 46% quarter-over-quarter in Q3 2022, per Fitch.[2]

Private Credit

In that context, we see a continued pickup in private transactions, both in mid-market deals and large ticket deals (including club deals with multiple private credit providers). Private lenders are generally more insulated from price fluctuations and the macroeconomic factors that can constrain banks and investment managers. They also have more room to develop unique covenant structures or deal characteristics to manage their balance sheets and yields. Bespoke arrangements allow them to offer more speed, flexibility, and optionality to borrowers.

Therefore, a better understanding of the operational implications of what they would like to do can help private lenders make better choices in the service providers to support them. At the same time, agents, sub-agents, custodians, and trustees need to have the platform and people capacity to adjust. Given these conditions, ability to execute is at a premium more than ever.

Private Debt Market Growth

Total AUM	AUM Growth	Dry Powder
Over U.S. $1 trillion[3]	12.8% CAGR[4] (2015-2020)	U.S. $447 billion[5] (as of 9/20/21)

[2] "U.S. Leveraged Finance Chart Book: Third-Quarter 2022 (3Q22 Institutional Loan, High Yield Issuance Dragged Down by Recessionary Concerns)," Fitch Ratings, October 31, 2022.

[3] "Private debt AUM passed $1.6trn last year amid "explosive" growth," Alternative Credit Investor, March 6, 2024.

[4] "Private debt AUM passed $1.6trn last year amid "explosive" growth," Alternative Credit Investor, March 6, 2024.

[5] "Private Market Fundraising Report (2023 Annual)," PitchBook, p. 10.

Challenges in Servicing Private Loans

The significant growth of private lending creates room for a wide range of service providers. While the resulting degree of competition is positive for the industry overall, it does mean that private lenders must carefully evaluate the capabilities and experience of service providers with ever-greater scrutiny.

Getting it right at the beginning is essential for mitigating risk. Absent a move towards greater standardization in private lending, a clear view of the causes and implications of bespoke approaches to deals is the most prudent way to proceed.

As a result, a loan agent must be able to translate loan documentation into specific actions they will carry out in servicing the transaction. Loan agents also need to have the necessary experience to deal with situations where loan documents are ambiguous. The bespoke nature of private lending makes those ambiguities and grey areas more likely.

Moreover, many of the standard platforms for managing the details of loan processing do not always support custom requirements out of the box. They assume a certain degree of process standardization. Asset managers therefore benefit from keeping up an ongoing conversation—from RFP to subsequent discussions—about the technology and operational capabilities of loan agents.

Technical and Operational Due Diligence Questions

- What are your processes for handling payments and trades?
- How do you balance standardization and flexibility in reports and data access?
- Can you quickly customize or extend your current systems to deliver?
- In areas where technology cannot support desired workflows or reporting, do you have the in-house skills and capacity to handle requirements manually?
- How do you manage technical and operational risk?

CLOs

CLOs in the Spotlight

The market demonstrated resilience and growth throughout 2023. In the first quarter of 2024, the U.S. CLO market witnessed historically high ssuance levels, signaling robust demand. Meanwhile, the European market experienced a slower pace in comparison. However, uncertainty lingers regarding the sustainability of high CLO issuance volumes.

Sources of CLO Activity

CLO managers are increasingly focusing on refinancings and resets to extend deal life and adapt to lower cost structures as AAA spreads have significantly compressed. The availability of primary loan supply remains crucial in supporting new CLO origination, with a potential boost from increased mergers and acquisitions (M&A) activity.

Our conversations with stakeholders suggest that private credit will likely capture a larger share of the CLO loan market, potentially reaching 30% compared to the historical range of 15-25%. This shift helps drive more CLO issuance if additional syndicated loan supply from M&A activity increases. However, regional differences in private debt growth are evident in Europe, with the UK boasting a substantial market while the Nordics experience less penetration due to competitive bank lending.

