Sponsors demanding larger DDTLs to act quickly in today's buying bonanza

KBRA DLD | July 29, 2021

Sponsors are demanding larger delayed-draw facilities so they can act quickly in today's buying bonanza. Auctions have gone from a three-month process to about half that time or shorter in some cases. It's much easier to hit a DDTL than go back to the bank group for strings-attached incremental financing, particularly at the larger end of the market.

For direct lenders, it's an easy ask. Nonbanks don't have to set aside capital for the unfunded commitments, and the post-Covid market has shown that facilities won't stay undrawn for long.

For smaller credit shops and new entrants, DDTLs are a good way to break into a sponsor relationship and to increase their hold later. Large managers can tout their capacity as part of their pitch to win the mandate.

Lenders would rather provide larger DDTLs than revolver capacity. The unfunded fees and temporary drawn spreads aren't worth the headache of servicing the facility, which is why nonbanks sometimes decide to partner with banks for first-in, last-out unitranche structures.

Fees for DDTLs remain standardized, lenders say, at about half the spread initially, and increase over time until funded.