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

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It is a measure of the impact the GFC had on regulators, financial policy makers, and the capital markets that faith in systemic liquidity is now a foundational principle.

We saw that confidence further underlined as the economy emerged intact from the global pandemic. And supported as well by the patience shown by financial markets as central banks pursued their aggressive battle against inflation. The reward has so far been the softest of landings, a possibility dismissed by many economists not long ago.

And how about that inverted yield curve?

We invoke these predictions not to cast aside all fears, but to illustrate the challenge of underestimating how capital, like water, fills a vacuum regardless of financial circumstances. Worries about the leveraged loan maturity wall fall into this category.

Of course, repayments are hardly risk-free. A critical GFC lesson was appreciating the importance of *borrower* and *lender* liquidity. Companies that manufactured boats, for example, were impacted not just by the ability of their customers to afford their higher cost discretionary products, but to finance them. Struggling businesses typically buy time via reorganizations, but found those avenues closed to them. Not just liquidity, but *solvency* was in question.

Moody's was the first to coin "maturity wall," stating in 2010 that "the pending wall of debt maturities between 2011-2014 is moving forward, and heightening issuers' refinancing risk." Those refinancings originated from the 2006-07 bull market deals. Market conditions coming out of the GFC were not considered conducive to supporting that level of loan volume.

A similar post-recession analysis by S&P, also from 2010, blamed "shrinking funding capacity" set against the "massive refinancing overhang" as caused by "historically low interest rates, the exceptional growth of structured investment vehicles, and an overly accommodating bank regulatory environment." Sound familiar?

CLO formation had been the driver of leverage loan activity leading up to the GFC, until securitization seized up as investors balked at leveraged structures. But conservative variants, so-called CLO 2.0s, gave rise to a new generation of vehicles. These carried the syndicated market through its next growth phase, providing capital to refinance the 2006-07 vintage loans.

Since then, issuers have become adroit at managing maturities (as well as a host of other credit agreement adjustments) through such practices as "amend-and-extend." Indeed, the vast majority of BSLs today are refinancings of some sort, not new-issue.

Add to this the burgeoning appetite of private credit investors, and there’s good reason to believe borrowers will continue finding creative ways to keep their leveraged loans rolling along.