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Leveraged Loan Insight & Analysis

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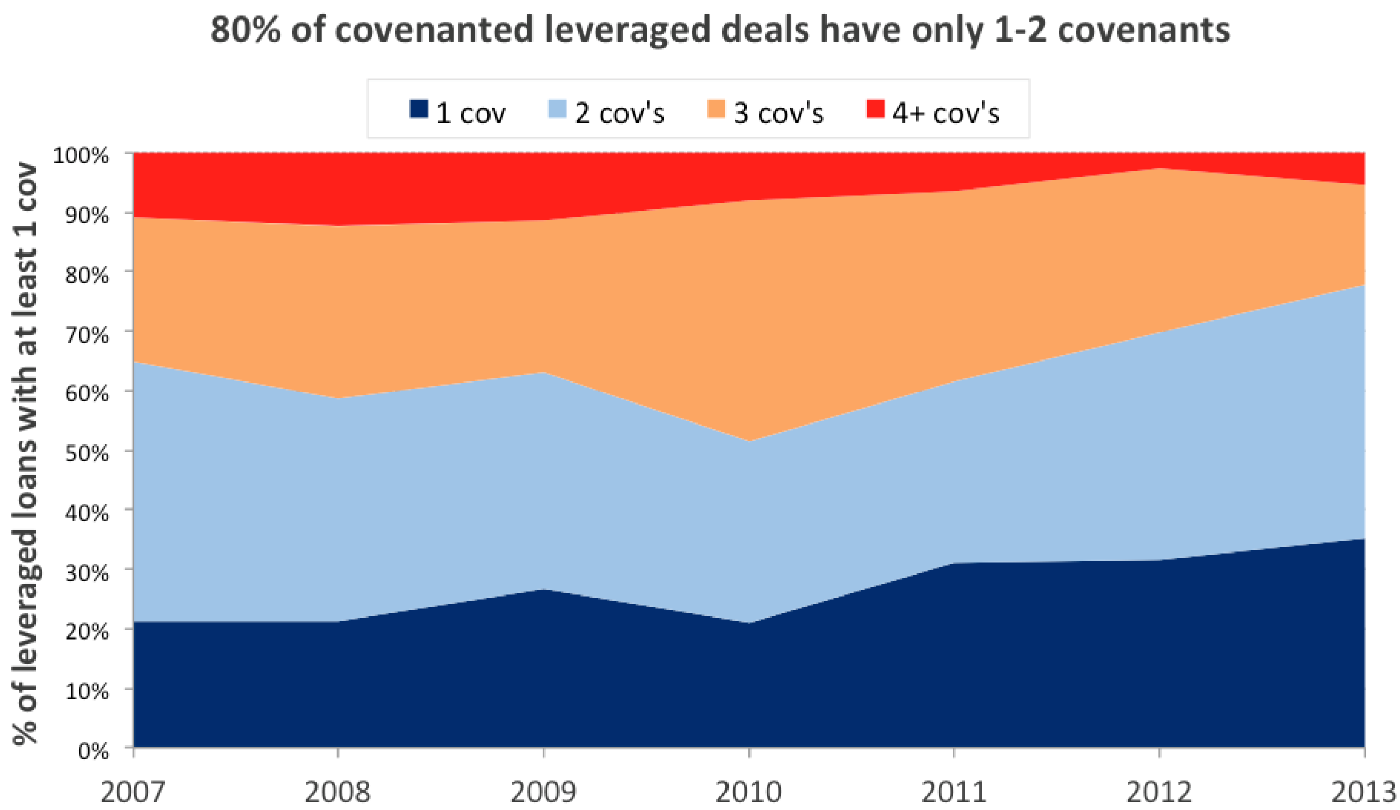

Loans are appealing to investors because they offer a cash coupon, an interest rate hedge, security, seniority in the capital structure and covenants. Oh wait, did we say covenants? Our bad! Not only is covenant lite running rampant in the loan market, but covenanted deals are also providing investors with less protection today compared to the past. Based on leveraged deals with at least one covenant tracked by LPC via SEC filings, the amount of covenants in covenanted deals is at an all time low. In 2013, roughly 35% of covenanted deals only had 1 covenant compared to 21% in 2007. Close to 80% of covenanted deals had two or fewer covenants in 2013 compared to the historical norm of 50-60%. Not only are the number of covenants on the decline, but market sources indicate that covenant cushions are at the widest level they have ever seen. With such wide cushions, some investors argue that protection may be no better than with a covenant-lite deal. As a result, sector and individual credit selection is even more important in today's market.

**Note: Dataset encompasses packages for leveraged issuers with at least one covenant on the deal*

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