CLOs are Impacted by a Mix of Negative and Positive Factors

NEGATIVE

- Macroeconomic Factors
- Market Volatility
- Credit Quality and Downgrades
- Spread Compression
- Refinancing Challenges

POSITIVE

- Investor Demand
- Increased Loan Supply from Private Credit
- Innovation and Technology
- New Structures
- Market Maturation

CLO 3.0 structures offer managers enhanced flexibility compared to CLO 2.0, particularly in handling workouts and restructurings in response to default or restructuring scenarios. Service providers are being called upon to expand their operational support for CLOs, although the loan market remains largely manual. Achieving widespread efficiency gains requires buy-in from all market participants.

Structural Impacts

The use of CLO structures is evolving, with asset managers and insurers using balance sheet CLOs and CLOs finding applications within business development companies (BDCs) for longer-term financing. There has also been a notable shift towards more loan-format liabilities versus bonds in CLO structures.

As the CLO landscape evolves, market participants must navigate complexities such as payment processing needs, data, reporting, and regulatory requirements. Increasingly, CLO managers require service providers that can accommodate needs such as complex excess calculations, virtual loan advance rates/contracts, various asset haircuts, waterfall diversions, or unique loan investment criteria reporting.

CLO transaction documents specify all reporting requirements based on the regulatory regimes relevant to the parties involved, including EU regulations, the UK's Financial Conduct Authority (FCA), and the Securities and Exchange Commission (SEC) in the U.S.

Working With Data Gaps

Often, the required data exceeds what CLO trustees typically and historically provided. Trustees work with third-party reporting providers on timing, formatting, and data fields to supply transaction- related items, including cash and par. In addition, the reports can include loan-level data such as EBITDA and debt coverage from other sources, including borrowers, lenders, and rating agencies.

For broadly syndicated loans, reporting information and underlying financial data are more widely available (see "Tech in the Balance"). In the middle market, with the dominance of private credit, such information is not widely published. Trustees handle overall global and portfolio-level information and data from routine activities such as payments, purchases, sales, and notices. CLO managers own loan-level data, such as financial statements of underlying borrowers.

Collaboration Needed

Asset Managers use a wide array of systems to track and manage their portfolios, resulting in non-standardized data sets. These variances require CLO managers, administrative providers, and reporting providers to collaborate and develop reliable mechanisms for delivering the required reports using various templates. A lot of coordination occurs to address requirements not explicitly required or documented under the original transactional agreements.

Trustees' ability to automate the ingestion and provision of data can help streamline the process. Furthermore, they need the flexibility and resources to reconcile data issues accurately and in a timely manner. Collectively, all parties need to come together to find ways to reduce the level of effort and the need for manual intervention in the data to deliver reports on time and at a lower cost.

Embracing flexibility and maintaining open communication will enable the CLO market to navigate future changes while achieving sustained success. It also sets a high bar for what CLO managers should expect providers to offer.

Staying Ahead of Tight Cycles

It is also important to consider reporting data holistically. Each trustee processes data from agents, clients, and rating agencies. CLO managers often have numerous service providers, including trustees and data/reporting providers. A lot of activity is compressed into the typical eight-day reporting window, such as reconciliation of global and portfolio information, including cash, par, and portfolio characteristics, as well as full reconciliation of various compliance).

In the U.S., Wilmington Trust's approach has been to stay on top of this activity throughout the month rather than only at month end or quarter end. Consistent data communication creates the opportunity to reconcile more frequently, which has positive downstream impacts on report turnaround times. It allows time for follow-up communication and engagement between CLO managers, agents, and third-party service providers.

CLO managers require adaptable service providers to meet complex reporting needs on three fronts:

- Collaborative efforts between CLO managers, administrative providers, and reporting providers are necessary to deliver accurate reports in various templates.
- Automation and data reconciliation by trustees can streamline processes.
- Regular engagement and proactive communication before and during the reporting cycle enhance efficiency.

Distressed Debt

Navigating Distress: Challenges and Opportunities

When restructurings occur, or borrowers make moves such as shifting collateral to protect against them, documentation can provide stability while everything else is in flux.

The prospect of a rise in the number of distressed assets and default rates has been a perennial topic of conversation among loan market stakeholders. While concerns still run high, there is also a more optimistic scenario.

Given the cost for borrowers and lenders, both parties are often keen to stop short of traditional bankruptcy filings. Lenders are showing an increased willingness to work through alternative approaches instead. Private lenders especially have more flexibility.

