THE LEAD
https://theleadleft.com/how-to-stop-worrying-about-the-maturity-wall-first-of-a-series/

# How to Stop Worrying About the Maturity Wall (First of a Series)

THE LEAD | February 7, 2024

There are a few things about leveraged loans that create anxiety among those less familiar with the workings of that market. One is systemic risk. The other is leverage itself (“risky loans!”). Banks underwriting loans and getting stuck holding them was a concern before the GFC. Since then, regulators have helped shift loans to private credit funds designed to hold those loans.

One popular scary topic is the loan maturity wall (a term often preceded by “looming,” and with “cliff” substituted for “wall”). One example is our Chart of the Week, representing loans coming due over the next several years. As financings approach their due dates, issuers naturally work with lenders to extend maturities out.

Depending on the levels of past issuance, the size of the columns marching to the right will be greater or lesser. Our friends at PitchBook have an excellent collection of maturity walls going back two decades. 2021 was a record year for the loan market; activity showing up in over $500 billion of loans maturing in 2028.

What has been a non-controversial dynamic for institutional investors over the decades draws fascination from some observers during certain cycles. We blame this on short memories. No one pays much attention to the thousands of maturing loans comfortably refinanced or paid off year after year. More focus comes during periods of greater amplitude – wide swings in loan volume. When vintages originate in frothy times amid high leverage, low pricing, and weak structures, what happens when they come due during periods of less liquidity?

This question is particularly relevant as buyout financings moved from banks to direct lenders, and Fed rate hikes pushed public credit off-line. Do private credit managers have the capacity to absorb all the maturing loans generated by direct lenders and banks that are now out of the lending business?

In examining this question, it’s helpful to look at what happens in frothy times. During “zero-for-longer” until March 2022, corporate treasurers and private equity sponsors enjoyed over a decade of extremely liquid market conditions. They refinanced liabilities over longer periods and at cheaper rates. Having learned the lessons of the GFC, they pushed maturities out as far as possible.

As rates climbed, repricings slowed. 2023’s volume jumped to $81.3 billion from only $10 billion the year before – a far cry from 2021’s $240 billion, per PitchBook. Today less than 10% of all leveraged loans represent net new issuance, the lowest level since the GFC. Overall refinancings – amendments, extensions, acquisitions – were the bulk of deals coming to the BSL market.

Next week we’ll continue our anxiety-lowering study of how loan markets manage upcoming maturities, with a special look at the private credit maturity wall.