Geneva® Fundamentals

Everything You Need to Know About Processing Loans and Credit Investments

Why it matters

Syndicated loans and private debt hold the potential for high and stable returns for hedge funds and their investors, but they entail processing and accounting complexity. Interest payments and paydowns must be accurately allocated among general and limited partners.

Syndicated loans

In a syndicated loan scenario, hedge funds buy portions of loans generated by banks and are sold to investors. Syndicated loans come in many flavors, including:

Credit facilities: Enables the borrower to withdraw money over an extended period of time. Limits the need for a borrower to reapply for a loan each time it needs money

Term loans: Provides the borrower with a loan issued by a bank for a fixed amount and fixed repayment schedule

Mezzanine financing: Offers a hybrid approach of debt and equity financing. In the instance of borrower default, this type of loan provides the lender with the option to convert to an equity interest in the company, after other senior lenders are paid

Revolving credit: This type of loan does not have a fixed number of payments, giving the bower the ability to carry a balance from month-to-month. This provides firms with more liquidity to manage the day-to-day operations

Syndicated loans

For fund managers, syndicated loan transactions have many moving parts that add to the complexity of accounting, including:

Loan data: Agent banks typically provide syndicated loan data in PDF form. There are intermediaries in that market who will digitize that data as a service for fund managers to reduce the labor and risks associated with manually entering the data into accounting systems.

Fund allocation: Fund managers may hold portions of the same loan across multiple funds. Interest and paydowns must be allocated accurately to each fund based on the percentage of the loan each holds.

Settlement times: The Loan Syndication and Trading Association (LSTA) has established standards requiring loan issuers and buyers to agree on the time frame for transaction settlement. The buyer (i.e. the fund) can be penalized if the time frame is not met. If a trade doesn't settle on time, the fund manager must account for delayed compensation and cost-of-carry based on the actual settlement date.

In addition, the pending end of LIBOR as the primary loan reference rate and the transition to the other risk free rates (RFR), such as the Secured Overnight Financing Rate or SOFR for US funds will add a layer of complexity to loan accounting. Funds must implement fallback strategies for converting their existing LIBOR-based assets to other RFR, and then adopt accounting standards for new loans going forward.

Private debt

With private debt, funds may either be originating loans or purchasing them on the secondary market. The private debt segment includes distressed debt, sold by originators at a discount to buyers willing to take on the risk of default. During the global health crisis of 2020-21, distressed debt funds surged to a record number of funds.

To add to the complexity, private debt data is typically delivered in PDFs, meaning interest and paydowns must be booked manually. In order to reduce the risk of inaccuracy while saving processing time, it's important to utilize a system that simplifies manual data entry.

How Geneva® can help

Geneva is the leading global portfolio accounting platform and the First and foremost, Geneva streamlines and automates much of the accounting for syndicated loan investments. With Geneva, you only need to book an interest payment once, which makes it easy to reconcile with counterparties. Geneva will automatically allocate the payment among funds in which the loan is held and to investors. Similarly, with paydowns, Geneva automatically applies payments to multiple funds.

LIBOR transition: Geneva has also added functionality over the last two years specifically to address the transition from LIBOR to other risk free rates, like SOFR. The Geneva teams is working directly with clients to develop enhancements to automate interest accruals and daily compounding under SOFR.

Interest payments: Automatically calculates interest payments and apply loan-level transactions data for each fund or portfolio that owns a portion of the loan. Paydowns need to be booked only once—Geneva will do the rest of the accounting for positions in all funds automatically.

Private loans: The Geneva team works with large investors who have substantial portfolios of private loans, whether originated or acquired. We will help build out their loan processing screens so they can easily process loan-level transactions from PDFs if the loan data is not already digitized.

Geneva: Comprehensive loan processing capabilities

Geneva eliminates the need for multiple systems and processes to manage different types of loans. Geneva offers full support for:

- All loan types with both scheduled and ad-hoc payment in kind, including term loans, delay draw loans, revolvers and loan total return swaps
- Par and distressed bank debt trades with full delayed compensation and cost of carry accruals
- Flexible payment schedules for underlying loan contracts, with full range of credit activity support and delinquent interest tracking
- Loan defaults, complex multi-security reorganizations, and amortization of loan discounts

Proven technology for the life of your firm

Geneva is a proven solution for asset managers, hedge funds, fund administrators, prime brokers, and mutual funds that require a high level of operational efficiency and easy access to real-time data. Geneva enables firms to manage complex investment vehicles, multiple investment strategies, and tiered fund structures. More than 350 firms worldwide, ranging from under $100 million to over $100 billion in assets, trust Geneva for their most complex accounting needs. What's more, SS&C Advent is continually reinvesting in enhancements to keep our clients ahead of an ever-evolving global marketplace.

ABOUT SS&C ADVENT

SS&C Advent helps over 4,300 investment firms in more than 50 countries—from established global institutions to small start-up practices—to grow their businesses, minimize risk, and thrive. We have been delivering unparalleled precision and ahead-of-the-curve solutions for more than 30 years, working together with our clients to help shape the future of investment management.

Find out how you can take advantage of our industry-leading solutions to support your business goals. To learn more about the right solutions and services for you, contact advent@sscinc.com.

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