The Loan Market Response to Dropdown and Uptier Transactions

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We read 600+ leveraged loan credit agreements.

- Public firms
- 2016 – 2021:Q3

What is the frequency of “contractual blockers?”
Contractual Blockers

Dropdown

1. Prohibit unrestricted subsidiaries.

2. Limit the amount or types of investments in the unrestricted subsidiaries.

➤ “IP Blocker”

Uptier

1. Inhibit borrowers’ ability to discriminate among lenders.

2. Make lien priority a sacred right.
Evolution of Lien Subordination Blockers

Fraction of agreements

J. Crew

Serta Simmons

2016h1 2017h1 2018h1 2019h1 2020h1 2021h1
Evolution of Dropdown Blockers

Fraction of agreements

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Evolution of IP Blockers

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Fraction of agreements

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Conclusions

Contracts changed beginning in the second half of 2020.
- Majority make **lien subordination** a sacred right.
- Majority of loans with an unrestricted subsidiary now prevent the transfer of IP.
- **Contracts can update in response to new threats.**

Contracts did not change to prohibit dropdowns more often.
- Majority still permit unrestricted subsidiaries.
- **There are benefits of borrower flexibility, which permits some intra-creditor warfare.**