Proskauer

Proskauer Releases 2022 Q3 Private Credit Default Index and Announces a Default Rate of 1.56%

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Default Rates Raise Rise for the Health Care and Consumer Goods Sectors

NEW YORK, October 26, 2022 – Leading international law firm Proskauer today released the results of its Private Credit Default Index for the third quarter of 2022, revealing an overall default rate of 1.56%, an increase from 1.18% in the second quarter. This is the first notable increase over the past 18 months. The quarterly index has shown a downward trend since peaking at 8.1% in the second quarter of 2020.

Companies with more than $50 million of EBITDA at the time of origination had a 1.1% default rate, down from a high of 5.3% in Q2 2020. Companies with $25-49.9 million of EBITDA had a 2.1% default rate, an increase from 1.8% in Q2 2022. Those with less than $25 million of EBITDA had a 1.5% default rate, an increase from 1.3% in Q2 2022. As noted previously, the higher default rate for smaller companies likely reflects the fact that on average these companies have a greater number of financial covenants than loans to larger companies.

The Index also breaks down the overall default rate by industries (consumer/retail, food/beverage, health care, manufacturing and software/technology). This quarter's report showed a significant uptick in the health care and consumer goods and services sectors, which is the first increase in defaults that we have seen in these sectors since Q4 2020.

"Given the cyclical nature of the economy and the uncertainty around timing and duration of a recession, we are not surprised to see an increase in the default rate, especially in consumer-facing sectors where the pressure continues to grow," noted Stephen A. Boyko, co-chair of Proskauer's Private Credit Group. "As lenders and investors look to best position their portfolios for the uncertainty ahead, we expect that private credit will continue to grow as an asset class as its demonstrates its resilience in a volatile environment."

In addition to industry and EBITDA, the Index refines its analysis 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.

Proskauer has been tracking the default rates of senior secured and unitranche loans among companies through its Quarterly Default Index since 2020.

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.

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.

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 finance and restructuring lawyers focused on representing credit funds, business development companies, and other direct lending funds in the restructuring of "clubbed" and syndicated credits, preferred equity, special situations and alternative investments. Over the past five years, Proskauer has been involved in more than 1,000 deals for over 75 private credit clients across the United States and Europe with an aggregate transaction value exceeding $300 billion.

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