

KROMANN
REUMERT

Kromann Reumert
Loan Agency Services

Increased attention
from the FSA
requires transparent
loan administration.

Loan administration

THE GROWTH OF THE ALTERNATIVE LOAN MARKETS

Recent years have witnessed a number of significant changes in the loan markets both in Denmark and across the rest of Europe. In particular, the alternative loan markets have seen a significant growth in their geographical footprint, volume, product range and customer base. Having historically dominated the European lending space, banks have been subject to increased regulation following the global financial crisis and restriction in their capacity to lend new money. This has opened up a market for alternative and non-traditional financing providers and Denmark and other European countries have seen a sizeable increase in the number of pension and life insurance companies offering direct loans as a boost to their traditional product base.

Given their rapid and significant growth in Denmark, the alternative loan markets have naturally gained an increase of attention from the Danish Financial Supervisory Authority (**FSA**). Charged with, among other things, the supervision of banks and pension and insurance companies, the FSA has been keen to ensure that the alternative loan markets do not create a shadow banking market that operates without the checks and balances that apply to banks. Accordingly, the FSA has reacted to the surge of activity in the alternative loan markets by enhancing its

assessment of potential future risks and has extended the spotlight of its supervision past initial credit evaluation to include the subsequent follow-up and administration of loans by non-traditional financing providers. This focus has demonstrated that, unlike traditional loan providers who regularly provide loan agency services, a significant number of new players offering direct lending in the alternative loan markets do not host the technical and administrative infrastructure and expertise required to service a loan portfolio.

KROMANN REUMERT LOAN AGENCY SERVICES

In response to the analysis of the FSA on the difficulties faced by non-traditional lenders in the administration of loan portfolios, Kromann Reumert has developed an independent, commercially based and cost-efficient facility agent and loan administration model offered through Kromann Reumert Loan Agency Services which is tailored to meet the specific needs of pension and life insurance companies and other alternative and non-traditional financing providers. Kromann Reumert Loan Agency Service's cover all necessary services to ensure efficient, timely and transparent loan administration which is compliant with the client's FSA requirements and which dovetails with the specific needs and objectives of the client.

Why hire an
agent?

Facility agent

FACILITY AGENT AND LOAN ADMINISTRATION SERVICES

Kromann Reumert Loan Agency Services offers facility agent services providing independent, third party loan administration services in accordance with the internationally recognised industry standards of the Loan Markets Association.

Kromann Reumert's facility agent and loan administration model offered through Kromann Reumert Loan Agency Services offers a "one-stop-shop" for facility agent and loan administration services that typically includes:

- fully integrated facility agent and loan administration online platform tailored to meet your specific needs and providing an up-to-date overview of the status of each specific loan
- administering loan activity
- monitoring borrower compliance with scheduled obligations
- supervision of loan status and changes in terms
- administering requests for waivers, modifications and consents
- centralised collation of conditions precedent
- facilitation of lender-borrower communication
- coordination of lender instructions and
- coordination with advisors and other agents, e.g. security agent, account banks, etc.
- internal counsel with extensive experience of facility agent and loan administration services
- independent deal document review
- interpretation of loan terms and conditions
- provision of weekly/monthly reports
- specifically assigned Kromann Reumert Loan Agency Services administration coordinators
- maintaining full record of outstanding loans

Loan administration tools

FACILITY AGENT AND LOAN ADMINISTRATION SERVICES - ACCESSIBLE DAY-TO-DAY SERVICES AND CONSIDERED ADVICE

Kromann Reumert has developed a comprehensive facility agent and loan administration system through Kromann Reumert Loan Agency Services that provides the client with a full overview of loan documentation, deadlines and borrower compliance with relevant lending terms and conditions along with up-to-date details of lender commitments and other regularly updated information.

The service operates through a unique, centralised online platform, which is managed and supported by Kromann Reumert Loan Agency Services, a Kromann Reumert subsidiary, as facility agent and tailored on a loan-by-loan basis. This online platform offers lenders timely and easy access to all deal notifications and other communications. Information is categorized and areas of concern immedi-

ately identifiable via a clear "traffic light" signalling system which quickly shows the general status of the loan. Furthermore it provides an overview of information and reporting received and other key performance indicators such as compliance with financial ratios and significant items notified to the facility agent.

