SPRING 2019

U.S. Loan Market Survey

Executive Summary

Syndicated leveraged loans dominate the U.S. non-investment grade credit market, and the market is larger than ever in size but also more diversely held across lending groups, with institutional investors (i.e., non-bank participants) now accounting for approximately one-half of all leveraged loans outstanding and collateralized loan obligations (CLOs) holding about one-half of all institutional loan tranches.

Furthermore, private credit platforms and business development companies (BDCs) have bulked up their share of middle-market lending.

At $1.2 trillion, the U.S. institutional loan market recently surpassed the high-yield bond market in size.

Our lender survey reflects today's lending market diversity, with 70 of 104 respondents (67%) working at bank lenders and 34 respondents (33%) working at non-bank lenders, including private credit, CLOs and BDCs.

Increased workout activity expected...with the same sized teams to manage

- More than two-thirds of respondents believe the number of loans monitored and actively managed will increase over the next year.
- Most workout teams expect to manage the increased workload without changing the size of their teams.

- Liquidity needs force borrowers to deal with lenders, with no other common theme driving the majority of workout activity
- The ubiquity of covenant-lite loans may be influencing this outcome, with just 25% of workouts being attributed to a financial covenant violation.
- Company-specific factors are driving workout activity vs. industry trends or market/macro-driven events – this was particularly pronounced among our non-bank lender respondents.

Loans in workout are frequently resolved via refinancing or renegotiation of the underlying credit agreement rather than an event-driven solution

- Resolving situations in-court, debt exchanges, sale of company, selling the position or credit bidding remain less frequent, less preferred options.

Lenders expect continued workout activity from the retail, energy and healthcare sectors, with new workout activity coming from automotive

- Notably, of these four sectors, the automotive sector has experienced limited recent distress but lenders may be anticipating that the peak of the auto replacement cycle has already occurred.

Demand for leveraged loans as an asset class is expected to remain strong despite some lender concerns

- Most lenders expect lower recoveries from covenant-lite loans than from loans with covenants.
- Nonetheless, lenders also expect the demand for leveraged loans will remain strong through 2019 and extending into 2020.
- Furthermore, lenders expect wider leveraged loan spreads in 2019 (with some expecting spreads to widen by more than 100 bps).
- Two-thirds of respondents believe that the Fed's recent decision to slow and then suspend the unwind of its balance sheet was appropriate given credit market conditions and slowing economic growth.

Survey Methodology

FTI Consulting surveyed more than 100 bank and non-bank lenders across the United States and globally between March and April 2019. Respondents included workout group leaders, managing directors, directors, vice presidents, executive directors and chief credit officers. Lenders had loan exposure ranging from less than USD$1 billion to more than USD$10 billion.

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