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S&P Maintains its Focus on Direct Loans after Evaluating $15.8 Billion in 2014.

BOSTON (Standard & Poor's) Jan. 28, 2015–Providing a precise measure of the U.S. public finance direct bank loan market is challenging for a variety of reasons—but primarily because bank loans are not explicitly required to be disclosed because they are not securities. Nevertheless, Standard & Poor's Ratings Services sees issuers across the breadth of the municipal finance market meaningfully using bank loans and direct-purchase debt as alternative financing products to manage their debt profiles.

In 2014, Standard & Poor's evaluated the impact on obligors' public debt ratings of 404 direct loans with a par amount totaling $15.8 billion. The loans ranged in size from less than $100,000 up to almost $1 billion. With few exceptions, the loans Standard & Poor's reviewed do not impair the rights and remedies of existing lenders or bondholders. Against a backdrop of terms that generally do not erode credit quality, Standard & Poor's continues to emphasize that disclosing the presence of these loans and their terms is critical to identifying those instances where the loans do compromise credit quality and existing bondholders' rights. Moreover, loan disclosure promotes transparency for all market participants, including the retail and institutional investors that use Standard & Poor's ratings.

Of the 404 loans that Standard & Poor's evaluated, 243 were tax-backed, appropriation, or water/sewer utility loans entered into primarily by local governments or local utility systems, with a par amount totaling approximately $6.1 billion. The average deal size was $25 million.

The balance of 161 loans evaluated, totaling $9.8 billion, was concentrated in the higher education, health care, transportation and public power sectors. The average loan size was $61 million, about 2.5 times the average loan size of the tax-backed, appropriation, and water/sewer utility sectors. Along with the wide spread between the smallest and largest loan amounts, we have also observed an increase in the number of banks offering such products, especially smaller local banks.

The loans Standard & Poor's evaluated in 2014 represent loans originated in 2014, as well as loans originated in prior years. Issuers provided loan information in response to our requests for the information as part of our periodic review of existing debt ratings. We continue to request all loan documents from issuers, regardless of whether we rate the loans. This is because additional leverage or unique events of defaults and remedies could impact other rated debt.