

Asset Securitization Report

CLO Issuance Picks Up in June: Over \$3.1B Priced in 1st 4 Days

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After an unusually slow May, issuance of collateralized loan obligations is off to a strong start in June, with five deals totaling over \$3.1 billion pricing in the first four days of the month.

As of June 4, issuance is already 55% of May's entire monthly total of \$5.7 billion, according to Wells Fargo.

That's not saying much, since May was the second-slowest month (after January) since September 2013. But it keeps the CLO market on track for another record year. Even before this week's pickup, and despite May's slow pace, issuance through the first five months of 2015 was actually slightly ahead of 2014.

As before, the biggest potential holdup is the slow pace of issuance of loans that can be used as collateral. Loan issuance has been slow all year, in part because of regulatory guidance that discourages banks from lending that would leave companies too heavily indebted.

Gross issuance of loans syndicated among institutional investors has actually started to pick up; as of the end of May, it was \$113 billion, or 57% of the same period of 2014; that's an improvement from the end of March, when it was only 44% of the same period of 2014.

However, net issuance in the loan market is much lower. That's because so much of new loan issuance refinances existing loans. In a report published today, Wells Fargo cited figures from S&P Capital IQ showing that the outstanding balance of the loan market has only grown 1.1% (\$8.8 billion) year to date in 2015. By comparison, in 2014, the loan market increased 9.5% (\$65 billion) in the first five months.

Wells analyst David Preston noted that the regulatory environment makes it appear unlikely that loan issuance can increase. He noted however, that "changing preferences for floating-rate versus fixed-rate debt may boost loan market growth." Presumably this would occur if investors became more concerned about the possibility of rising interest rates, which make floating-rate loans relatively more attractive than fixed-rate bonds.

Among the deals that priced so far this month are Onex Credit Partners' \$697 million OCP CLO 2015-9 via Citigroup; Z Capital Credit Partners' \$365.75 million via Jefferies; Apollo Credit Management' \$475 million ALM VI via Credit Suisse; and Sankaty Advisors' \$306.5 million Avery Point VI.

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