As a result, distress and defaults may be unlikely to reach true "high tide" levels. Instead, defaults are more likely to lead to arrangements such as prepackaged/ prearranged filings with terms agreed upon in advance or Restructuring Support Agreements (RSAs), where borrowers and lenders negotiate the terms of a debt restructuring plan.

Navigating Complex Debt Restructurings

The world of broadly syndicated lending faces unique challenges in periods of distress. These challenges can arise when corporate borrowers face liquidity issues affecting their ability to meet the provisions of loan agreements or make payments. They can also emerge more systemically in the case of macroeconomic turbulence that affects spending or credit markets.

The trend of larger and larger M&A financing capital structures has only further fueled complexity, with more lenders, including non-bank lenders, playing a part. Loan Agent capabilities and activities have scaled to meet this demand, with most loans including several hundred syndicate participants.

Private Credit Trends

Unlike the last debt restructuring cycle during the Global Financial Crisis of 2008, private credit has built up a significant market share, especially in middle-market deals. Private creditors such as private equity firms or institutional investors typically have more leeway in renegotiating terms or agreeing to a forbearance period. However, banks in broadly syndicated loans must contend with more guardrails and regulations, which limit their options.

The potential for distress has also changed the climate for new lending. Lenders across the lending base have significantly more sway in the negotiation process. As a result, loan sponsors and borrowers must make more concessions in terms and conditions. The market has considerably less room for the kinds of covenant-lite transactions that have characterized the market in the past decade.

The Dynamics for Loan Agents

As intermediaries between lenders and borrowers, independent loan agents play a critical part in distressed credit situations. Agents strike the right balance between holding firm to existing loan documentation within the context of borrowers' and lenders' needs and interests. From Wilmington Trust's vantage point as an Independent Loan Agent, we believe vigilance, communication, and experience are critical.

In addition, sometimes certain waivers or amendments may be necessary to achieve the most efficient and sensible outcome for the deal parties. However, if a majority of lenders direct the agent to take actions that other lenders may dispute, agent experience is essential. Finding ways to navigate such scenarios requires significant savvy and flexibility backed by a rigorous understanding of the credit agreement. It also requires clarity around what is and is not in the agent's purview and when to pull in other resources needed before, during, and after the transaction.

Succeeding with Successors

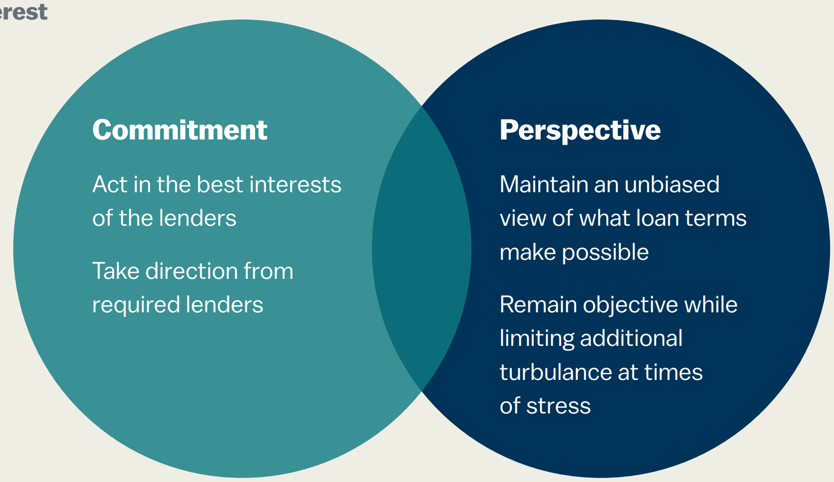
Agent independence can also be advantageous when lenders decide to replace agents with ties to the borrower or sponsor. Similarly, initial agents may choose to relinquish their role in a distressed loan if there are conflicts of interest across the various tranches in the capital structure.

The move to a successor must happen quickly—the faster, the better. In the case of complex transactions, this transition entails bringing on hundreds of existing lender positions and processing a backlog of hundreds of trades. During the transition, loan trades and payments become frozen at the very time when original lenders are more likely to trade out and when distressed investors are more likely to be looking for ways to get into the syndicate.