In addition to hosting and operating a loan specific online platform, Kromann Reumert Loan Agency Services distinguishes itself from other providers of facility agent and loan administration services and provides lenders with initial analysis of significant conditions or violations of loan provisions of which the facility agent is notified. Kromann Reumert Loan Agency Services leverages off the legal expertise of Kromann Reumert to ensure that lenders are provided with relevant information to quickly make well-informed commercial decisions.

Add Actions

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Loan Administration - Default

<input type="checkbox"/>	Date	Category of item	Comments to category of item	Document received	Link to document	Document Checked	Relevant Document	Relevant Provision	Action	Recommendation/possible actions	Send notice of non-compliance to	Recipient Type	Lenders or lender group	Correspondence
<input type="checkbox"/>	01.01.2018	Scheduled receipt of document /notice	Audited financial statements	Yes	4.1 Test - Audited Financial Statements.docx	Yes	CTFA	Clause 16.1	Forward notice or document			Lenders or lender group	Commerciallender1 Commerciallender2	
<input type="checkbox"/>	01.01.2018	Scheduled receipt of document /notice	Receipt of Compliance Certificate from the Borrower	Yes	4.2 Test - Receipt of Compliance Certificate from the Borrower.docx	Yes	CTFA	Clause 16.1 and Schedule 5		Scheduled receipt of Compliance Certificate from the Borrower in accordance with the CTFA. No action required.		Lenders or lender group	Commerciallender1 Commerciallender2	
<input type="checkbox"/>	01.12.2017	Default/event of default notice	Receipt of notice from Borrower notifying of the occurrence of an Event of Default	Yes	6.1 Test - Default.docx	Yes	CTFA	Clause 22.7	Request instructions	We hereby request instructions from the Commercial Lenders as to their chosen course of action.		Lenders or lender group	Commerciallender1 Commerciallender2	
<input type="checkbox"/>	01.01.2018	Scheduled receipt of document /notice	Deadline receipt of Auditor Report	Yes		Yes	CTFA	Clause 22.7 (h)	Request instructions	Failure to deliver an Auditor Report is a breach of the Borrowers obligations under the CTFA cf. Clause 22.7(h). The Commercial Lenders may: a) [XX] or b) [XX]. We hereby request instructions from the Commercial Lenders.	Lenders or lender group	Lenders or lender group		

Traffic-light signalling system.

Analysis of significant conditions or violations.

The FSA can impose
various sanctions
if you don't comply.

Regulation

The Financial Business Act (Consolidation Act No. 174 of 31 January 2017) (the Act) provides overall regulation of financial institutions and conduct of financial business in Denmark. The Act is harmonised with EU legislation and implements relevant EU directives. The Act regulates the activities, licensing requirements, duties and responsibilities of financial institutions, and provides the legal framework for the supervision of compliance by the FSA.

The FSA is charged with, among other things, the supervision of banks and pension and insurance companies, and regularly conducts inspections of financial institutions in Denmark. If a financial institution does not comply with applicable law and regulation, the FSA can impose various sanctions, including administrative fines, and withdrawal of approval of a management director or a banking license etc.

The FSA has been increasingly vocal about the risks associated with pension funds' alternative investment activities. The FSA has been increasingly vocal about the risks associated with pension funds' alternative investment activities. The FSA is keen to ensure that participants in the alternative investment markets have the level of expertise required to adequately manage alternative investments and to comply with their regulatory obligations, and that the alternative loan markets are not creating a shadow banking market that operates without the checks and balances that apply to banks. In 2017 the Danish Parliamentary Finance Committee appropriated DKK 13 million (EUR 1.7 million) to the FSA. These funds are, among other things, intended to strengthen the supervisory functions of the FSA.

Interesting opportunities - Direct lending

WHAT IS DIRECT LENDING?

European focused direct lending was virtually non-existent as recent as in 2005. However, the market for direct lending has been in a state of constant growth over recent years both in Denmark and across the rest of Europe as traditional lenders have restricted and reshaped their businesses as a response to increased regulation introduced following the global financial crisis. Non-traditional lenders are increasingly entering the alternative loan markets as a means to diversify their portfolio and react to the restrictions of regulatory change. In particular, Denmark has seen a sizeable increase in the number of pension and life insurance companies offering direct loans as a boost to their traditional product base and means to increase yield in an otherwise low-rate environment. It is reported that in 2015 the amount of capital raised by Europe-focused direct lending funds reached \$18.8 billion .

