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TRENDLINES TOPICAL REPORT:

Lens on Loopholes Q1'26
Update: Share of Index Loans
With J.Crew/Serta/Chewy (Full
& Qualified)/Envision/Pick-
Your-Poison Loopholes

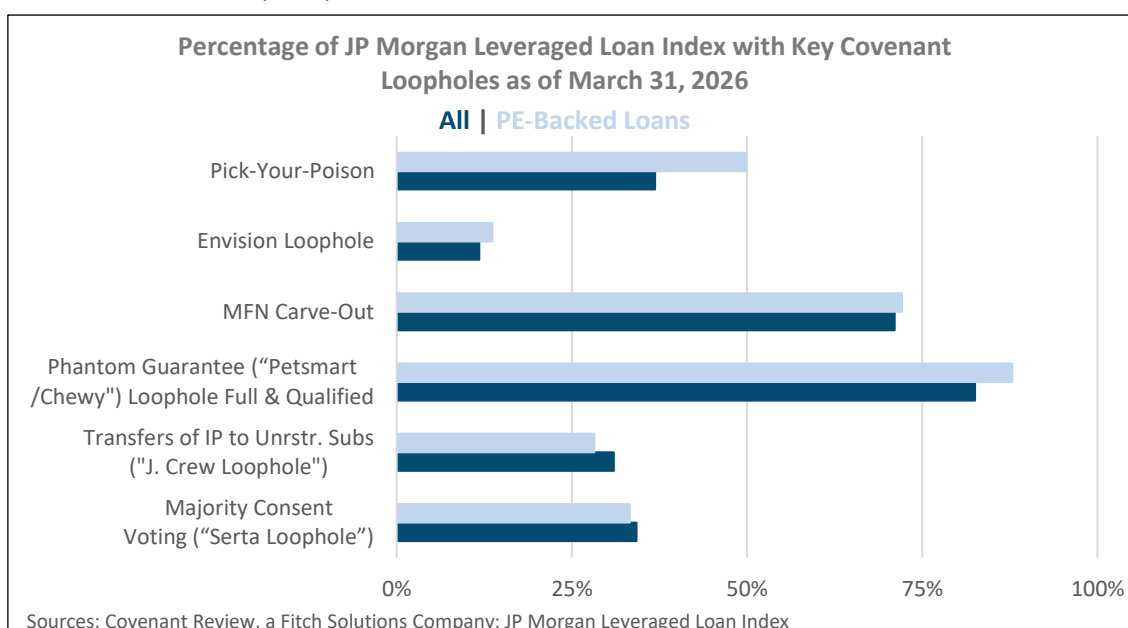
Steve Miller: *Executive, Covenant Review*

U.S. TRENDLINES

Research Date: April 7, 2026

Lens on Loopholes Q1'26 Update: Share of Index Loans With J.Crew/Serta/Chewy (Full & Qualified)/Envision/Pick-Your-Poison Loopholes

This report updates the share of the JP Morgan Leveraged Loan Index with named covenant loopholes associated with specific borrowers—J.Crew, Serta, Chewy and Envision—as of March 31, 2026, based on *Covenant Review*'s extensive database, which covers 98% of JP Morgan BSL Index loans. In addition, we provide the latest read of what percentage of Index borrowers have a pick-your-poison provision as well as those that can issue new first-lien debt under free-and-clear incremental tranches without triggering an MFN because either (1) the MFN has expired or (2) the document carves out the F&C tranche from yield protection.