Loan Agents, given their intimate operational familiarity with loan documents and their implications, can be a highly valuable source of information in this process, helping creditors and their counsel achieve the best outcomes in the situation.

Acting in the Lenders' True Best Interest

In distressed situations, lenders become increasingly concerned and may attempt to pursue aggressive remedies outside the terms of the loan documentation. Loan Agent objectivity is essential to balancing the true best interests of the borrower and lender.



Technology and Operations

Loan Agency Services: The Scale Trap

Scale is something that loan agents do rather than something they have. Even a smaller team can demonstrate scale when pulling together their in-depth task experience, knowledge of a loan, and ability to adjust to changing circumstances to deliver consistent client service and an excellent client experience.

Scale is a perennial consideration in the context of loan agency services. Depending on the nature of a particular deal, factors such as the number of lenders, the size and structure of the facility, and the needs of the borrowers can all influence the choice of an agent. These elements help determine whether a large-scale, off-the-rack approach or a more tailored and collaborative approach will better address unique stakeholder needs.

In our experience, however, the question of scale often becomes confused with size. The two concepts are not synonymous. While size and experience do play an important part, they may also create the risk of a "one size fits no one" approach. While smaller teams might be able to craft a customized approach, they may not have the capacity or controls to handle large or complex scenarios.

Flexibility Over Scale

In the unique environment of the pandemic and then a rapidly changing rates environment, a new superpower emerged—the ability to readjust to circumstances seamlessly. In fact, from our point of view as a loan agent, the word "scale" could even be a bit misleading. We find that clients are ultimately looking for "flex" rather than any one element of infrastructure alone. Although loan agents across the industry have strengths, clients and other stakeholders in a lending facility see better outcomes when a loan agent brings flex to the table.

Flexibility is an essential capability, from broadly syndicated deals with hundreds of lenders to club deals with a small handful of highly engaged private lenders. The needs of a diverse set of stakeholders in the loan—from mechanics surrounding closing and funding and ad hoc upsizing of facilities to trading on the loan during its lifecycle—vary from deal to deal and often change ad hoc as circumstances arise.

The Components of a Loan Agency Solution

Technical innovations around data delivery and access or workflow and automation tend to attract much of the attention paid to "what's new" in loan agency solutions. However, it is important to point out that robust technology infrastructure also creates room for human talent, more connection to client needs, and more flexibility in adjusting to circumstances outside of the use cases enabled by technology. A similar principle applies to loan agent servicing.

Fulfilling client requirements also requires in-depth understanding not only of the best practices but also of the loan agreement and syndicate structure. Thinking about the four components of a loan agency solution and how they work together brings more nuance to the topic of scale.

Infrastructure

- Core technologies that enable loan management and servicing
- Support for a loan's full lifecycle from origination to trading and settlement
- Investment in data management and automation

Experience

- Deep task-based experience, integrated with knowledge of specific loan terms and stakeholder needs
- Experience with different loan types and lending scenarios and who understand both "up" and "down" market cycles
- Leadership on challenging market and regulatory issues

Process and Controls

- Covering financial transactions, trades, settlements, and reconciliations to administrative tasks such as processing borrower and lender data, requests, or consents to amendments
- Continuity from promises made during the sales cycle to the ongoing delivery of loan services
- A single point of contact for clients
- Consistency and context as specialist teams carry out processing responsibilities
- Responsiveness and timeliness
- Risk management and issue mitigation
- Underlying institutional safety and soundness

Relantionship Management

- Continuity from promises made during the sales cycle to the ongoing delivery of loan services
- A single point of contact for clients
- Consistency and context as specialist teams carry out processing responsibilities
- Responsiveness and timeliness

Where loan agency services are delivered by an agent that is part of a regulated banking group, a higher bar is applied to these loan-related transactions and activities, especially in areas such as wire fraud mitigation and collateral reporting.

Challenges in the Loan Market Ecosystem

The markets are an ecosystem where new entrants, small to mid-size asset managers, and even long-standing asset management firms looking to optimize their operations will actively seek out strategic partners among originators, custody managers, data providers, named agents, sub-agents, middle office, and/or fund accounting providers.