Direct lending starts with asset managers, including pension and insurance firms, which establish direct-lending funds from investors interested in debt. Once established, these funds typically offer financing to mid-sized businesses which no longer fit the customer profile of traditional bank lenders. The demand from these borrowers, and the reduced number of borrowing alternatives open to them, has seen direct lenders able to secure higher interest rates.

In the same way as traditional lending, direct lending facilities require servicing. Whilst the profile of direct lending participants is such that these lenders often retain their participation for the life of the facility rather than syndicate out, this does not absolve the need to ensure appropriate administration of their loan portfolios and the requirement for facility agent and loan administration services remains paramount. Indeed, whilst traditional bank lenders, enabled by volume and experience, have over the years developed their own facility agent and loan administration platforms, new players in the market are expected to hit the ground running with the provision of sophisticated facility agent and loan administration services. Hosting these services internally can be challenging for new entrants who, in a number of cases, have been seen to fall short of their regulatory responsibilities in this regard.

Kromann Reumert's facility agent and loan administration services offered through Kromann Reumert Loan Agency Services provide a comprehensive and sophisticated solution to the cost and inherent challenges of developing an in-house facility agent and loan administration platform compliant with FSA requirements.

Kromann Reumert Loan Agency Services

Kromann Reumert is the leading Danish Law firm within banking and finance and home to Denmark's largest banking and finance team with over 40 lawyers, many of whom are recognised as leaders in their field with top ratings from rating agencies such as Chambers Europe, Legal 500 and IFLR 1000. Kromann Reumert has significant experience advising banks and third-party agents on the structuring, initial documentation and ongoing administration of substantial loan portfolios.

Kromann Reumert has significant experience advising banks, other lenders and third-party agents on a vast array of deal structures across domestic and global markets, in particular on the structuring, initial documentation and ongoing administration of substantial loan portfolios. This knowledge and insight makes Kromann Reumert, operating through Kromann Reumert Loan Agency Services, your obvious partner for the provision of facility agent and loan administration services.

The vast majority of Kromann Reumert's lawyers are qualified Danish lawyers, however we also have a significant number of lawyers admitted to practice in other jurisdictions, including England & Wales and New York. Kromann Reumert is Denmark's only member of the worldwide Lex Mundi association, an extensive international network of 160 premier and independent law firms comprising more than 20,000 lawyers from around the globe.

Kromann Reumert Loan Agency Service advice and services are practical, relevant and individually tailored to meet the specific needs of each client. We believe that the best advice is achieved by working in close cooperation with our clients and developing a thorough knowledge of their business. A collaborative approach enables us to provide workable, operational and value-adding solutions for both the short and long term.

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LIMITATION OF LIABILITY

The facility agent and loan administration services offered by Kromann Reumert through KR Loan Agency Services are separate to, and independent of, the legal advice provided by Kromann Reumert. The nature and scope of the facility agent and loan administration services offered by Kromann Reumert through KR Loan Agency Services (the Services) are specifically agreed between KR Loan Agency Services and its client on a case by case basis and are set out in agreed form documentation. KR Loan Agency Services acts as an agent in respect of the provision of the Services and neither Kromann Reumert nor KR Loan Agency Services shall be liable to any person for any matter or thing done or omitted outside the Services, or in any way in connection with the Services save in relation to its own gross negligence, wilful default or fraud. In no event shall Kromann Reumert or KR Loan Agency Services be liable for any loss of profits goodwill, reputation, business opportunity or anticipated saving, or for special, punitive, indirect or consequential damages, whether or not Kromann Reumert or KR Loan Agency Services (as the case may be) has been advised of the possibility of such loss or damages. Notwithstanding engagement of KR Loan Agency Services in respect of the provision of the Services, Kromann Reumert and KR Loan Agency Services reserve the right to provide services including, without limitation, legal and facility agent and loan administration services to all other market participants in accordance with their own internal conflict and engagement rules.

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