Share of cov-lite loans slips in 2019, but remains the market standard

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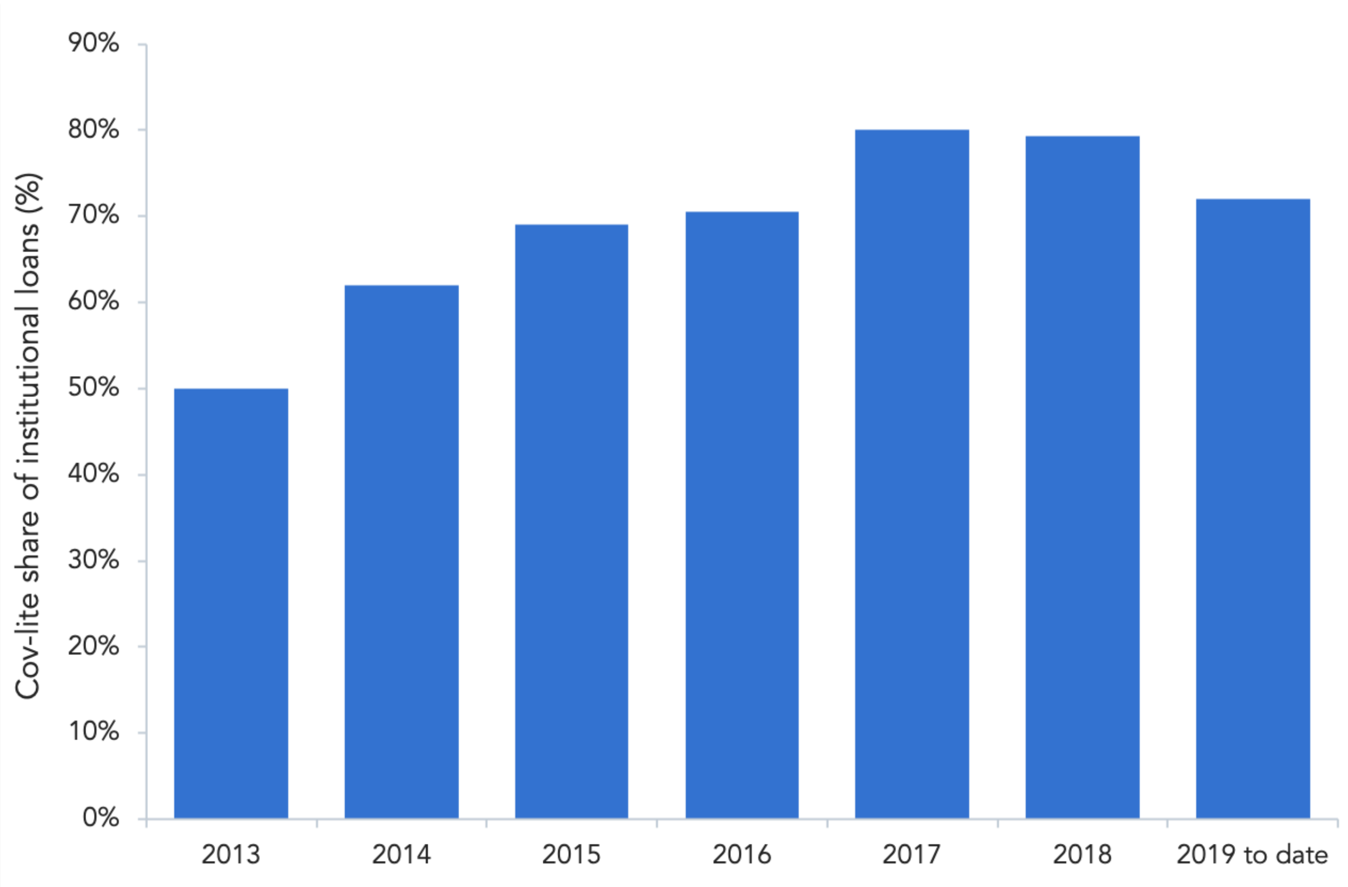

Source: Debtwire Par, Xtract Research

After reaching a high in the 80% area in 2017 and 2018, the covenant-lite share of institutional loans has slipped this year to 72% as lenders have in some instances been able to push back against the lack of covenants. But despite this relative improvement, cov-lite loans remain the market standard.

In recent years, loan covenant protections have come under significant pressure as market technicals have forced investors to accept the borrower-friendly terms on offer. Steady and robust demand for loans has, for the most part, easily soaked up new supply, and the lack of sustained risk-off periods has provided lenders limited scope to push back on deal terms.

While loan covenant protections remain extremely weak by historical standards, there has been some relative improvement so far in 2019. Looking at Xtract Research's Covenant Scores (which rank leveraged loan covenant protections from 0-10, with 0 being the weakest possible covenant package and 10 being the strongest), the share of sponsored first-lien institutional loans with a score in the 8 and above category has climbed to 36% in 2019 to date from 23% in 2H18. But this does not mean that lenders have the upper hand, as over one-third of loans issued this year have a covenant score at the weaker end of the scale (<=4).

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