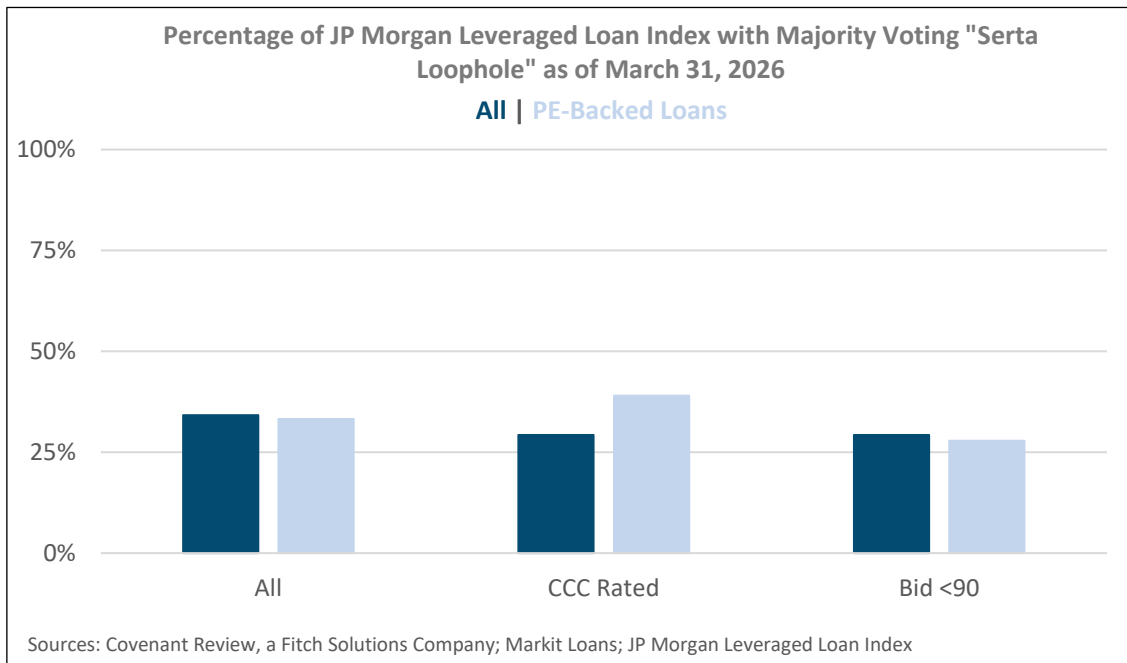


We also pare the data to performing loans to borrowers rated CCC and/or bid at less than 90 cents on the dollar—situations for which players will have the most incentive to employ loopholes to shift value either from lenders to equity or from some lenders to others via liquidity management transactions.

Affected Lender Voting ("Serta Loophole")

BSLs allowing amendments by a simple majority of all lenders have receded in recent years and represent roughly a third of Index loans. Headline stats for Serta loophole:

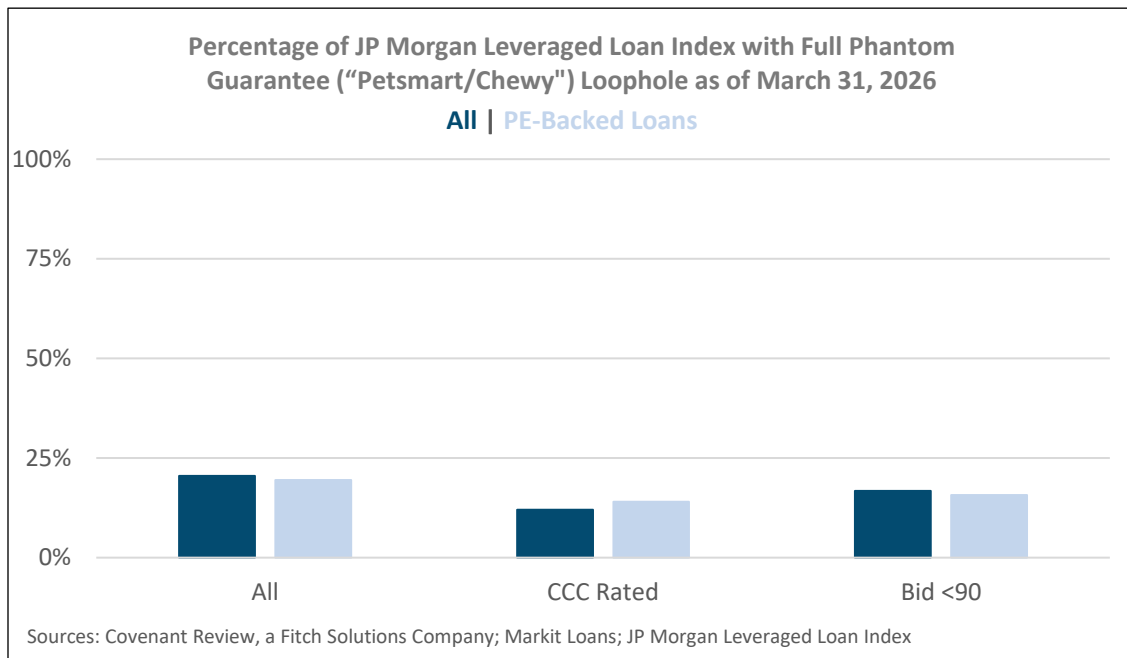
- All Index loans: 34.2% overall and 33.3% of PE-backed BSLs allow majority—rather than unanimous—voting
- Loans to borrowers rated CCC by either Moody's or S&P: 29.3% overall/39.0% PE-backed
- Loans currently bid below 90: 29.3% overall/27.9% by PE-backed



