

Defaults: Roughly 40% of restructured HY issuers were in trouble again within 24 months

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Table

Fate of High Yield Distressed Debt Exchanges (DDEs)

Time Post DDE	% of DDE Bankrupt	% of DDE Missed Interest	% of DDE 2nd DDE	Sum of Events	Cumulative
1–12 Months	10.5%	2.9%	14.6%	28.1%	28.1%
13–24 Months	6.4%	1.8%	5.3%	13.5%	41.5%
25–36 Months	2.3%	1.8%	3.5%	7.6%	49.1%
37–48 Months	0.6%	1.2%	1.2%	2.9%	52.0%
49–60 Months	0.6%	0.6%	0.6%	1.8%	53.8%
Total	20.5%	8.2%	25.1%	53.8%	—

Fate of Broadly Syndicated Loan Distressed Debt Exchanges (DDEs)

Time Post DDE	% of DDE Bankrupt	% of DDE Missed Interest	% of DDE 2nd DDE	Sum of Events	Cumulative
1–12 Months	7.1%	1.8%	4.4%	13.3%	13.3%
13–24 Months	3.5%	2.7%	6.2%	12.4%	25.7%
25–36 Months	4.4%	2.7%	1.8%	8.8%	34.5%
37–48 Months	2.7%	0.9%	1.8%	5.3%	39.8%
49–60 Months	1.8%	0.0%	0.9%	2.7%	42.5%
Total	19.5%	8.0%	15.0%	42.5%	—

Source: KBRA DLD, Eric Rosenthal

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Distressed debt exchanges (DDEs), the alternative medicine to bankruptcy when it comes to treating problem credits, have long been criticized as temporary band-aids that lead to another restructuring or Chapter 11

anyway. Investors aren't wrong.

Among a sample of 171 high yield issuers that executed DDEs, 41.5% lasted just 24 months before needing another credit fix, according to a new research report co-authored by **KBRA DLD's Eric Rosenthal** and **NYU Professor Dr. Edward Altman**. The rate increases to 52% within four years.

DDEs offer investors two main advantages: 1) less costly than a bankruptcy process, and 2) provide time to turn around the business.

Historically, DDEs were a tactic limited to the high yield market, but as high yield and the broadly syndicated loan (BSL) markets converged, loan investors became more accepting of the practice, which is now used heavily across both markets. Between 2019 and 2025, DDEs accounted for 47.5% of syndicated loan defaults, and 45.1% of high yield defaults, both sets by count, according to KBRA DLD Default Research.

However, the relapse rate across BSL issuers is lower than high yield, the research shows. Among a sample of 113 BSL issuers that executed DDEs, 25.7% were in trouble again within two years, and 39.8% within four years.

The direct lending market is not immune to relapses either. **Walker Edison Furniture** filed for bankruptcy last week, about 2.5 years after a restructuring in 1Q23.

Ideal Image Development restructured in 1Q24 and has returned to **KBRA DLD's** Default Radar after **Blue Owl Capital Corp** placed the **L-Catterton**-backed consumer company on non-accrual last quarter.

Additionally, **Excelin Home Health** and **HDC/HW Intermediate** are poised to become repeat defaulters, having returned to Default Radar following distressed debt exchanges.

(Past performance is no guarantee of future results.)