Leveraged Loan Insight & Analysis – 8/10/2015

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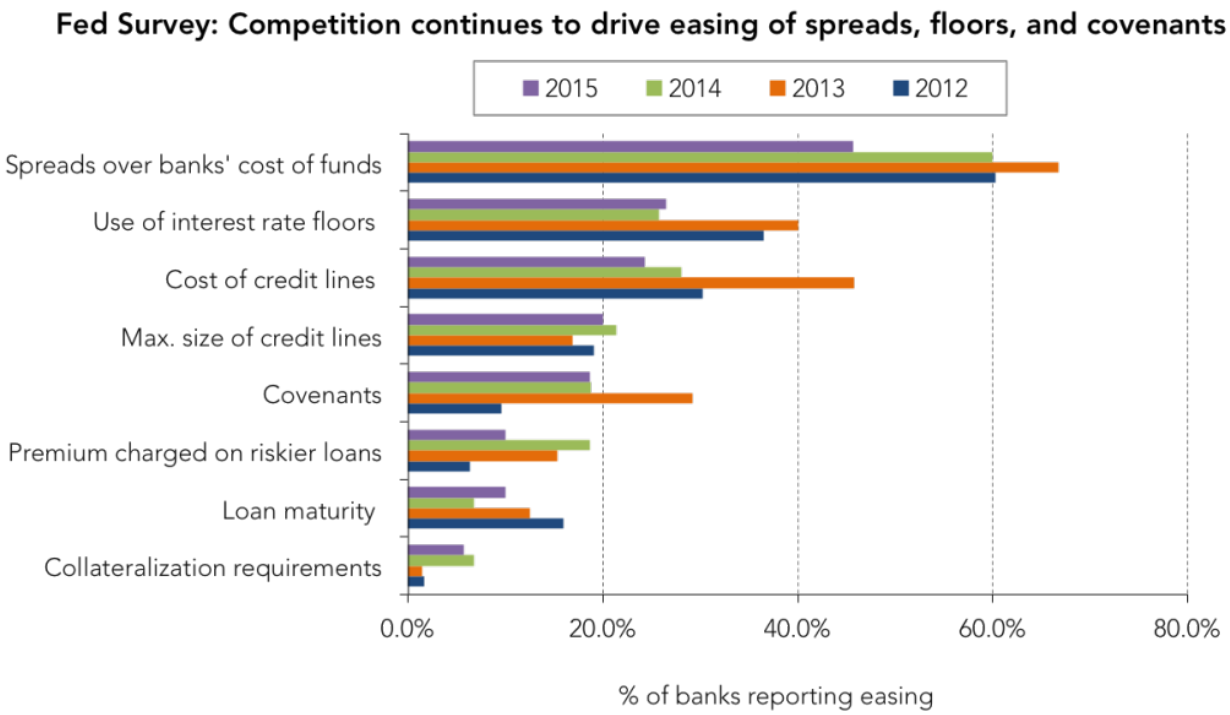
The majority of banks surveyed reported little change in the last three months with only 13 percent of domestic banks reporting easing terms to larger firms, according to the latest Federal Reserve Senior Loan Officer Opinion Survey. This is up slightly from 10 percent at this time last year and down from 20 percent in 2013's summer survey.



Source: Federal Reserve Senior Loan Officer Opinion Survey

Meanwhile, 10 percent reported easing standards for smaller firms, up from 8 percent last summer and on par with 2013's survey. Sixty-one percent of large banks said "aggressive competition from other banks or non-bank lenders" was a "very important" driver behind their easing terms over the last three months, compared to 70 percent, 78 percent and 37 percent in the July 2014, 2013 and 2012 surveys respectively. Forty-six percent of all domestic banks surveyed said spreads of loan rates over their bank's cost of funds have narrowed for larger firms for non-M&A transactions in the past three months compared to 60 percent and 67 percent of respondents in the July 2014 and 2013 surveys respectively. Unlike the 30 percent of U.S. banks reporting loosening covenants in 2013, the share dropped and remained at 19 percent over the past two summer surveys. Only one quarter of respondents said costs of credit lines have eased compared to one third and one half of U.S. banks in the last two summer surveys respectively. Twenty-seven percent of banks said fewer interest rate floors are being used on loans to larger firms which is roughly on par with 26 percent last summer but down from 40 percent in 2013.

- Will rising rates create more demand for middle market assets given tighter structures and pricing premiums?
- When can we expect to see the M&A floodgates open for smaller issuers?
- Money continues to flow into the middle market but how are lenders finding ways to put it to work?

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Contact: Ioana Barza
ioana.barza@thomsonreuters.com