A Test of Endurance: 2025 Private Credit Restructuring Year in Review

January 27, 2026

Private credit confronted a whirlwind of market forces in 2025. Tariff anxiety saw the public debt market slow to a crawl during the first half of the year, only to rally in Q3 with blockbuster M&A activity and intense competition between the private credit and broadly syndicated loan ("BSL") markets.[1] At the same time, private credit strategies adapted and evolved across the board, with an explosion of the private credit secondaries market,[2] policy changes foreshadowing an influx of 401(k) and retail capital in the alternative assets sector,[3] and new and deepening partnerships between private credit platforms and traditional banks.[4]

Against this backdrop, restructuring activity continued to demonstrate the ability of private credit lenders to navigate a variety of distressed situations. Private credit restructurings continued to gravitate toward out-of-court solutions, with refinancings and extensions dominating leveraged loan issuance[5] and change-of-control transactions emerging as a go-to mechanism for addressing distressed credits. Private credit borrower defaults remained steady throughout the year,[6] indicating strong overall credit performance—though some signs of distress remain, including an uptick in PIK usage[7] and a handful of high-profile Chapter 11 filings that have grabbed headlines.[8]

Below, we break down key observations and court decisions from 2025, before looking ahead to potential trends to watch in 2026.

2025 Private Credit Restructuring Trends

Getting Deals Done Out of Court

In 2025, private credit restructurings continued to gravitate toward out-of-court solutions, with change-of-control transactions emerging as a principal mechanism for addressing stressed credits. These transactions—often structured as consensual debt-for-equity exchanges—remain attractive because they can rapidly de-lever balance sheets while avoiding the cost, delay, publicity, and uncertainty associated with a formal Chapter 11 case. Not every distressed situation, however, is suited to this approach. Successful execution depends on factors such as borrower consent, the ongoing viability of the business, and the ability of lender groups to agree upon a go-forward strategy.

At their core, out-of-court change-of-control transactions rely on a range of tools, including Article 9 strict foreclosures,[9] and negotiated exchanges that convert debt into equity. These structures provide lenders with a pathway to assume control and rationalize capital structures without court oversight, but they also raise nuanced considerations around tax treatment, legacy liabilities, and post-transaction governance. For fundamentally sound businesses burdened by excessive leverage, these transactions can deliver faster balance-sheet repair. By contrast, companies facing material operational challenges or unresolved legacy liabilities may still require in-court remedies.

Execution of these transactions typically requires significant stakeholder consent, including from the borrower and, in the case of partial strict foreclosures, guarantors. Negotiations over borrower consent often center on two core issues: an equity “tip” for the sponsor and a release of liability. There are no uniform market rules. While many transactions include a release, the form and size of any tip—commonly, but not always, in the 2 to 5 percent range—vary widely based on the facts and circumstances, including the parties’ relationship, the degree of distress, the need for new capital, the causes of underperformance, and the value of the sponsor’s continued involvement. Governance protections for any retained minority interest are also frequently negotiated. Given these dynamics, we expect out-of-court restructurings to remain a defining feature of private credit workouts in 2026 and beyond.

Sponsor Capital Infusions in Times of Distress

Another defining trend in 2025 was the role of private equity sponsors in providing rescue capital to distressed portfolio companies, a dynamic that reshaped many private credit restructurings. When a borrower's liquidity gap becomes clear, sponsors with meaningful equity stakes frequently step up with additional capital—either in the form of new equity, debt participations, direct loans, or conditional future support—to extend the runway and facilitate de-leveraging. Lenders and sponsors alike must negotiate not just whether capital will be provided but how it will be structured to balance downside protection with the sponsor's strategic objectives.

From a creditor's perspective, equity infusions remain the simplest and most protective form of sponsor support because equity remains subordinated to existing debt. Where a further equity investment is not attractive or supportable, sponsors may contribute capital in the form of a loan participation that preserves lender control while sharing economics or direct loans that require careful subordination and governance guardrails to avoid complicating future restructuring steps. Conditional commitments with respect to future capital—like equity commitment letters—are less desirable absent enhancements such as letters of credit, and require heightened diligence in documentation.

Ultimately, sponsor capital infusions in times of distress underscore the importance of sponsor-lender alignment and negotiation finesse in private credit workouts. Where a credible path to recovery exists, lenders may accept less advantageous forms of support; in more uncertain situations, they will insist on stronger, enforceable protections. Getting these structures right can preserve value for all stakeholders, but, as with other aspects of private credit restructuring, the devil is in the details and careful planning remains essential.