While a loan data and servicing network allows each participant to focus on what they do best, it also creates multiple exchange points for information about loans. When information moves from one party to another, it risks degrading in quality and timeliness.

Potential Challenges

- Facility register integrity in areas such as global amounts, spreads, and maturity dates
- Accurate and timely cash availability data to optimize returns
- Aggregation and integration of data into meaningful reports and formats that ultimately benefit the end investor
- Buy-side breaks and reconciliations in areas such as loan data and characteristics between internal asset management systems, custodians and trustees, agent banks, rating agencies, and other third parties

Avoiding the Scale Trap

No one has developed a perfect mousetrap, although many loan agents, including Wilmington Trust, continue to innovate in technology, talent development, and process improvement. Situational intelligence still wins the day.

While size can offer some advantages in some scenarios, it does not fit every need or provide the comfort level needed for every circumstance. Regardless of the service provider they select, loan agency clients should make sure to avoid the scale trap by asking prospective partners tough questions about their ability to deliver “flex” in an ever-changing market.

Tech in the Balance

Challenges Streamlining Data

First, loans present a high degree of customization. While trade organizations such as the Loan Syndications & Trading Association (LSTA) and the Loan Market Association (LMA) help provide a level of preferred standards and best practices, no governing regulation forces the adoption of such standardization.

Second, and perhaps more critical, communication and processes rather than the data itself can create steeper challenges to overcome. Technology is foundational, but people who are experts with syndicated loans are essential to the smooth, uninterrupted operation of loan markets.

New transaction structures and increasing complexity have increased investor demand for data and reports. Higher scrutiny from regulators is also playing a part in these changing needs among loan market participants.

Many of these changes stem from the different requirements of investment funds, CLO managers, underwriters, middle-office providers, custodians, and trustees. Together, the forces that have brought data and reporting to the top of the agenda in the loan markets raise the bar for the collection, trustworthiness, and packaging of underlying loan data.

They also impact the providers of such data— namely, loan agents who provide core loan processing data and loan market data providers of broader credit data. Therefore, it is essential to look at the question of data and reporting from the perspective of the loan markets overall, as well as specific users.

The Future of Data and Services

Many in the industry look forward to a future where loan data is centralized and accessible in one platform (e.g., on the blockchain) to help address the data aspects of these challenges. However, it is important to be realistic about the constraining factors.

Future technological promises aside, paper, document images, email, and fax still plague today's loan markets. While all market participants would likely prefer more efficient information exchange, today's reality imposes a high degree of manual processing. No technology solution by itself would change the need for information exchange, follow-up on the part of the agent, and efforts to resolve discrepancies within the dataset.

The Example of CLO Data Needs

CLOs are a case in point. The evolution in structures and documents from early vintage 1.0 CLOs to today's 3.0 CLOs imposes more risk testing requirements. The requirements depend on specific data tracking from industries, spreads, and countries to a much broader set of information, such as credit stats, EBITDA, and cash flow for investors to digest—typically delivered via trustee/custodian reporting supported by underlying manager data.

Moreover, regulators increasingly require CLOs to increase their level of transparency with specified data fields and standard reporting templates related to transaction documentation and more robust risk characteristics (see "CLOs in the Spotlight" above). ESG has also become more topical as investors are focusing more on allocating capital to investment strategies that support socially responsible companies / industries.

Combining loan data from multiple loan agents in addition to various credit and post-closing data sources is challenging. As a result, CLO managers and asset managers participating in loans must reassess their operational infrastructure for broadly syndicated loans, middle market, distressed debt, and other lending types. Collaboration with and among outsourcers, data providers, trustees, and agents is essential to addressing these gaps.

Mind the Gaps

Lack of data standardization in loan markets is a fundamental reality. There is no market-wide data governance or general repository. In this context, loan markets face four main gaps:

Standardization

A global industry-wide set of standards remains years away and may even be unrealistic.

- Data and information about loans do not reliably tie back to the equivalent of a security master such as a CUSIP or ISIN.
- These gaps widen in the middle market segment.
- Data formats for loan agent notices also vary.

