Lenders Expect Increased Workout Activity in 2019, FTI Consulting Survey Finds

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78% of Respondents Believe Number of Credits Monitored Will Increase

70% Expect Number of Credits Actively Managed Will Increase

Retail, Energy, Healthcare and Automotive Sectors Expected to See Most Distress

WASHINGTON, June 24, 2019 (GLOBE NEWSWIRE) -- A majority of lenders in the U.S. market believe the number of loans monitored and actively managed by their workout groups will increase over the next year, with distress expected in the retail, energy, healthcare and automotive sectors, according to the *2019 U.S. Loan Market Survey* released today from FTI Consulting, Inc. (NYSE: FCN).

Seventy-eight percent of survey respondents from bank and non-bank lenders in the United States and globally expect the number of credits their workout group actively monitors to increase over the next year, while 21% believe the amount will remain the same. Only 1% expect a decrease.

Meanwhile, 70% of survey respondents expect the number of credits actively managed by their workout group to increase over the next year, with 29% expecting the total to remain the same. More than half (59%) of respondents believe they will manage these loans with no increase to the number of dedicated workout professionals at their institution.

“At $1.2 trillion, the U.S. institutional loan market has surpassed the high-yield bond market in size, and it is a much more diverse investor landscape than a decade ago,” said Sanjeev Khemlani, a Senior Managing Director and Leader of the Senior Lender Advisory practice within the Corporate Finance & Restructuring segment at FTI Consulting. “Non-bank lenders, including private credit, CLOs and business development companies are gaining market share. However, both bank and non-bank lenders can expect to face similar credit challenges in the next year, even in an era of ample liquidity.”

Lenders surveyed expect continued workout activity from retail or restaurants/dining (25% of survey respondents); oil, gas and other energy sectors (17%); and healthcare or pharmaceuticals (15%), with new activity coming from automotive (9%). While those findings are consistent with recent restructuring activity, the automotive sector has seen a peak in sales volume but has yet to experience material distress or restructuring activity.

Company-specific factors are the primary cause for loans ending up in workout, with 44% of bank lenders and 62% of non-bank lenders citing under-performance as the main driver. Bank lenders were more likely to cite industry-driven trends or macro-driven trends, such as trade policy or commodity prices, as the primary cause for workouts compared to non-bank lenders.

Liquidity needs appear to be leading borrowers to deal with lenders, according to survey findings. The ubiquity of covenant-lite loans may influence this outcome, with only 25% of workouts being attributed to a financial covenant violation, the survey found.

Demand for leveraged loans as an asset class is expected to remain strong, according to a large majority of respondents. Of all respondents, 40% of bank lenders believe demand has peaked or is peaking, compared to just 21% of non-bank lenders. Only 16% of bank lenders believe demand will remain strong through 2020, compared to 35% of non-bank lenders.

Covenant-lite loans, once considered an exceptional accommodation for stronger credits, have become a lending norm, accounting for more than three-quarters of institutional loan volume in 2018. Approximately 75% of respondents believe loan recoveries will be lower for covenant-lite loans than for loans with traditional covenants.

“The absence of financial covenants means borrowers are able to stay in control of deteriorating situations without lender intervention longer than they otherwise would be. For sponsor-owned companies with deeply impaired loans, this prolonged control effectively creates equity option value for sponsors that can be an inducement for them to swing for the fences,” Mark Laber, a Senior Managing Director in the Senior Lender Advisory practice and lead author of the *2019 U.S. Loan Market Survey*, said. “With leveraged loan default activity so low, it’s too soon to render judgment on the impact of covenant-lite provisions on loan recoveries. Time will tell if the covenant-lite feature has been overdone.”

Survey Methodology
FTI Consulting surveyed more than 100 bank and non-bank lenders across the United States and globally between March and April 2019. Respondents included workout group leaders, managing directors, directors, vice presidents, executive directors and chief credit officers. Lenders had loan exposure ranging from less than USD$1 billion to more than USD$10 billion.

About FTI Consulting
FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. With more than 4,700 employees located in 28 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges and make the most of opportunities. The Company generated $2.03 billion in revenues during fiscal year 2018. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

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