Phantom Guarantee ("PetSmart/Chewy") loophole—Full

This provision allows for the automatic release of guarantees of entities that become "excluded subsidiaries" by virtue of being not wholly owned by the restricted group entities:

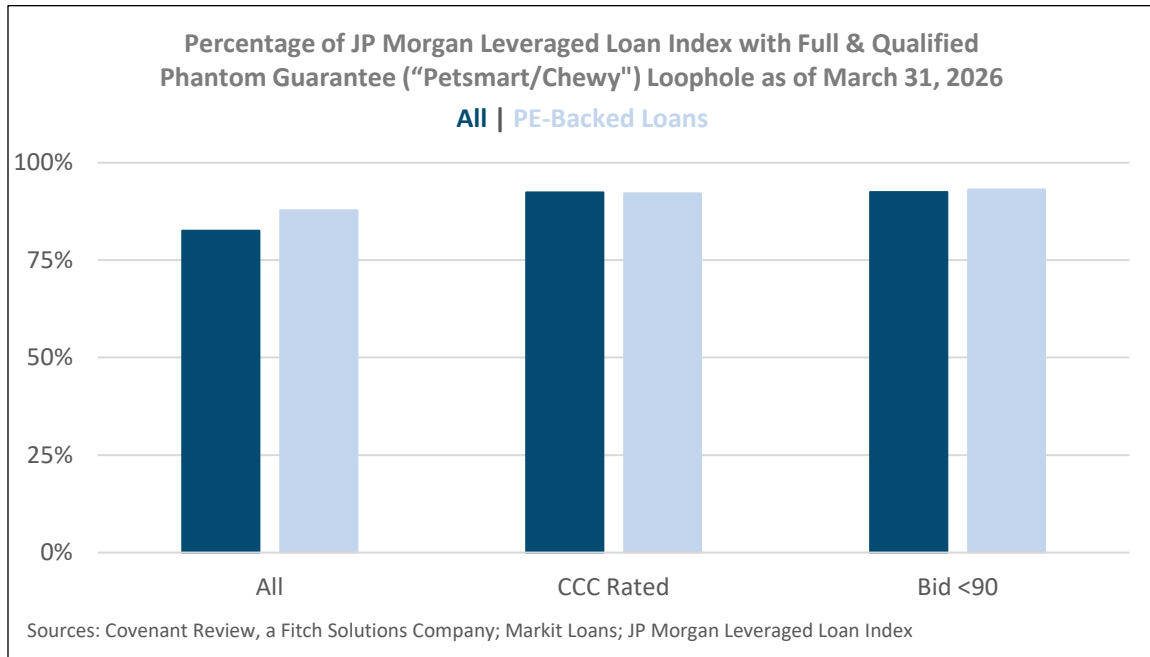
- All Index loans: 20.6% overall/19.5% PE-backed allow automatic release of guarantees of excluded subsidiaries
- Loan to borrowers rated CCC by either Moody's or S&P: 12.0% overall/14.0% PE-backed
- Loans currently bid below 90: 16.7% overall/15.7% PE-backed



