

Private Credit Myth #7: Recoveries will be worse than 2009

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We turn to #PrivateCreditMyth #7: “Recoveries will be worse than 2009.”

This idea comes from the prevalence of record high borrower leverage and cov-lite structures. If performance deteriorates, lenders have no triggers until a payment default. By then, the business could be worth much less than what the sponsor paid for it. And possibly less than the value of the senior debt.

As our Chart of the Week from Moody’s shows, first-lien loan recoveries (back to 1983) of 66.5% and project 2020 recoveries of 59%.

This is for broadly syndicated loans. Decades of data show middle market loans have lower defaults and losses, and higher recoveries than BSL. That’s because lenders’ and sponsors’ interests are aligned to maximize enterprise value...

?? Read Feb 24 2020 newsletter: [here](#)

?? Chart of the Week: [here](#) (by Moody’s Investors Service)