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IN THE MEDIA

Michael Mullins Discusses the CLO Mid-Market with Structured Credit Investor

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Partner Michael Mullins was quoted in Structured Credit Investor's April 29, 2016, article "Middle Ground" concerning the U.S. collateralized loan obligation (CLO) market's sluggish start to the year and the challenges facing the mid-market.

According to JPMorgan's CLO analysts, 2016 has seen just $9.9 billion in U.S. CLOs issued to date. The article notes that limited issuance and liquidity has affected the mid-market, which has subsequently witnessed unfavorable pricing trends.

"Spreads in the mid-market have definitely been wider in recent months," Mr. Mullins said. "It is just not an efficient time for originators to tap the market, especially when warehouse financing is currently a competitive option."

Mr. Mullins notes that the mid-market is particularly suffering from a lack of triple-A buyers, and the lack of investor appetite is suppressing incentive to bring more deals to the market.

"It's a real problem, because a lot of investors are choosing to stick with broadly syndicated loans (BSL)," he said. "It is hard to argue against the good premiums that the BSL market provides. The spread difference has widened with the mid-market to at least 70bp for triple-A spreads, although there have not been many recent deals to validate that."

According to the article, macro conditions are also playing a pivotal role in the issuance pullback, particularly concerning the oil and gas sectors, which rely on mid-market companies as suppliers.

"What is more interesting is the potential ripple effect that could come into play for the mid-market," Mr. Mullins said. "It is not a direct issue, but there could be a tickle-down effect."

While loans tied into mid-market CLOs from oil and gas companies could take a small hit if the companies struggle, it has not prompted short-term structural innovations in the market. The article suggests that this could be due in part to the greater resilience and recovery abilities of mid-market CLO structures in downturns.

"The terms are still very tight for these structures," Mr. Mullins said. "The structural evolutions that have happened have been more a result of a couple of years' development. For example, some U.S. private equity has edged down into the mid-market."

Another structural consideration is the Dodd-Frank rules that will come into effect later this year, which require CLO managers to purchase and retain 5 percent of their transactions. However, Mr. Mullins does not believe the rules will have a significant impact on the mid-market space.

"A lot of managers have already digested the rules and are already in economic compliance, so those that are more experienced should not really suffer," he said.

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