Phantom Guarantee (“PetSmart/Chewy”) Loophole—Full & Qualified

This includes loans that have the full loophole, as listed above, and qualified loophole that allows under certain circumstance for the automatic release of guarantees of entities that become “excluded subsidiaries” by virtue of being not wholly owned by the restricted group entities:

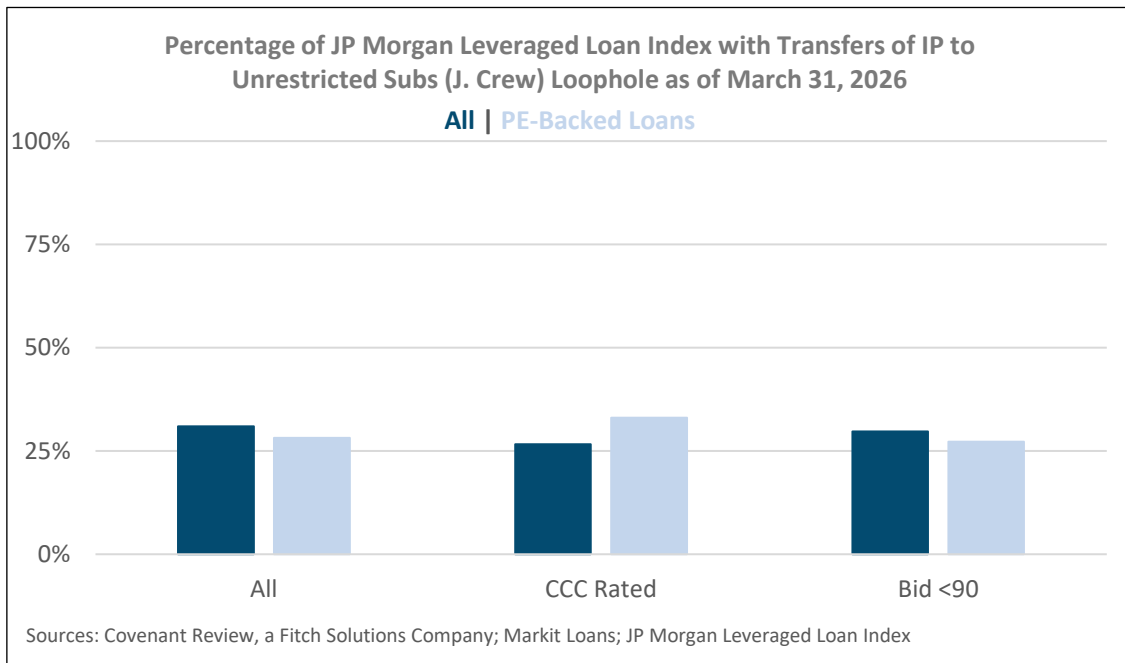
- All Index loans: 82.5% overall/87.8% PE-backed allow automatic release of guarantees of excluded subsidiaries
- Loan to borrowers rated CCC by either Moody’s or S&P: 92.3% overall/92.1% PE-backed
- Loans currently bid below 90%: 92.5% overall/93.1% PE-backed



Transfers of Intellectual Property to Unrestricted Subsidiaries (“J.Crew Loophole”)

Where in the past we showed this set of data for J.Crew Trapdoor, the following stats show the percentage of loans that have the more relevant, and explicit, J.Crew loophole:

