Risk premium for second-lien loans widens

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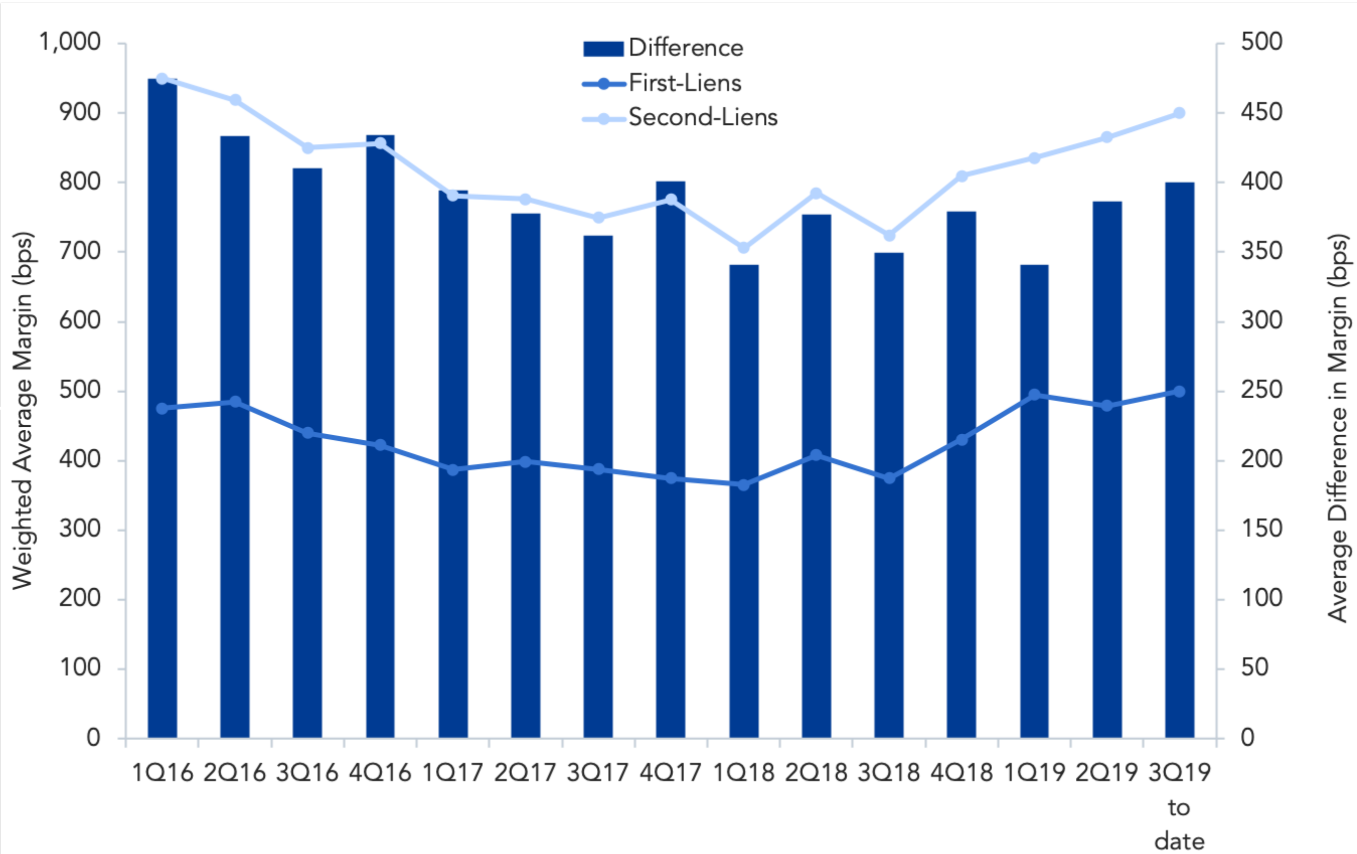

Source: Debtwire Par

The risk premium for second-lien loans has widened in recent months. For borrowers that issued both a first-lien and second-lien loan, the margin differential has climbed to 400bps so far in 3Q19, up from 387bps in 2Q19 and 341bps in 1Q19. This reflects lender caution around getting paid adequately for committing to riskier deals in the current stage of the economic cycle.

While pricing in the primary market remains wider than the year-ago level, first-lien margins tightened in 1H19, falling to 479bps in 2Q19 from 494bps in 1Q19. In contrast, second-lien margins widened to 866bps on average from 836bps quarter-over-quarter.

In terms of volume, second-lien institutional loan issuance at USD 18.6bn year-to-date is lagging the USD 24.5bn posted in the same period last year.

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