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Private Credit Defaults 101: Different Numbers, Different Stories

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In Season 2 of *Billions*, Bobby Axelrod takes his lawyer Orrin Bach to an empty Yonkers racetrack in the dead of night. It's where Axe learned to make money before he ran a hedge fund. He watched enough people lose betting on how a horse looked, only to realize the money was in the numbers. "The numbers told the story," he tells Orrin. "They always do."

Private credit defaults are proof that the numbers can tell more than one story depending on who's counting. The trouble isn't in the numbers. The disparity is that two people can be looking at different sets of numbers, both accurate, yet walk away with completely different conclusions without knowing why.

There's no single, universal default rate for private credit, and that's exactly why you'll see headlines like "U.S. Private Credit Default Rate Remains at Record High in July 2026" running alongside "Private Credit Default Rate Falls to 2.5% in Q2, Second Half Stable." The lookback period is often the same, usually trailing twelve months, but that's about all the two numbers have in common.

The real story is in the default definition and how they are being measured. Some providers take a narrow approach, focusing only on actual cash interest or principal payments that are missed. Others use a broader measure, sometimes called a "shadow rate," which can include maturity extensions, amended payment-in-kind (PIK) terms, covenant breaches, and loans moved to non-accrual status. Looking at Fitch's latest report, interest deferrals and maturity extensions made up 78% of the trailing-twelve-month default rate – just below the 85% full-year average, but still the biggest part of the story (see our *Chart of the Week*).

Layer on top of that the fact that providers are often pulling from entirely different loan universes – different sample sizes, different sets of issuers – and it's easy to see how two "default rates" covering the same period can land worlds apart.

Just because these numbers differ doesn't mean they're meaningless. A maturity extension or a shift to PIK can sometimes signal that a borrower is under stress, and lenders don't take those steps lightly when that's the case. But there's a meaningful difference between a borrower working through a rough patch and one that's actually missed a payment. Given middle market direct lending is largely a buy-and-hold strategy, lenders can work through issues with a borrower well before it ever reaches the point of a payment default – as we'll cover next week. But when payments are missed, the market and investors take notice. The return, after all, is simply getting repaid principal plus interest, on time.

So which number should you trust? Honestly, they all serve a purpose. But you need to understand what's driving the calculation. Two providers can each publish a legitimate default rate and still land on very different numbers, simply because they're measuring different things. Both useful in their own right. The real risk is treating every default rate as if it's measuring the same thing, when it isn't.

Axe was right. The numbers do tell the story. You just need to know which numbers you're reading.