



LSTA Hosts Oil and Gas Finance Webinar

June 27, 2018 - On Tuesday, the LSTA hosted an afternoon webinar, Recent Developments in Oil and Gas Finance, presented by Jeff Nichols, Gil Porter, and Kraig Grahmann, partners of Haynes and Boone. After the challenges experienced by the oil and gas industry in 2015 - 2016, the industry entered 2017 cautiously optimistic about the improved outlook, yet bank lenders remained conservative throughout the year, forcing some companies to refinance their debt from high yield bonds and seek investment from PE firms. As noted in Nichols and Abdelrazik's article, "The Year in Oil and Gas Finance", which appears in the LSTA's 2018 Loan Market Chronicle, capital from traditional banking sources was less accessible in 2017 for several reasons: oil's price volatility, the recent bankruptcies in the industry, and the new and stricter lending standards set forth in the OCC's Handbook for Examination of Oil and Gas Exploration and Production Lending ("E&P Handbook") which was released in 2016, shortly after oil prices had hit bottom. The revised E&P Handbook introduced new standards by which bank examiners were to evaluate the repayment risks on loans secured by oil and gas reserves. Following the E&P Handbook's release, energy lenders began to apply the new metrics, and consequently many loans were downgraded. One industry analysis revealed that 53 of 58 publically reporting E&P companies would fail the E&P Handbook's strict guidelines, although ultimately only three of those 53 companies filed for bankruptcy. (Interestingly, Buddy Clark of Haynes and Boones notes in his white paper, "Next Stop: The Twilight Zone. Enforceability of OCC Reserve Based Lending Guidelines" (with contributions from Molly Barham), the OCC failed to submit that E&P Handbook for review under the Congressional Review Act and thus, because it is similar in scope, purpose and effect on banks as the loan market's Leverage Lending Guidance, it would appear that, if properly challenged, the binding nature of the E&P Handbook should be questioned as the LLG was last year.) The presenters also reviewed the new technology which found its way into credit agreements during the industry's recent challenges. As oil and gas companies sought increased cash management flexibility during the lean years, with some even making "extraordinary draws" under their revolving credit facilities, lenders included "anti-defensive draw" and "anti-cash hoarding" provisions, and "no bankruptcies being considered" representations in credit agreements. Fortunately, the cautious optimism of 2017 has now given rise to much greater optimism in 2018. The US oil and gas industry is experiencing an increase in both production and demand both domestically and internationally, and it is projected that \$3 trillion of capex will be required over the next 5 years. If oil averages around \$55/bbl, there will be a gap of \$750 billion from cash flows to fund capex; fortunately, lenders seem a lot more eager today to provide that much needed capital to the industry. The panelists concluded the presentation with an overview of the boom in US petrochemicals projects, and noted that projected growth in exports will require additional transport, logistics, and facilities as projects come on line. With so many developments taking place in the industry this year, the LSTA has invited Haynes and Boone to return in 4Q18 to present another webinar on the industry.