

Loan Market Association

the authoritative voice
of the European market

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LMA launches debt buy-back language

The LMA has published a revised version of its leveraged finance primary document, containing optional debt buy-back language. There are two options, one prohibiting debt buy-backs by a Borrower and members of its group, the second permitting such debt purchases by a Borrower under certain conditions. Both options accommodate debt purchase transactions by Sponsor Affiliates, but these purchases result in the disenfranchisement of that portion of the loan and related commitment purchased by the Sponsor Affiliate. This has been done to avoid conflicts of interest between Sponsor Affiliates and other syndicate members on issues that require a vote by the syndicate.

If a Borrower is permitted to make a debt purchase transaction, it can do so by way of either a Solicitation Process or an Open Order Process, both of which ensure that all members of the syndicate participating in the relevant facility have the opportunity to offer their portion of the relevant facility for sale to the Borrower if they wish. The drafting also addresses the question of what funds a Borrower may use for a debt purchase transaction.

Having previously issued a position statement on the subject of debt buy-back, the LMA Board hopes the new wording will help market participants to negotiate the commercial position they wish to achieve on individual transactions.

Clare Dawson, Executive Director of the LMA, said,

"This is a subject which has caused considerable controversy in the loan market over recent months. By providing drafting for our leveraged facility agreement, we aim to encourage market participants to address the concept of both Borrower and Sponsor debt purchases, which may commercially be regarded as quite different scenarios."

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NOTES TO EDITORS

Loan Market Association

The Loan Market Association was founded in December 1996 by seven leading international banks in London. Its aim was to encourage liquidity and efficiency in both the primary and secondary loan markets by promoting market depth and transparency, as well as by developing standard forms of documentation and codes of market practice. Banks, law firms and other market practitioners/participants are welcome to apply to join the LMA, and the membership currently stands at 399.

The Association was established in anticipation of changing market conditions and of a perceived willingness on the part of the banking community to bring greater clarity, efficiency and liquidity to the relatively under-developed secondary market.

The initiative was clearly well timed, as since 1997, there has been sustained growth in secondary loan activity in the Euromarkets, with volumes for 2007 estimated at EUR 173 billion, a 69% increase over the equivalent figure for 2006. The estimate of secondary trading volumes for 2008 half-year was EUR 47 billion (EUR 101 billion in 2007).

The LMA has gained recognition in the market and has expanded its activities to include all aspects of the primary and secondary syndicated loan markets. It sees its overall mission as acting as the authoritative voice of the syndicated loan market in Europe vis à vis banks, borrowers, regulators and other affected parties.

For more information, please visit www.lma.eu.com.