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Key takeaways from the 2024 Private Credit Industry Conference on Direct Lending and Middle Market Finance

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On May 9 and 10, the Loan Syndication and Trading Association and Deal Catalyst hosted the third annual Private Credit Industry Conference on Direct Lending and Middle Market Finance. Key takeaways from the conference panels on the U.S. private credit market indicate that, although competition between private credit and traditional syndicated lending will increase, the lending market will remain strong for the foreseeable future.

What you need to know

- **Promising developments in the private credit market.** Though the M&A market has been slow, the private credit market is not exhibiting signs that would predict an increase in defaults, except in isolated companies and sectors.
- **New options in the loan market.** Partnerships between banks and private lenders are giving clients access to both public and private markets.
- **Opportunities for private lenders**. With many highly leveraged loans coming due in 2025, there are new opportunities for private lenders willing to offer creative solutions for borrowers seeking refinancing.
- **Documentation trends in the private credit market.** Market participants have seen a decrease in financial maintenance covenants and expect to see more lenders offering a toggle between regular and PIK interest.

Interest rates

Despite poor forecasts last year, the private credit market is adjusting well to a higher interest rate environment and is generally not exhibiting the signs that would predict an increase in defaults except in isolated companies and sectors. While the M&A market has been slow, potentially due to expectations of imminent interest rate cuts, the strength of the lending market has been attributed mostly to refinancings and add-on activity.

Broadly syndicated loan market

The broadly syndicated loan market was until recently only available to the strongest companies, but it has become increasingly active and many companies are now able to choose between going to this market or to a private lender. Several banks have recently announced partnerships with private lenders in order to give their clients access to both markets, and that trend is expected to continue. As more companies gain the ability to switch between these markets, market participants expect to see some convergence in terms. Despite this convergence, the markets will continue to offer unique advantages. Companies that anticipate a high level of M&A activity will benefit from the speed and flexibility of private lenders, while more static companies may prefer the liquidity available in the broadly syndicated loan market.

Impending maturities

There is a high volume of loans originated in 2020—when leverage covenants were generally higher than they are today—that will be coming due in 2025. This maturity wall may create opportunities for private lenders that are willing to offer creative solutions to borrowers that are seeking refinancing, including by allowing and participating in preferred equity and offering PIK interest.

Market trends

The private credit market has been witnessing significant spread compression, tightened leverage ratios and increased requirements for equity contributions. The large-capitalization sector has seen a decrease in financial maintenance covenants, and where financial maintenance covenants persist they are often “covenant-loose”, meaning there is a cushion of 40% or more to actual levels. Market participants also expect to see more lenders offering a toggle between regular and PIK interest.

To discuss these issues, please contact the author(s).