SS&C | Advent®

GENEVA® FUNDAMENTALS

Everything You Need to Know About Payment-in-Kind (PIK)

Why Does It Matter?

In the last decade, private credit investments have grown in both assets, as well as complexity. Firms that invest in this asset class, including those firms that originate loans, are well accustomed to its manual nature and tedious workflows. As deal terms and conditions become more bespoke and custom, the challenges continue to grow for operations teams. This is no different when it comes to payment-in-kind (PIK).

As part of a loan or credit agreement, borrowers may have the choice to elect PIK options as a financing arrangement. This is a powerful and strategic tool for firms to leverage, enabling a borrower to add additional accrued interest to the loan balance, as opposed to making cash interest payments. The impact is an increase in the principal amount that is to be repaid once the loan or facility matures.

PIK Creates Operational Complexity

A significant benefit to investing in private credit is that it provides predictable and stable returns for a lender. However, when a borrower chooses to elect a PIK option as part of its payment, it can be an operational ordeal to manage, track, and process. Historically, electing PIK could indicate that the borrower has insufficient cash flows and possibly elevating the risk of default. While this could still be the case, it's now often used as a strategic option for borrowers to consider.

When a borrower elects a PIK option, lenders will have difficulties forecasting future cash flows for their business, as well as potentially leading to valuation uncertainty. For operations teams, this is often a very cumbersome process to manage interest payments. Adding to the complexity, for many of these loans, the borrower may be paying cash for part of the life of the loan and then switch to PIK. Or, even more intricate, a loan may have one set of PIK terms for the first few years, and then those terms change as the loan continues to mature.

PIK Loans

PIK Loans come in a few varieties, adding to the operational complexity:

PIK Loan
As opposed to paying interest in cash, the borrower will add the accrued interest to the loan's principal. At maturity, the borrower is required to pay the original principal amount as well as the interest accrued.

PIK Toggle
Enables a borrower to toggle between paying the interest due in cash or adding the interest to the principal balance.

Partial PIK
In this scenario, the borrower will pay a portion of the interest in cash and the remaining portion via PIK.

PIK Bonds
Rather than increasing the principal balance, the issuer compensates the lender with additional bonds or stock equal to the interest value.

How SS&C Advent Geneva® Can Help

Geneva streamlines and automates the accounting for loan investments. With Geneva, you only need to book an interest payment once, which makes it easy to reconcile with counterparties. Further, Geneva will automatically allocate the payment among funds in which the loan is held and to investors. Similarly, with paydowns, Geneva automatically applies payments to multiple funds.

Interest payments:

Automatically calculate interest payments and apply loan-level transactions data for each fund or portfolio that owns a portion of the loan. Paydowns need to be booked only once; Geneva will do the rest of the accounting for positions in all funds automatically.

Payment-in-kind (PIK) credit contracts:

Geneva natively supports loans that pay interest in the form of additional principal, or as a combination of cash and additional principal. Geneva provides flexibility to accrue PIK interest only on the original loan amount, exclusive of the PIK payments earned throughout the life of the loan.

Geneva: Comprehensive loan processing capabilities for payment-in-kind loans

Geneva eliminates the need for multiple systems and processes to manage different types of loans. Geneva offers full support for:

- All loan types with both scheduled and ad-hoc payment in kind, including term loans, delay draw loans, revolvers and loan total return swaps
- Par and distressed bank debt trades with full delayed compensation and cost of carry accruals
- Flexible payment schedules for underlying loan contracts, with full range of credit activity support and delinquent interest tracking
- Loan defaults, complex multi-security reorganizations, and amortization of loan discounts
- Accruing interest only for the cash component of the interest, or for both the cash and PIK components

Proven Technology for the Life of Your Firm

SS&C Geneva® is the leading portfolio management and investor accounting solution for the alternative investment industry. It's a highly scalable, true multi-currency and multi-asset class platform. Designed to support complex investment strategies across international markets, with the ability to manage fund, entity and legal structures, as well as fully support all transaction types and instruments, including syndicated loans and private debt.

About SS&C Advent

SS&C Advent helps over 4,300 investment firms in more than 50 countries—from established global institutions to small start-up practices—to grow their businesses, minimize risk, and thrive. We have been delivering unparalleled precision and ahead-of-the-curve solutions for more than 30 years, working together with our clients to help shape the future of investment management.

Find out how you can take advantage of our industry-leading solutions to support your business goals. To learn more about the right solutions and services for you, contact info@sscinc.com.

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