BSL vs. Club Deals

Once clearly distinct in structure, documentation, and lender base, the private credit and BSL markets continued to converge in 2025. Uneven M&A deal flow and abundant dry powder intensified competition, prompting many borrowers to dual-track financings with both direct lenders and banks. Private credit lenders have also continued to move up-market into larger club deals, competing in a market traditionally dominated by BSLs, where documentation becomes more flexible, loans actively trade on the secondary market, and lender groups are larger and more heterogeneous.[10]

This trend was reinforced by the continued growth of bank-private credit partnerships—including several large origination arrangements between traditional banks and private credit funds—which further blurred the operational and structural lines between the two markets. Although a fully developed secondary market for private credit remains nascent, 2025 saw increasing efforts by banks and alternative asset managers to facilitate liquidity and price discovery for larger direct-lending positions, reflecting a gradual migration toward BSL-like market infrastructure.

At the same time, more flexible documentation in large club-style direct lending transactions makes these deals more susceptible to the types of liability management exercises ("LMEs") that have characterized recent BSL restructurings, particularly the so-called "deal away" threat.

ConvergeOne and the Reassertion of Creditor Equality

The September 2025 decision in ***In re ConvergeOne Holdings, Inc.*** stands out as one of the more significant restructuring rulings of the year.[11] In reversing confirmation of a prepackaged Chapter 11 plan, the U.S. District Court for the Southern District of Texas held that a plan providing exclusive, non-market-tested investment opportunities to a subset of first lien lenders violated the Bankruptcy Code's equal-treatment mandate under Section 1123(a)(4). The district court found that the plan ran afoul of Section 1123(a)(4) of the Bankruptcy Code, which requires creditors in the same class to receive equal treatment. By limiting the backstop opportunity to a favored subset of creditors, the plan effectively conferred a significant financial advantage on those lenders for no consideration, leaving others in the same class of debt with materially lower recoveries.

Importantly, the court relied on the Supreme Court's decision in *Bank of America Nat'l Trust & Savings Association v. 203 North LaSalle St. Partnership*[12] to conclude that exclusive investment opportunities must be offered to all creditors in the same class or be exposed to "a genuine test of market valuation." The court rejected the argument that the backstop opportunity was unrelated to the lenders' claim treatment and was instead a separate agreement that involved additional consideration given for additional obligations. The district court also found that because the restructuring support agreement incorporating the backstop was negotiated based on the exclusive opportunity offered only to favored creditors, "there is no definition of a market test that would be satisfied here." This ruling is the first decision to hold that exclusive backstop arrangements embedded in a Chapter 11 plan violate the equal-treatment mandate of the Bankruptcy Code.

The *ConvergeOne* ruling echoes the Fifth Circuit's decision in ***In re Serta Simmons Bedding, LLC***,[13] which also struck down preferential treatment for select lenders (in the form of an indemnity which had value to only a subset of creditors in the same class) as violating the same equal-treatment principle identified in ConvergeOne. Together, *Serta* and *ConvergeOne* mark a growing judicial willingness to police discriminatory plan features and side deals. The ruling has potentially far-reaching implications for corporate restructurings. First, debtors can no longer assume that granting exclusive backstop rights to a select group of favored lenders will withstand judicial scrutiny. Second, these decisions may level the playing field among similarly situated creditors, reducing a debtor's ability to "buy" plan support with exclusive backstop investment opportunities. Finally, going forward, parties may need to explore non-discriminatory mechanisms to raise capital in Chapter 11, such as rights offerings and backstops open to all creditors in a class or exposing the investment opportunity to true market competition. The *ConvergeOne* decision may represent a turning point in Chapter 11 practice. It places significant limits on the use of exclusive backstop deals and may fundamentally alter negotiations between debtors and creditors and between majority and minority lenders in the same class.

Golden Directors and Bankruptcy Consent Rights Gain Judicial Support

The appointment of lender-required independent directors continued to feature prominently in private credit restructurings in 2025. Designed to introduce a neutral, value-maximizing voice into board decision-making, these directors are frequently vested with exclusive approval or veto rights over fundamental actions, including a sale, restructuring, or bankruptcy filing. Negotiations over their appointment and authority typically arise during periods of underperformance, often in connection with forbearance agreements, credit amendments, or the exercise of remedies, and can raise tensions between freedom of contract and bankruptcy public policy.

