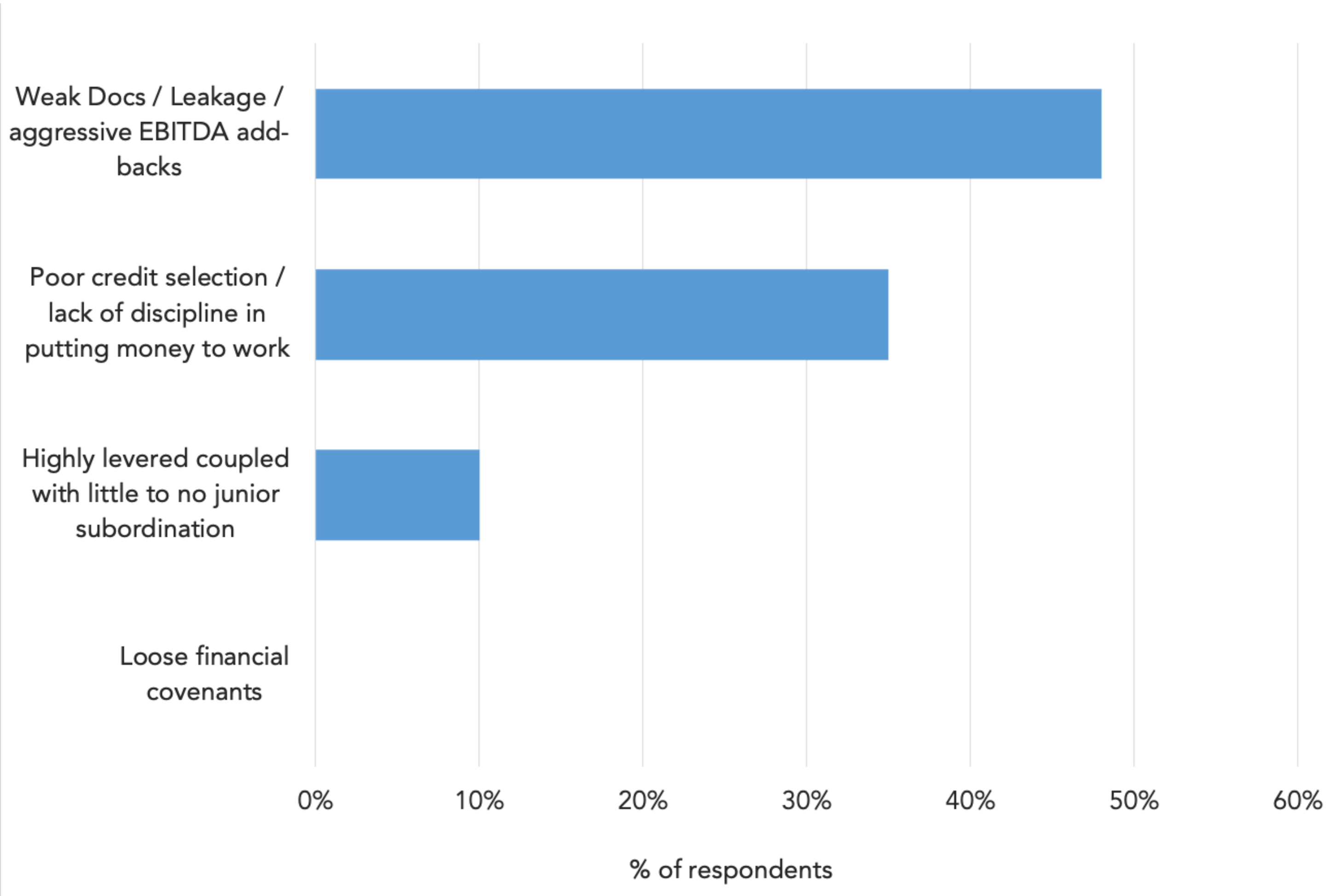
What characteristics of loans will cause the biggest problems in the future?

LSEG | May 30, 2019



When asked what characteristics of loans determine which middle market lenders will see the biggest problems in the future at LPC's 7th Annual Middle Market Loans Conference, earlier this month, half of respondents chose weak documents, including aggressive EBITDA add-backs. Another 35% said it really comes down to the manager. They viewed poor credit selection and a lack of discipline in putting money to work as the biggest determinant of future performance. Not surprising, loose financial covenants were only the biggest concern for seven percent of lenders which is in line with the thinking that credit selection should trump structure, echoed by investors who say covenants don't pay them back, cash flows do. However, one tenth of respondents do believe that highly levered structures coupled with little to no junior subordination will be the biggest determinant of performance. But, what really constitutes a true first lien these days? When asked to select the best definition of a true "first lien" senior loan, at the same conference, 72% selected that the loan has a first dollar attachment point. Nearly one fifth said the loan is < 60% LTV at origination and 12% focused on the loan having a maximum leverage level of 5.0 times debt to EBITDA.

Contact: Ioana Barza
ioana.barza@refinitiv.com