Libor floors are back in the institutional market

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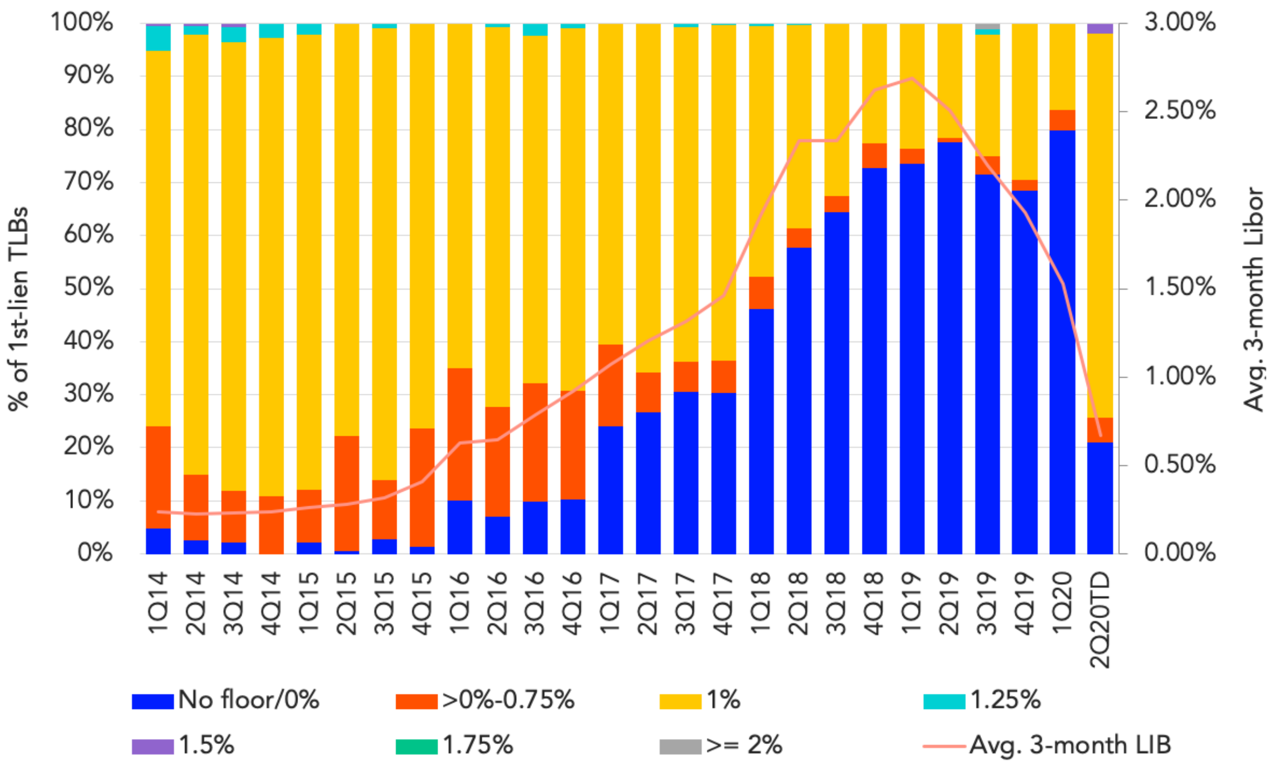

Investors are demanding Libor floors on institutional term loans as the Libor rate continues to drop. While 3-month Libor has been in a declining trend since 1Q19, it has plunged since the COVID-19 crisis hit. The average 3-month Libor rate has dropped to 0.67% so far this quarter from 1.53% in 1Q20 and a much higher 2.51% a year ago. In turn, Libor floors have staged a comeback as investors look to guarantee a minimum return. So far this quarter, a whopping 72% of first-lien institutional term loans have a 1% floor. Last quarter, only 16% of deals carried a 1% Libor floor, while 80% had a 0% or no floor. The last time the share of deals with a 1% floor was so high was in 2Q16; at which time the 3-month Libor rate was at 0.64%. Libor floors became popular during the financial crisis and were in place for a while. However, by 2Q18, less than half of first-lien institutional term loans had a floor and that share kept dropping until last year.

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