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

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A recent report from KBRA's research team ("Private Credit: 2024 Maturity Wall is a Myth") outlined three conditions that need to exist for looming maturities "to present a challenge to the industry."

First, there have to be a "significant" number of maturities coming up. Second, if lenders have to take losses as a result of their inability to successfully roll these loans, their losses have to "deplete substantial equity cushions" as a result. And finally, if borrowers' owners "hand over the keys," lenders must lack sufficient "infrastructure to extract value" from those companies.

From data comprising over 1,800 portfolio companies and $750 billion of private debt, KBRA estimates only 10-15% of their total loans come due in 2024 and 2025. The firm also analyzed the portfolios in the 27 BDCs it rates. Only 14% of those loans mature in the next two years. Nor is this information limited to private portfolio data. KBRA looked at the same information on all BDCs and came up with about the same figure – 16%.

They also note a Goldman Sachs study that points to a similar share of corporate borrowing maturing over the next two years. This research revealed a similar trend for investment grade and high-yield debt. Since 2008, the percent of corporate debt due within two years shrank from over 25% to around 15%. It also highlights how the duration of corporate debt has doubled over the past three decades, as cheaper terms made refinancing compelling for treasurers.

Beyond 2025, as our *Chart of the Week* highlights, the level of maturing private loans begins to rise, peaking in 2028 and 2029. Of course, CFOs don't sit still and let their debt come due without a fight. Indeed, by the very nature of private equity owned businesses, it's rare debt that reaches its final payment date without being refinanced or the company sold.

As we discussed last week, the maturity walls don't sit still either. They act like sand waves marching towards the beach, propelled by the tidal forces of refinanced loans. What looks like imposing cliffs, eventually smooth out over time, eroded by the steady flow of capital into leveraged lending.

Unlike the pre-GFC era, this cash stream is increasingly coming from the influx, not just of new CLO vehicles, but from institutional (and increasingly, retail) investors in private credit. In the world of asset management, these investors aren't motivated solely by rates or ratings. They choose managers based on superior track records demonstrating the ability to generate quality assets at consistent premium yields over long periods of time.

We predict that the dynamics driving private credit investing will have a salutary effect on leveraged loan volatility, including the predictability of maturity walls. Next week we'll compare today's outlook with how markets came to worry about loan repayments in the first place.