



## CLO equity investors join forces to take on lowly loan CSAs

by Sayed Kadiri

Private equity firms have held the upper-hand against US loan investors in the past few months, but the largest CLO equity investors in the business are working together to redress the imbalance between PE sponsors and creditors.

*Creditflux* has reported on numerous cases over the past six months where loan amendments have been adopted in which benchmarks switch from Libor to Sofr — but where credit spread adjustments (CSA) are well below the 26 basis points recommended by the Alternative Reference Rate Committee. In some cases, CSAs have been completely lacking.

Dan Ko, principal and portfolio manager at Eagle Point Credit Management, has created a CLO equity investor working group to combat this value leaking out of credit agreements. Some 70 people are understood to be part of this group, including officials at the likes of Fair Oaks, Livermore, Panagram and Pearl Diver.

Ko says insufficient CSAs are particularly painful for CLO equity investors because most CLO debt contracts will automatically switch from Libor to Sofr plus 26bp. Even if loans transfer at Sofr plus 10bp, that leaves a 16bp shortfall. “We thought it was important that CLO collateral managers present a united front,” says Greenwich-based Ko. “CLOs are 60-70% of the loan investor base and they should not be letting 0-10bp loan CSAs pass. This change in regulation should not be a windfall for the private equity industry.”



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Principal and portfolio manager  
Eagle Point Credit Management

Most loan amendments will give lenders five business days to block a proposal. If a majority is not reached, then the amendment passes. But Ko says that anyone in a CLO equity consortium can flag up a loan amendment that hits their screens. This will be disseminated to other members of the group, along with a list of the loan managers with the biggest exposure to the company. From here, the goal is to raise awareness and ensure loan and CLO managers are pushing back against insufficient CSAs.

There have been rumblings that CLO managers had been reluctant to block such amendments for fear of missing out on allocations when a private equity sponsor returns to market with another deal.

“CLO collateral managers were getting bullied by banks and sponsors,” says Ko. “Often CLO collateral managers were told they were the only ones blocking an amendment, but there is enough collective

power in the hands of the CLO collateral manager community so long as they don't allow themselves to be picked off.”

There are encouraging signs that this practice is coming to an end. For example, Wellpet attempted a loan amendment with a 10bp CSA (deadline of 19 January) and sources say there was enough opposition to block this — but only just.

One CLO investor tells *Creditflux* they have quizzed loan managers on the action (if any) they took over specific loan amendments. The portfolio manager found that the largest CLO managers claimed to have blocked amendments where the CSA was deemed weak.

This led him to believe that the primary factor stopping CLO managers from taking action is a lack of resources, which is damning in itself, rather than a reluctance to fracture PE and banking relationships.