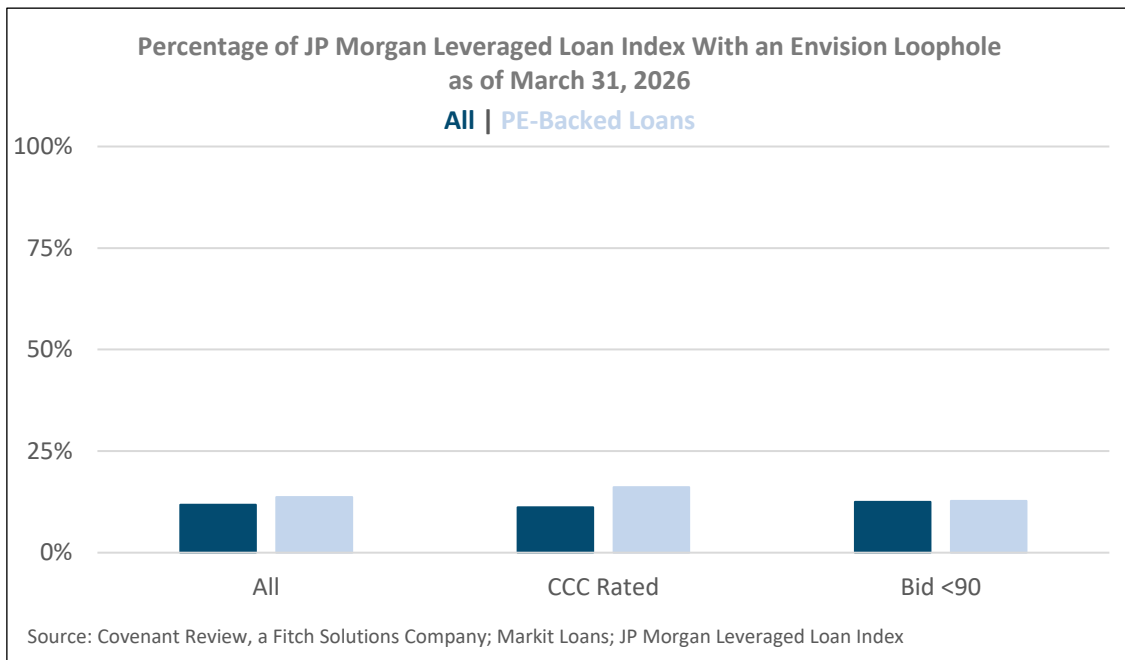
- All Index loans: 31.0% overall/28.2% PE-backed allow borrowers to transfer intellectual property to unrestricted subsidiaries subject to certain caps and limits
- Loan to borrowers rated CCC by either Moody’s or S&P: 26.6% overall/33.1% PE-backed
- Loans currently bid below 90: 29.7% overall/27.3% PE-backed



Envision Loophole

This provision we define as loans with: (1) no blocker on transferring material IP or other material assets to unrestricted subsidiaries—which covers more names than just those with a J. Crew Trapdoor, (2) a high cap on investments in unrestricted subsidiaries and (3) simple majority consent voting:

