Proskauer

Proskauer Releases 2022 Q2 Private Credit Default Index

July 25, 2022

NEW YORK, July 25, 2022 – Proskauer, a leading international law firm, announced the results of the Proskauer Private Credit Default Index for the second quarter of 2022. The report revealed an overall default rate of 1.18% as of the end of Q2 2022. This represents a slight increase over the 1.12% default rate from the previous quarter. Before Q2 2022, default rates have been generally trending downward each quarter since Q2 2020 when the default rate peaked at 8.1%. The quarterly index tracks the default rates of senior secured and unitranche loans.

For Q2 2022, the Proskauer Private Credit Default Index reported that companies with more than $50 million of EBITDA at the time of origination had a 0.4% default rate, down from a high of 5.3% in Q2 2020. Companies with $25-49.9 million of EBITDA had a 1.8% default rate, an increase from 1.1% in Q1 2022.

“Despite the growing speculation of a recession and the recent disruptions in the syndicated markets, default rates remain stable, approaching record lows,” said Stephen A. Boyko, the co-chair of Proskauer's Private Credit Group. “Though we expect that will change in the quarters ahead, private credit is once again demonstrating its resilience to market disruptions. Direct lenders continue to actively seek new investments and terms are becoming more lender-favorable,” said Boyko.

The Index also includes proprietary analysis of defaulted loans by industry including: consumer/retail, food/beverage, healthcare, manufacturing and software/ technology. These are further refined by EBITDA band (0-$25mm, $25-49.9mm, and $50mm+), by default type (payment, bankruptcy, financial covenant, other material default, etc.) and by comparison to the publicly reported default rates for leveraged loans as reported by the rating agencies.

In addition to the Proskauer Private Credit Default Index, which is released quarterly, the Firm's Private Credit Group creates additional tools that offer unique insights to their clients, including a proprietary Private Credit Insights annual report and an annual survey that features predictions from top lending institutions.

Methodology

Our Index is based on U.S. dollar denominated senior secured and unitranche loans. Default rates are calculated by dividing the number of defaulted loans by the aggregate number of loans in the Index. While there are varying conventions of what is considered a default for purposes of calculating a default rate, the Index includes loans that have a payment, financial covenant or bankruptcy default, loans that are otherwise in default if the default is expected to continue for more than 30 days (excludes immaterial defaults) and loans that were amended in anticipation of a default.

- A default is assumed to take place on the earliest of:
- The date a debt payment was missed
- The date a distressed restructuring occurs
- The date the borrower filed for, or was forced into, bankruptcy
- The date a financial covenant default occurs
- The date that a default occurs if that default is expected to continue for more than 30 days (excludes immaterial defaults)
- The date the loan is modified in anticipation of a default

For the purposes of the Index, if a borrower re-emerges from bankruptcy, or otherwise restructures its defaulted debt and reestablishes regular, timely payment.

About Proskauer

We are 800+ lawyers serving clients from 12 offices located in the leading financial and business centers in the Americas, Europe and Asia. The world’s leading organizations, companies and corporations choose us to be their representatives in their most critical situations. But more, they consider Proskauer a strategic partner to drive their business forward. We work with asset managers, major sports leagues, Fortune 500 companies, entertainment industry legends and other industry-redefining companies.

The Firm’s Private Credit Group is made up of cross-disciplinary finance and restructuring experts exclusively dedicated to private credit investors. It includes over 75 restructuring and transactional lawyers focused on representing credit funds, business development companies, and other direct lending funds in the restructuring of “clubbed” and syndicated credits and preferred equity investments. Over the past five years, Proskauer has worked on over 1,000 deals for more than 75 private credit clients across the U.S. and Europe with an aggregate transaction value exceeding $300 billion.

Related Professionals

- **Stephen A. Boyko**
  Partner