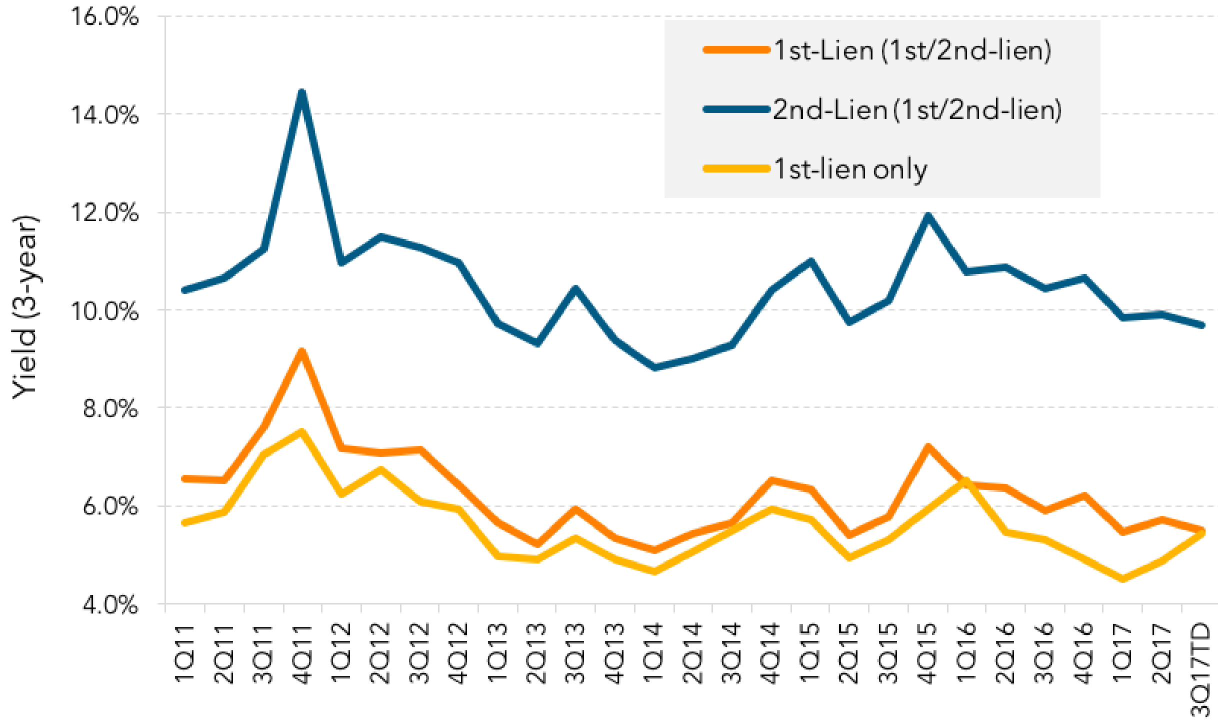
Yields of first/second-lien structures continue to tighten

LSEG | August 3, 2017



The average yield has widened to 5.46% so far in 3Q17 from 4.96% in 2Q17. One of the reasons behind widening yields is that while refinancings continue to lead activity, the share of M&A credits has increased to 40% of the institutional tranches priced so far this quarter. This is much higher than the 28% recorded in 2Q17. While first-lien yields have increased, yields on first-lien/second-lien structures have tightened, but continue to provide a hefty premium on the second-lien piece. The average yield, assuming a three-year term to repayment on second-lien term loans is 9.70% so far this quarter; roughly 20bp lower than 2Q17 levels. Yields on first-lien term loans that are part of a first/second-lien structure currently stand at an average of 5.50%, down from 5.72% in 2Q17. In turn, second-lien term loans provide a yield premium of 420bp compared to their first-lien counterparts when part of a bifurcated structure; a tad higher than the 418bp recorded in 2Q17. Meanwhile, yields on standalone first-lien yields have widened to 5.45%, their highest level in over a year. In turn, the premium between first-lien term loans that are part of a first/second lien structure and stand-alone first-lien term loans is currently almost non-existent at 0.05%.

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