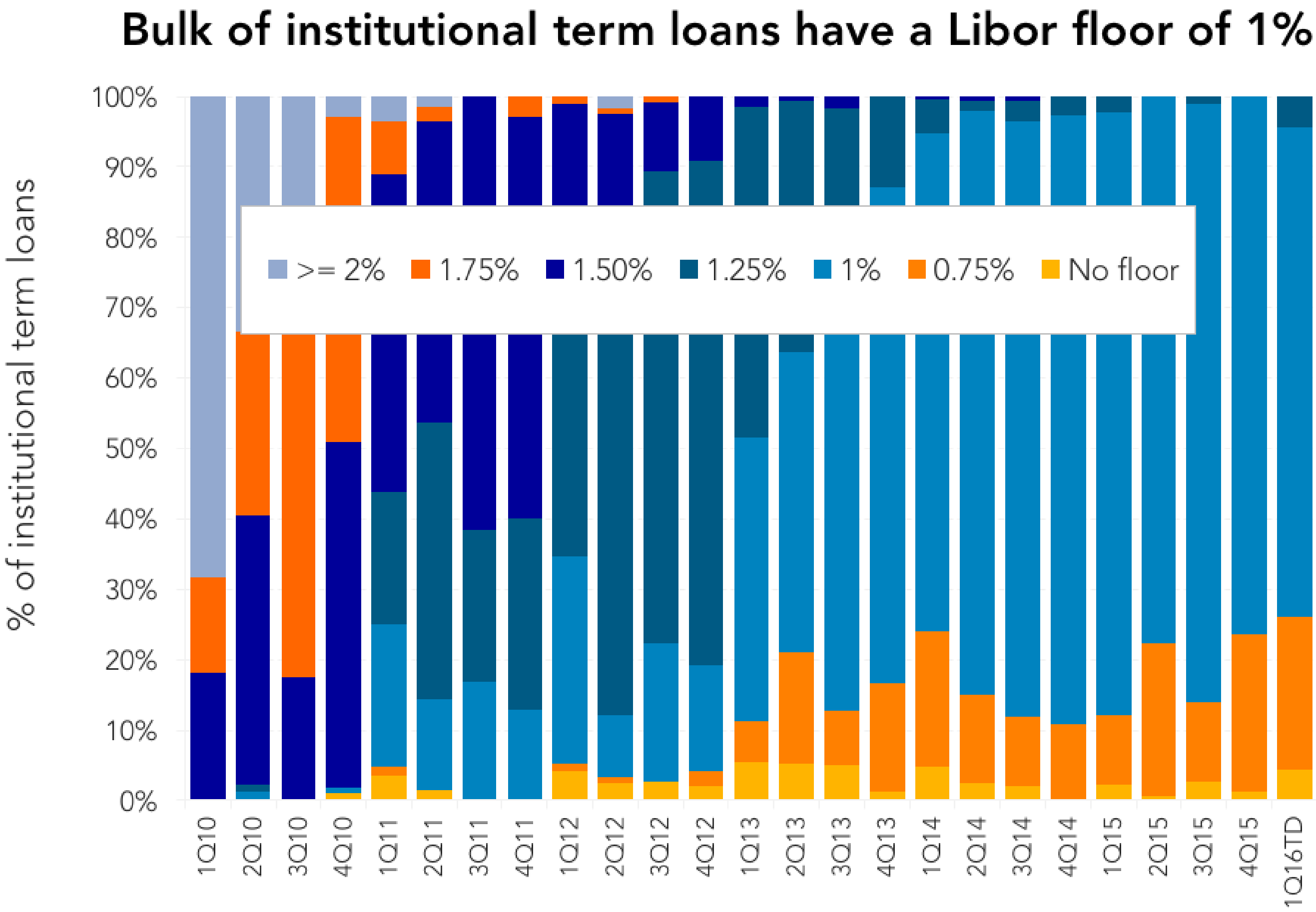
Leveraged Loan Insight & Analysis – 1/25/2016

LSEG | January 25, 2016

Libor floors, used to guarantee a minimum spread to investors in a low rate environment are now a major theme in the market given rising interest rates. In 2015, 98% of institutional term loans were issued with a Libor floor, the bulk of which were done with a 1% floor. Three-month Libor rose above 60bp, closing the gap between the benchmark and the typical Libor floor.



Investors have been asking banks to issue loans without Libor floors, especially as returns will get squeezed for CLO equitiy investors if the benchmark continues to increase. And they might get their way. Petco Animal Supplies changed the structure of the loan backing its LBO to include a US$700m tranche without a Libor floor to appease investors. The deal included a US$1.825bn B-1 loan at 475bp over Libor with a 1% floor. The US$700m B-2 term loan priced at 500bp over Libor with no floor. Both tranches were sold at 98.

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