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How Big is the Middle Market? (Last of a Series)

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So far we've used three methodologies to size the universe of middle market loans.

Using annual issuance data and average life calculations, we arrived at outstandings of $410 billion, before run-off and refinancings. Then we took the middle market refinancing cliff, which is overstated relative to outstandings, to come up with a midcap universe of $518 billion, including non-sponsored loans.

Finally, Fitch estimates middle market institutional outstandings of $140 billion. Accounting for non-institutional and non-syndicated loan boosts that to $450 billion.

Now let's examine how these middle market loans are held. There's some transparency to this information. For example, in the world of collateralized loan obligations (CLOs), we know that for middle market assets, the outstandings are around $33 billion (see *Chart of the Week*). Some of this issuance has been significant of late, with MidCap Financial and Antares Capital both coming out with large vehicles.

Assets held by business development companies (BDCs) also are relatively easy to track, at least for public ones. Wells Fargo, a leader in BDC analysis, puts outstandings at $67.5 billion as of 3/31/17. Backing out equity and structured products to only include first lien, second lien, and mezzanine, that number eases down to $55.4 billion.

But Wells doesn't cover every BDC so this omits many private ones. One way to value the rest is examine BDC collateral. For this we again turn to Fran Beyers from LPC.

"Using BDC collateral," Fran told us, "we can capture all the private and public BDCs. That collateral shows total BDC outstanding investments of $78.4 billion. Our BDC database is in early development, so we can't yet back out equity and structured products from the collateral figure. But to calculate the first lien, second lien, and sub debt numbers we can use the same formula Wells Fargo does."

Fran continued. "Wells reports 82% of the collateral represents first lien, second lien and sub-debt (mezzanine debt is included in the private data set). 82% of $78 billion comes out to about $64 billlion in first lien, second lien, and sub-debt outstandings.

"So I think you can safely say," Fran concluded, "that $64 billion of BDC and $33 billlion of middle market CLO loan outstandings total close to $100 billion."

What about all the loans held by banks? Or loans held by direct lenders with their various pockets of separate managed accounts and side-car private credit funds?

"Direct lenders and private debt funds are most of the middle market pie," Fran said. "Fundraising data shows direct lending funds were 50-60% of capital raised over the last two years. BDC public equity and midcap CLOs were only 15-25% of inflows.

“But SMA numbers are elusive, so it’s hard to assess all the cash out there. Knowing BDC and CLO outstandings helps, but there’s less transparency on direct lenders. We continue to work on ways to capture this. Your readers should stay tuned.”