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Private Credit Lenders Should Remain Vigilant in 2021

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Private credit lenders began 2020 facing the dual challenges of an increased risk of defaults and a lack of strong financial covenants, and the pandemic sparked a significant increase in defaults to 8.1% in Q2. However, borrower defaults in Q3 and Q4 were lower than anticipated following the COVID-fueled spike in Q2, due in part to cash infusions into distressed borrowers by private equity sponsors and federal stimulus measures. Despite the continued economic headwinds from the pandemic through 2020 and into 2021, default rates have remained low and are expected to remain low, and private credit lenders and private equity sponsors have huge amounts of liquidity to invest.

Another significant development involved continued jockeying between lender groups, which we predicted in 2020. Several disputes came to a head with significant inter-lender litigation arising from liability-management transactions by lead lenders, and we expect those disputes to continue through 2021. In part, cash infusions by private equity sponsors in response to the pandemic have helped temporarily pushed the battle lines for private credit lenders from potential disputes with borrowers to inter-lender disputes. Two leadings examples are the *Serta* and *Boardriders* cases.

In 2021, it will be important for private credit lenders to remain vigilant of the risk of borrower defaults, and to freshly consider their approach to inter-lender disputes.

Read more of our Top Ten Regulatory and Litigation Risks for Private Funds in 2021.

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