

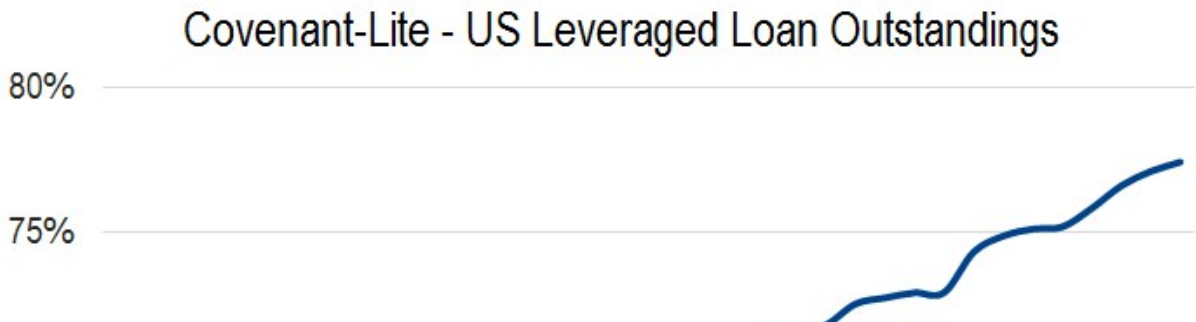
< **LEVERAGED LOAN NEWS**

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# Leveraged Loans: Cov-Lite Volume Reaches Yet Another Record High



Theme      **Capital Markets, Leveraged Finance & High Yield**  
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Loan market experts say the preponderance of these more loosely-structured deals will negatively affect recoveries on this debt – once the long-running credit cycle turns, and defaults begin to mount – though opinions vary as to just how severe that impact will be.

To the numbers: As of May 31, 77.4% of U.S. leveraged loan outstandings were cov-lite. The leveraged loan asset class **recently became a \$1 trillion market**, meaning there is upwards of \$800 billion of cov-lite loans outstanding, according to LCD.

Cov-lite deals in some ways are structured akin to high-yield (aka junk) bonds, and are less restrictive than fully covenanted loans. Cov-lite credits feature incurrence covenants, meaning an issuer must meet financial tests only if it wants to take particular actions (pay a dividend to its private equity owner, for instance).

Their acceptance in the global leveraged loan market has soared in recent years, particularly as institutional and retail investors pile into the asset class in an effort to take advantage of loans' floating rating structure, amid continued rate hikes by the Fed. – *Staff reports*

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