

Private Credit Defaults 101: Back to School

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As Labor Day approaches, the unofficial end of summer is upon us. But, before we get too sad, there is also the familiar back-to-school energy. New backpacks, new notebooks, and for kids, the promise of a curriculum designed to help them learn new topics and skills in the year ahead. Teachers don't just throw everything at students on day one. They build the syllabus deliberately, layering concepts so that by the time exams roll around, the material actually sticks.

We're taking the same approach here at The Lead. Education and thought leadership have always been our North Star, and there's one topic that keeps coming up in our conversations with readers, allocators, and managers alike: private credit defaults. It's a topic that sounds simple, but can get complicated fast. Our goal is to make the nuance easier to understand. So, let's delve into our syllabus and see what is in store for the next several weeks.

Lesson one: how do you even define a default? You'd think this would be straightforward, but there are many different measures. Some providers take a more concentrated approach and look at payment defaults exclusively – cash interest or principal that's been missed. Others can cast a wider net, including maturity extensions, amended payment-in-kind (PIK), covenant breaches, debt-to-equity swaps, and loans moved to non-accrual status. These are all still measures of credit stress, but they aren't uniformly included within the definition of "default." That distinction is exactly why you'll see wildly different rates quoted depending on whose data you're looking at.

For the next lesson, we'll turn to recoveries, arguably the more important half of the story. A default doesn't tell you how much money you actually lose; recovery does. Direct lending has historically benefited from tighter terms and real financial covenants that catch problems early, allowing lenders to engage the sponsor and compel negotiations before issues compound. That discipline has translated into historically higher recovery rates than what you'd find in the broadly syndicated loan or high yield markets. As we'll show, success in a workout is often determined well before the workout ever starts.

For our last lesson, we'll zoom out to the bigger question: where are we in the credit cycle? Non-accruals have been creeping higher across the space, and that's understandably raised eyebrows about whether these are idiosyncratic issues, or if this is the start of something bigger. We'll bring everything together from the earlier lessons to help frame what a rising default environment might actually look like from here.

Unlike school, there's no pop quiz and no final exam waiting for you at the end of this series. But we can promise that the next time you see a headline, hear a soundbite, or catch a talking head on TV discussing private credit defaults, you'll know exactly what's driving that number, and more importantly, what it actually means.

And don't just take our word for it. You'll hear directly from the industry experts building these numbers themselves on September 19th, at *The Lead Presents: Making Sense of Private Credit Defaults*.