

MEDIA MENTIONS

Schulte partner Dan Oshinsky quoted in *9fin* on the increased PIK-ification in loans

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Schulte Roth & Zabel partner Dan Oshinsky recently discussed the increase in payment-in-kind (PIK) features in broadly syndicated loans (BSLs) with *9fin*. The increase in PIK stems from the heavy competition for new loans this past year that has given sponsors more leverage to demand flexibility.

Dan, who represents managers of both middle market and private credit CLOs and BSL CLOs, told *9fin* that in addition to seeing more loans issued with PIK toggle components, due to sponsors asking for it, “some managers are . . . asking to increase basket sizes in CLOs to allow that flexibility.”

Dan explained he has seen a number of deals marketed as “private credit” CLOs that have featured larger PIK baskets or lower minimum cash pay requirements. He added that “It will be interesting to see if the BSL CLO market evolves towards some of the flexibility we see in middle market and private credit CLOs.”

While the immediate benefits of PIK for borrowers are clear, CLO investors are wary of the potential negative consequences of allowing PIK structures to proliferate. Too much deferred interest could make it tricky for managers to make interest payments on CLO liabilities. It would also make it harder to pass interest coverage tests, Dan said. “CLOs include minimum interest coverage tests based on interest received or to be received. Interest that is being capitalized under a PIK loan will not be

included. If too many loans are using PIK toggle, it could affect performance under these tests.”

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