Reconciliation

We are far from having real-time, fully automated reconciliation.

- Market data providers can have overlapping but incomplete coverage of loans.
- While some progress towards standardization has occurred with the European Central Bank's AnaCredit initiative, data coverage is not global.

Timeliness

Some providers post data on a pre-closing basis and do not include last-minute shifts that could impact trading decisions.

- Post-LIBOR rates and accrual calculations have added additional confusion.
- Information such as cash and position data is typically received on a T+1 basis.
- The timing of information about loan amendments can be spotty.

Delivery

We see wide dispersion in the means of delivery of loan information from both agents and other providers to managers.

- Solutions such as web-based portals, SFTP, and APIs have still not dislodged emailed PDFs or even faxes and phone calls.
- Machine learning and optical character recognition have managed to produce some improvements.
- AI has not matured enough to deliver self-learning reconciliation that adjusts to unexpected new variations.

Maybe You Can, But When Should You?

Making sure that digital solutions map well to real- world workflows requires special consideration. For example, portals can deliver meaningful self-service value when viewing a report or allowing a borrower to view all lenders participating in a facility. How ever, in many instances, portals present stale data, thereby introducing further reconciliation items that may have already been resolved but have not yet appeared in the portal. Many of these factors contribute to the low adoption of technologies such as portals within the industry. In a sense, clients are trying to keep the portal up-to-speed, not the other way around.

An Application Programming Interface (API) can help eliminate rework and reduce human error by directly ingesting loan data, but data delivery time may still not match an asset manager's trading frequency. APIs typically push data to client systems a limited number of times per day. Since an asset manager's entire loan portfolio requires information from multiple providers, dealing with various portals and APIs may ultimately replicate the gaps of more manual data delivery in digital form. Operations staff still have significant work to do to ingest and reconcile.

Meeting the Needs of End Users: Closing the Gap

Technologies can only help close loan information gaps when tailored to the way people want to use the data. Technologies in search of a solution have an even harder time looking for real-world usage. Instead, data providers must work to adapt both the data they provide and the way they provide it. Sometimes, however, the limiting factor is habit rather than technology. The benefits are compelling in theory, but the challenge is putting them into practice.

Neither behaviors nor technologies change overnight. Familiar ways of doing things have a lot of staying power. While we see the loan markets on a long-term trajectory to standardize around real-time data and shared industry-wide conventions for reporting, it will take many years to get there.

Theory	Practice
Self-service can streamline searching, lookups, and ad hoc report creation.	Loan agents still receive thousands of emails per year for simple requests such as position confirmations.
Such communication is ripe for deeper electronification to support better, mutually beneficial interaction between providers and stakeholders.	

New Skills and Careers in Loans

Just as in most areas of financial services and other industry sectors, the norms for jobs and careers are evolving rapidly. Many of the common elements of how we work today would have seemed quite foreign in 2012. Even the way we talk about work has changed, with phrases like “hybrid roles,” “the Great Resignation,” and “quiet quitting” peaking and then fading at unprecedented rates.

Loan market solutions have also experienced those shifts, both as a market and specifically here at Wilmington Trust. But turbulence aside, we see what is happening as a net benefit for teams, corporate cultures, and the level and quality of service delivered to loan stakeholders. Loan professionals at every level are making more conscious choices about the roles they take and where work fits in their overall lives. The end result is greater engagement and the reinforcement of essential valuable skills.

The Long Tail of the Pandemic

Many trends we are seeing were either triggered or intensified by the impacts of COVID-19. But the enduring use of remote collaboration tools is only the tip of the iceberg. Even after a return to “normal,” it is rare for 100% of the Wilmington Trust Loan Market Solutions team to sit in the same office. Moreover, remote collaboration has become a standard component in servicing client transactions.

But in our experience, the more meaningful shift was below the surface. The start of the pandemic called for significant flexibility and adaptability for everything from using loan systems to working on loan documents. It also raised the bar on soft capabilities such as relationship-building, problem-solving, self-awareness, and self-starting. These traits have improved the texture of how we work together as teams and address our clients’ needs.