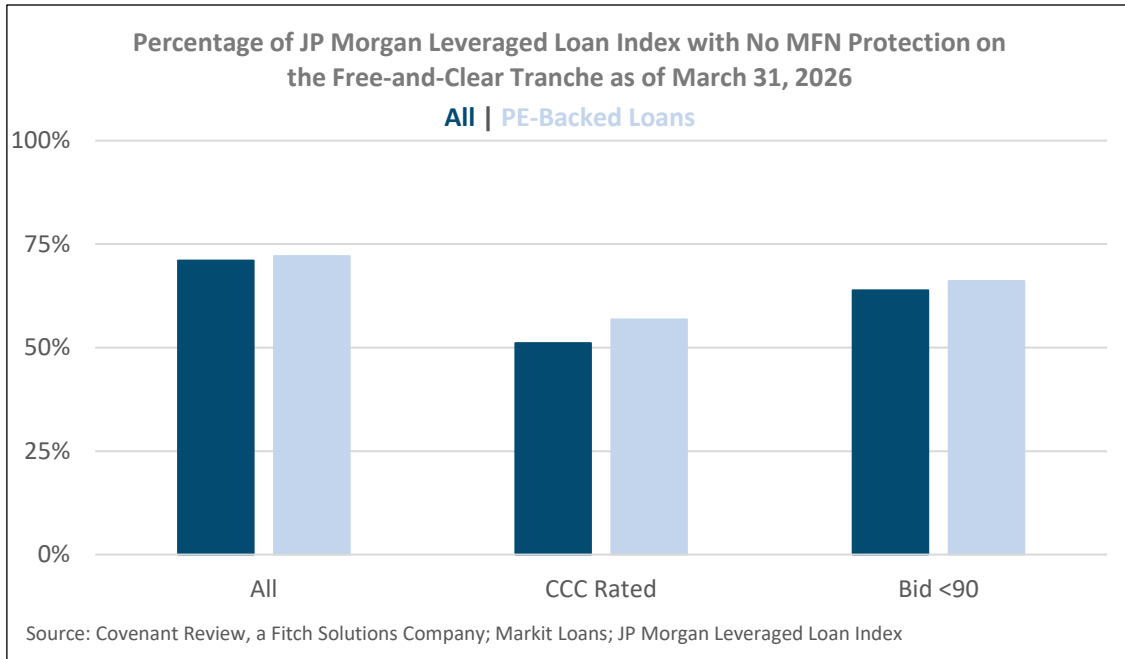
- All index loans: 11.8% overall/13.7% PE-backed
- Loan to borrowers rated CCC by either Moody’s or S&P: 11.2% overall/16.1% PE-backed
- Loans currently bid below 90: 12.4% overall/12.7% PE-backed



No MFN on Free-and-Clear Tranche Protection

The stats here include loans on which MFN sunset is now expired, as well as loans that carved out the F&C tranche from MFN protection:

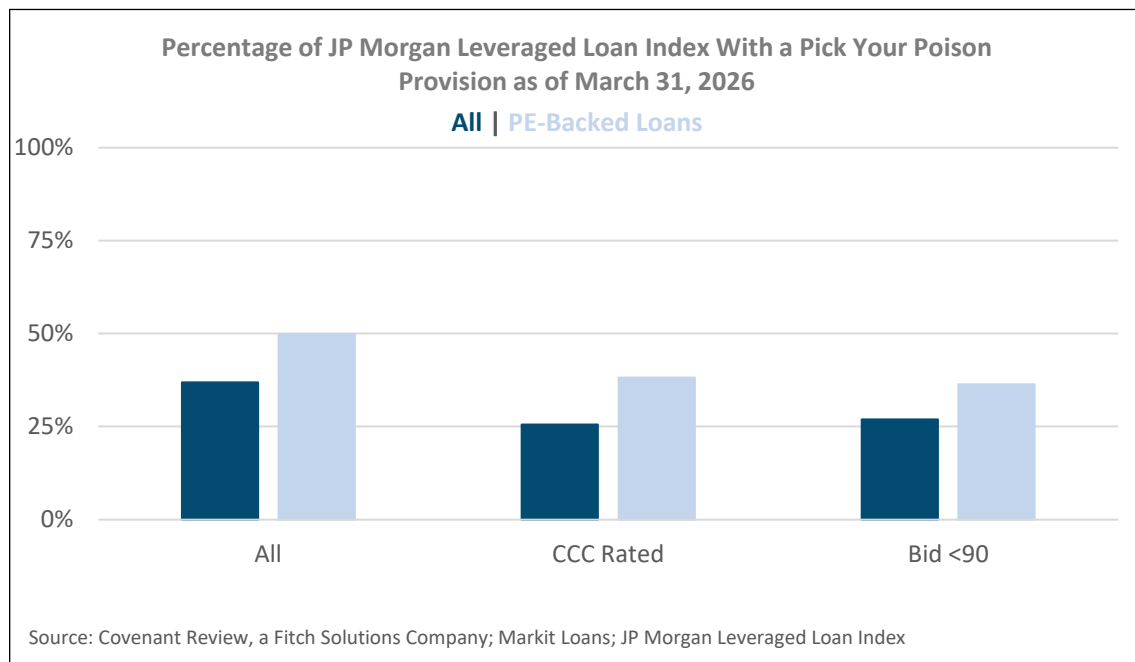
- All Index loans: 71.0% overall/72.1% PE-backed in which the MFN has expired, or the document carves out F&C tranche from yield protection
- Loan to borrowers rated CCC by either Moody's or S&P: 51.1% overall/56.8% PE-backed
- Loans currently bid below 90: 63.9% overall/66.1% PE-backed



