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Middle market lenders weigh in on the percent of issuers that will miss P&I in June?

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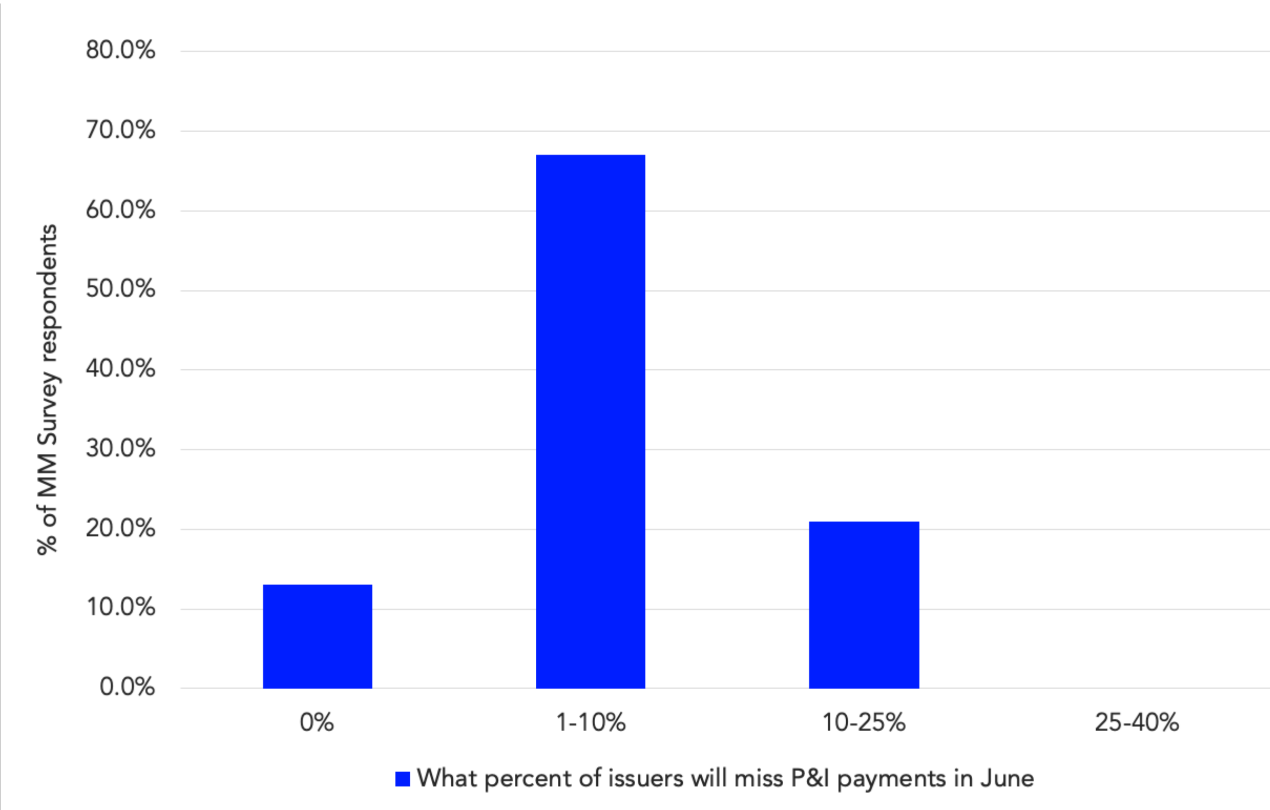

Now that we are in June, middle market lenders are highly focused on how issuers will react at the June 30th principal and interest payment date. While making P&I payments at March was a very stressful experience for many, lenders got through it pretty successfully with only a few issuers missing payments or making material modifications at 1Q20. However 2Q20 is likely to be more challenging given a full quarter of financial hardship from the COVID-19 shutdown. A recent middle market lender survey indicates that most lenders (67% of respondents) believe roughly 1-10% of their portfolio issuers will miss P&I payments at June. Meanwhile, another 21% of lenders that took the survey are more bearish expecting 10-25% of their portfolio issuers to miss P&I. While many issuers drew down on revolvers in March, lenders indicate that many portfolio companies have done a good job of preserving that cash and will likely make payment in June. However that puts 3Q20 more into question as to whether issuers have enough liquidity to make that payment, especially as businesses reopen and need extra liquidity to start back up. “We are living quarter to quarter, I suspect 3Q will have more trouble than 2Q, we will slowly start to see folks reopen, but as the year progresses PE will have to decide who to support and who to let go,” said a direct lender. “And lenders will have to decide whether to give an amendment or take the keys,” added the lender.

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