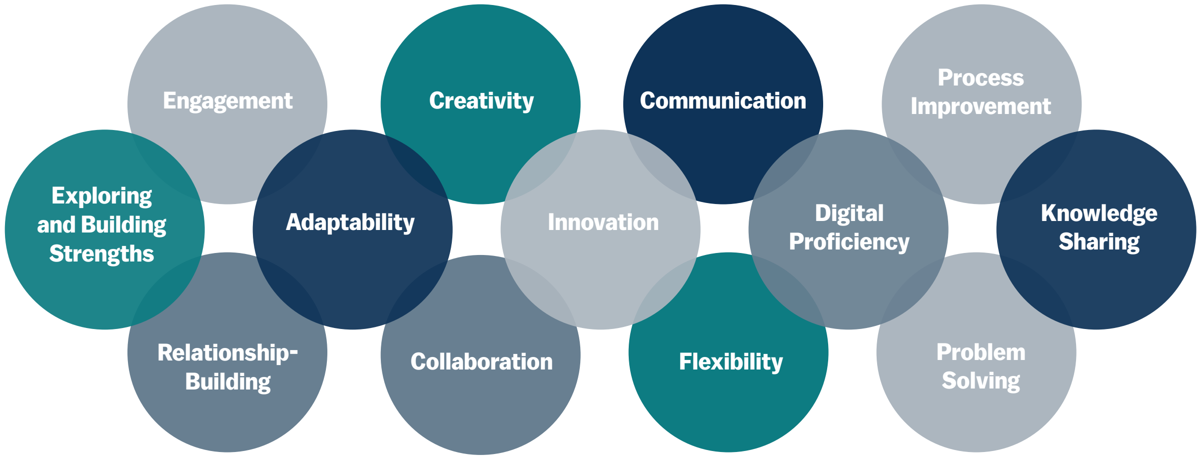
Creating Culture

At the same time, the improvements we see have introduced new and complex challenges. We see them at two levels: first, loan operations and processes, and second, team culture and performance. The culture dimension is key. As Adobe found in one workplace study, over three-quarters of employees said they are looking for a more supportive work culture to motivate and retain them.[6]

In today’s labor market, companies are willing to recruit talented people without limiting searches to geography. For example, a “golden goose” candidate with operational experience and technical proficiency in Denver might be hired and join a team based in Dallas. Succeeding under those conditions requires expanding focus on onboarding and training.

[6] “The Future of Time: Redefining productivity during uncertainty,” Adobe, September 2022.

Careers in loans require a sophisticated combination of hard and soft skills



Team Perspectives

"[During onboarding] we have weekly meetings to discuss questions and hard topics on top of our individual training."
— Relationship Management Client Administrator

"Culture is not just talking about treating employees well, but actually doing it and feeling it. Knowing that people want you to be here and teach you things benefits you beyond just your job description."
— Middle Admin Client Administrator

"Hybrid teams allow us to draw on deeper talent pools, which gives fresh perspectives to the team and clients."
— Relationship Management Unit Manager

"In loans, you work with a sophisticated ecosystem of professionals and complex structures. You're also dealing with very professional clients and supportive colleagues."
— Director of Market Development

On the Loan Market Solutions team, we have handled this phenomenon by investing more hours in training upfront, setting up peer partnerships and mentorship that act as a kind of buddy system. Loans are a complex asset class. Ensuring new team members feel comfortable asking questions helps sustain the impact of those onboarding activities. Moreover, as we learned over time, this comfort level is just as important to new employees. It drives more knowledge sharing and collaboration among employees regardless of their tenure.

Management also regularly checks in with all staff rather than only in formal performance conversations. The goal is to find more intentional ways to show appreciation and recognition by reinforcing behaviors and skills that are meaningful to the entire team. As a result, engagement is more of a two-way street that we work on systematically because team relationships require more sustained cultivation.

An additional benefit of this level of engagement is process improvement. Servicing a loan often requires creativity in finding the best way to deliver within the terms and conditions of individual deals. Junior staff often find innovative ways to complete tasks. They are not complacent, and as digital natives, they may discover new ways to use the technology at their disposal. We are seeing them share those solutions with job aids to help colleagues and updates to procedures that benefit other teams as well.

