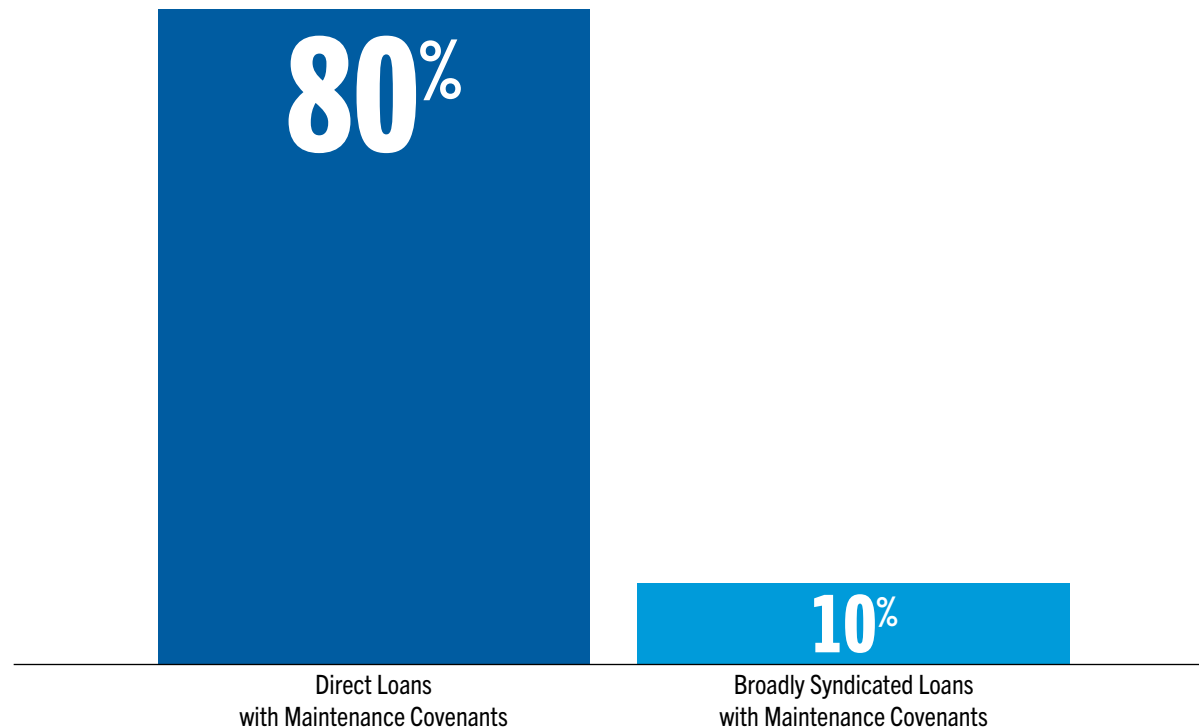


# A Matter of Control: Covenants Maintain Vigilance

**Private direct lending takes a far more “covenanted” approach than public loans, enforcing greater discipline on borrower firms and enabling early warning to intervene and avert potential credit stress.**

## Maintenance Covenants are More Prevalent in Direct Lending



### Covenants Against Misbehavior

- Financial maintenance covenants are embedded in direct lending documents and may include thresholds for interest coverage ratios, debt to EBITDA, and other measures of liquidity and net worth—they are actively monitored on a quarterly basis.
- Covenants vary in their intensity (their number) and their tightness or “slack”—(the current level versus the maximum allowed by the covenant).
- The average middle market loan has two financial maintenance covenants, which are deployed to monitor companies and incline them toward more conservative investment and financial behavior.<sup>1</sup>

Source: Golub Capital and JP Morgan, as of March 2024

1. Jang, Young Soo, *Are Direct Lenders More Like Banks or Arms Length Investors*, January, 2024. SSRN.

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