Pick-Your-Poison Provision

The stats here include loans that allow borrowers to shift capacity, generally, from restricted payments to debt baskets known as Pick-Your-Poison provisions:

- All Index loans: 36.9% overall/49.8% PE-backed
- Loan to borrowers rated CCC by either Moody's or S&P: 25.5% overall/38.1% PE-backed
- Loans currently bid below 90: 26.9% overall/36.4% PE-backed



Sponsor View

Among JP Morgan Leveraged Loan Index loans, 23 private equity firms had no fewer than 10 credits as of March 31. The table below breaks down for these sponsors the proportion of loans with the four loopholes in question:

Loopholes by Sponsor								
PE Sponsor	Number of Loans	Permits Majority Consent (Serta)	J. Crew Loophole	Phantom Guarantee (Chewy) Full	Phantom Guarantee (Chewy) Qualified	MFN Not Triggered or Sunset Expired	Envision Loophole	Pick Your Poison
Advent International	19	10.5%	5.3%	10.5%	68.4%	73.7%	0.0%	47.4%
American Securities	15	26.7%	13.3%	0.0%	93.3%	66.7%	0.0%	60.0%
Apollo	27	25.9%	22.2%	18.5%	81.5%	59.3%	11.1%	33.3%
Ares Management	11	54.5%	18.2%	9.1%	54.5%	63.6%	9.1%	45.5%
Bain Capital	18	44.4%	38.9%	38.9%	55.6%	83.3%	27.8%	55.6%
BDT Capital	11	0.0%	0.0%	0.0%	100.0%	100.0%	0.0%	63.6%
Blackstone	31	90.3%	87.1%	64.5%	22.6%	96.8%	74.2%	93.5%
Brookfield Capital	13	46.2%	15.4%	23.1%	69.2%	69.2%	0.0%	61.5%
Carlyle	10	60.0%	60.0%	30.0%	50.0%	90.0%	30.0%	80.0%
Clayton Dubilier & Rice	28	53.6%	35.7%	32.1%	60.7%	89.3%	17.9%	53.6%
Clearlake Capital	28	17.9%	3.6%	0.0%	89.3%	75.0%	0.0%	39.3%
EQT	17	47.1%	52.9%	41.2%	23.5%	82.4%	41.2%	64.7%
General Atlantic	10	40.0%	40.0%	30.0%	60.0%	80.0%	30.0%	60.0%
KKR	40	52.5%	30.0%	30.0%	57.5%	75.0%	27.5%	72.5%
Leonard Green	14	71.4%	21.4%	50.0%	50.0%	85.7%	21.4%	64.3%
Madison Dearborn	10	40.0%	30.0%	30.0%	70.0%	80.0%	10.0%	40.0%
Platinum Equity	15	13.3%	13.3%	0.0%	100.0%	66.7%	0.0%	6.7%
Silver Lake Partners	10	50.0%	90.0%	90.0%	10.0%	100.0%	50.0%	100.0%
Stone Point Capital	10	50.0%	70.0%	60.0%	40.0%	100.0%	50.0%	100.0%
Thoma Bravo	14	50.0%	7.1%	7.1%	92.9%	100.0%	7.1%	85.7%
TPG Capital	12	25.0%	8.3%	8.3%	91.7%	83.3%	8.3%	33.3%
Veritas Capital	10	10.0%	0.0%	0.0%	100.0%	90.0%	0.0%	60.0%
Vista Equity	14	35.7%	21.4%	21.4%	71.4%	100.0%	14.3%	71.4%

– By Steve Miller, smiller@covenantreview.com.

For additional covenant stats or other cuts of the data, please contact research@covenantreview.com.

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