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Redetermination, Perfection and Bankruptcy in the Oilfield

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Redetermination



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Relationship between Bank and E&P Company:



- There is a longstanding relationship between E&P company and bank that is valued
- Energy banks play an integral role in the exploration and production of oil and gas
- Even in a down market, historically banks have demonstrated a willingness to be flexible and work with their E&P company clients who are seeking additional working capital to fulfill drilling commitments, etc.

Relationship between Bank and E&P Company:



- 2016 seems to be signaling a change in this longstanding relationship because of regulatory scrutiny
- In light of this change – in some cases drastic change – E&P Companies need to be armed with knowledge and not hostility

Basics of RBLs and Redeterminations:



- The most common credit product offered by a bank to an E&P company is a reserve-based loan, or “RBL”
- RBLs are an asset-based loan that permits an E&P company to take out cash as needed for its operations, provided that the principal amount of credit exposure does not exceed the lesser of the total credit limit – or the “borrowing base.”
- The borrowing base is determined by the bank after review of the E&P company’s most recent reserve report

Basics of RBLs and Redeterminations:



- After evaluating the borrower’s reserves, the bank then determines how much it would be willing to loan against those reserves for a six month period in the future
- Most banks will lend to 60% - 65% of its reserve valuation
- Most banks consider RBLs to be the lowest-risk form of energy lending because of the collateralization against proven reserves

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Title search: Redetermination, Perfection and Bankruptcy in the Oilfield

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"Basics: Redetermination, Perfection and Bankruptcy in the Oilfield"