Working Where Change Is Happening

As a provider of loan market services, we see the industry's evolution from many angles, and our team-based approach exposes people to a broad range of tasks and problems to solve. Internally, focusing on relationships means supporting each other is as important as managing or being managed. The same philosophy applies to client relationships. Although we are returning to familiar formats such as industry conferences and client events, we see much more room for one-on-one interactions, even as simple as picking up the phone rather than sending an email.

Whether people are more inclined to grow into people management, process improvement, product, or client management, they have a chance to explore and build their strengths. The mix of collaboration technology and loan platforms creates hooks for ongoing professional development. We are excited to see how new waves of collaboration technology will improve career and client satisfaction in the future.

A Rewarding Culture in a Rich Environment

CULTURE	ENVIRONMENT
• Professional Development	• Environment
• Training	• Professional Clients
• Peer Partnerships	• Remote/Hybrid
• Mentorship	• Geographical Diversity
• Supportive	• Sophisticated Ecosystem
• Appreciation/ Recognition	• Complex Structures

About Wilmington Trust Loan Market Solutions

Wilmington Trust's Loan Market Solutions team— located in the U.S. and Europe— has broad experience administering performing and non-performing loans. Our diverse global portfolio ranges from bi-lateral loans to broadly syndicated loans with 950+ lenders. Experience how our ability to act as a neutral, impartial agent and facilitator due to our non-lender role can provide value on your next transaction.

Our financial stability, reputation, and strength of service make us the agent of choice for numerous banks, funds, debt advisors, and lawyers in the loan market.

The Wilmington Trust Advantage

Single Point of Contact Model

Assigned lead relationship manager for Direct Lending / Sub-Agent clients

Reliable & Proven Technology

Heightened awareness to technology needs of our clients to improve operational efficiency

Flexible Approach

Providing customizable solutions for clients including white labeling and full administrative / collateral agent services

Effective Service & Solutions

Responsive and collaborative team working on behalf of both lenders and borrowers

Experienced Team

Comprehensive development program for associates with defined career path from middle office operations to relationship management

Independent & Impartial

A neutral third party administrative agent focused on administering the loan

DISCLOSURES

Wilmington Trust's domestic and international affiliates provide trust and agency services associated with restructurings and supporting companies through distressed situations.

Not all services are available through every domestic and international affiliate or in all jurisdictions. Services are available only to institutional clients, (i.e. Eligible Counterparties or Professional Clients as defined by applicable regulations), and not for Retail clients.

This article is intended to provide general information only and is not intended to provide specific investment, legal, tax, or accounting advice for any individual. Before acting on any information included in this article you should consult with your professional adviser or attorney. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, or the opinions of professionals in other business areas of Wilmington Trust or M&T Bank. M&T Bank and Wilmington Trust have established information barriers between their various business groups.

Wilmington Trust is a registered service mark used in connection with various fiduciary and non-fiduciary services offered by certain subsidiaries of M&T Bank Corporation including, but not limited to, Manufacturers & Traders Trust Company (M&T Bank), Wilmington Trust Company (WTC) operating in Delaware only, Wilmington Trust, N.A. (WTNA), Wilmington Trust Investment Advisors, Inc. (WTIA), Wilmington Funds Management Corporation (WFMC), Wilmington Trust Asset Management, LLC (WTAM), and Wilmington Trust Investment Management, LLC (WTIM). Such services include trustee, custodial, agency, investment management, and other services. International corporate and institutional services are offered through M&T Bank Corporation's international subsidiaries. Loans, credit cards, retail and business deposits, and other business and personal banking services and products are offered by M&T Bank. Member, FDIC.

M&T Bank Corporation's European subsidiaries (Wilmington Trust (UK) Limited, Wilmington Trust (London) Limited, Wilmington Trust SP Services (London) Limited, Wilmington Trust SP Services (Dublin) Limited, Wilmington Trust SP Services (Frankfurt) GmbH and Wilmington Trust SAS) provide international corporate and institutional services.

AMP-8298 250213-F