In a notable decision, ***In re 301 W North Avenue, LLC***, the U.S. Bankruptcy Court for the Northern District of Illinois upheld the enforceability of an independent director's consent right over a bankruptcy filing.[14] The court dismissed the borrower's Chapter 11 case after finding that the filing was unauthorized under the company's LLC agreement, which required approval from an independent manager appointed at the lender's insistence.

The decision reinforces the effectiveness of so-called "golden directors" as a restructuring tool for private credit lenders and offers practical guidance going forward. As lenders continue to pursue out-of-court solutions and tighter downside protections, golden director structures are likely to remain a durable feature of the private credit restructuring landscape in 2026 and beyond.

Trends to Watch in 2026

Will LMEs Come to Larger Club Deals?

The proliferation of upper-middle market private credit deals, "super" clubs, and a burgeoning secondary market for direct loans are increasingly blurring the lines between private credit and BSL—where LMEs are a persistent risk. Traditionally, LMEs have been largely confined to the BSL market, and a key question in 2025 was whether private credit LMEs would become more common. For the most part, the answer was no: direct lenders and sponsors largely stuck to negotiated deals, reflecting the relationship-driven nature of the private credit sector.

However, the increasing convergence of the private credit and BSL markets in upper-middle market and larger club deals could alter private credit's resistance to LMEs in the future. As transaction sizes grow, a secondary market develops, and documentation continues to converge, private credit lenders must be familiar with the LME playbook.

Given current trends, we think it is unlikely that true "creditor-on-creditor violence" in the form of non-pro rata uptiers will come to the direct lending market in 2026. However, private credit lenders need to be prepared for the increasingly common "deal away"—drop-downs and other forms of priming or pari financing provided by a third party without the support of existing lenders. It remains to be seen whether these aggressive transactions familiar to BSL lenders will trickle down to the private credit market in the year to come.

Will Private Credit Finally Experience a "True" Credit Cycle?

The last two years have seen private credit performance weather the new normal of higher-for-longer interest rates. 2025 thrust the industry into the headlines following freefall Chapter 11 filings by private credit borrowers. However, these events have not triggered a systemic or prolonged wave of defaults that have resulted in a "true" down-cycle. Given current default trends and the expectation of further rate cuts in 2026, we think this trend is likely to continue in the year to come.

Nevertheless, restructuring issues remain front and center for private credit lenders throughout all phases of the credit cycle. In a downturn or otherwise, lenders and sponsors are actively engaging on amend-and-extend transactions, liquidity-driven covenant resets, change-of-control transactions, and Chapter 11 filings. As portfolio companies navigate higher funding costs, uneven sector performance, and evolving business plans, private credit lenders must continue to devote significant attention to restructuring strategies and stay abreast of current trends.

---

[1] Source: Debtwire, Bloomberg data.

[2] Read more in our latest *Pulse Check Report* on the secondaries market, here.

[3] Read our coverage of the administration's Executive Order opening alternative assets to 401(k) investors, here.

[4] Proskauer's Philip Bowden (Partner, Co-Head of Global Finance) and Alex Griffith (Partner, Global Finance) sat down with Private Debt Investor in November 2025 to discuss the increasing crossover between banks and private credit lenders and other recent trends. Read the Expert Q&A, here. See also *Banks Are Playing Long Game in Push to Trade Private Credit* (Bloomberg, Jul. 17, 2025).

[5] Source: Debtwire data.

[6] View data from Proskauer's *Private Credit Default Index*, here.

[7] Source: Bloomberg data.

[8] See *First Brands and Tricolor Are Signs of What's to Come* (Bloomberg, Sept. 29, 2025).

[9] Read our deep-dive on Article 9 strict foreclosure, here.

[10] Read our November 2025 overview and market update on BSL and private credit markets, here.

[11] Read our coverage of the *ConvergeOne* ruling, here.

[12] *Bank of America Nat'l Trust & Sav. Ass'n v. 203 North LaSalle St. P'ship*, 526 U.S. 434 (1999).

[13] Read our coverage of the *Serta* decision, here.

[14] Read our coverage of the *301 W. North Avenue* ruling, here.

Related Professionals

- **Patrick D. Walling**
  Partner
- **David M. Hillman**
  Partner
- **Vincent Indelicato**
  Partner
- **Charles A. Dale**
  Partner

- **Matthew R. Koch**
  Partner
- **David Weiss**
  Associate
- **Dylan J. Marker**
  Associate
- **C. Thomas St. Henry**
  Associate