

A canary in a coal mine? U.S. first-lien creditors are getting back less than ever

Five primary sources tracked by Icarus Asia point to a credit market that has been systematically repriced against the interests of senior secured lenders. These lenders provide high-priority, asset-backed debt to below-investment-grade companies, typically for acquisitions, refinancing, or growth. They occupy the top of the capital structure, offering, on average, over 80% recovery rates in defaults by holding claims on collateral like inventory, equipment, or receivables.

However, that model has been showing cracks as bankruptcy recoveries in the U.S. in 2025 have reached a decade low of 43 cents on the dollar, according to Fitch. Meanwhile, S&P's broader loan dataset runs at 88% through September, masking a bond recovery collapse to a 24-year low.

Moody's forward LGD sits 19 points below its own historical mean, as per Icarus Asia research. Liability management transactions have wiped out recovery entirely in 14 documented cases.

43%* Fitch 2025 par-weighted first-lien recovery (bankruptcy) ↓ Decade low; 10yr avg 62%	88.4%** S&P loan recoveries YTD 2025 (through Sept) Above long-term avg of 75.4%	~68% Moody's forward LGD estimate for first-lien loans vs. ~87% historical avg · via Icarus Asia	70 pts Avg recovery cut for most-disadvantaged LMT lenders Wiped out entirely in 14 of 38 S&P-tracked cases
---	---	---	--

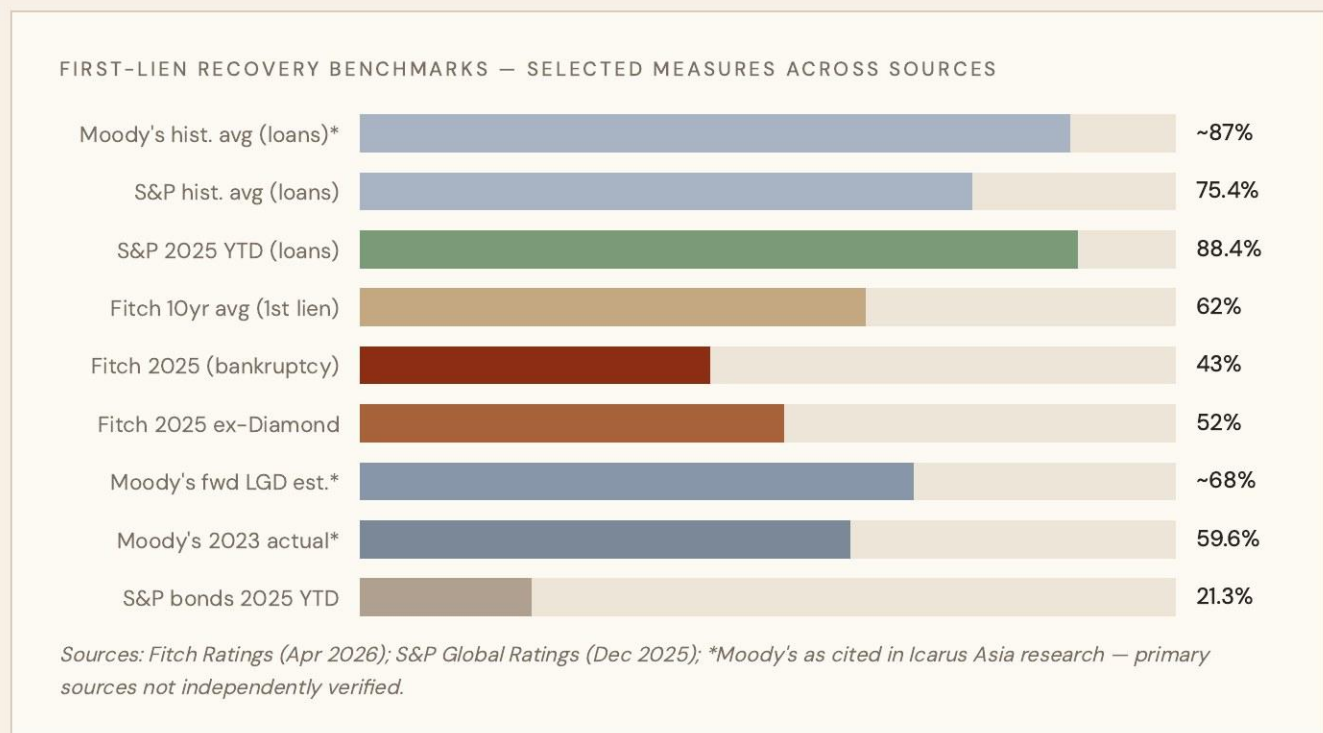
* Par-weighted, nominal basis. Covers companies with ≥\$100M first-lien debt that filed for bankruptcy and emerged in 2025. Not directly comparable with S&P figure below.

** Discounted basis, all default types including distressed exchanges. Preliminary — based on 13 emerged instruments as of September 30, 2025; subject to revision.

Fitch's par-weighted average first-lien recovery of 43% for 2025 — drawn from U.S. companies with at least US\$100 million in first-lien debt that filed for bankruptcy and emerged during the year — is the weakest result in its 2016–2025 dataset, sitting 19 percentage points below the 10-year average. Read alongside S&P Global's December 2025 recovery study, which puts loan recoveries at 88.4% through the first three quarters, the two figures appear to tell opposite stories. They do not. They measure different populations with different methodologies, and reconciling them is necessary before drawing conclusions about the direction of first-lien credit quality.

Fitch's dataset is confined to formal bankruptcy cases in a specific size band — par-weighted, drawn from its own analytical database. S&P's LossStats captures ultimate recovery values across more than 5,771 defaulted instruments from over 1,160 U.S. issuers between 1987 and September 2025, including distressed exchanges and nonbankruptcy restructurings. Distressed exchanges now account for the majority of defaults globally and tend to resolve at higher values than Chapter 11 cases — a large part of why S&P's 2025 loan figure looks robust while Fitch's bankruptcy-specific number does not. The mechanism that matters most for first-lien creditors — liability management transactions — operates largely outside the bankruptcy process and does not show up cleanly in either dataset.

A third data series sits behind both: Moody's forward-looking LGD assessments, placing expected ultimate recovery on U.S. first-lien senior secured loans at roughly 68%, against a historical average of approximately 87%. Moody's 2023 empirical figure for actual recoveries on defaulted first-lien loans was 59.6%, down from 69.5% in 2022. Both figures are cited in Icarus Asia research; primary Moody's sources have not been independently verified. The gap between the three agencies is wide in any given year. Their direction over time is not.



Diamond Sports: how much of the Fitch number is one name

Diamond Sports Group accounted for roughly 22% of total claim volume in Fitch's 2025 bankruptcy dataset while generating only around 5% of total recoveries. Its first-lien creditors recovered approximately 10 cents on the dollar. That single case mechanically pulls the par-weighted average down by the product of its claim share and its recovery shortfall — a distortion Fitch addresses by publishing the ex-Diamond figure of 52%.

The adjusted number is worth having. It is also still below both the 10-year average of 62% and the long-term norms for each capital structure type. First-lien loan-only structures averaged 40% in 2025 against a historical 47%; multi-tiered structures averaged 44% against a historical 64%. Excluding Diamond Sports, the multi-tiered figure rises to 59% — approaching historical norms, but the loan-only result is unchanged. The 2025 data continues a multiyear downtrend that Fitch attributes to complex capital structures, a higher incidence of LMTs, and sector concentration in broadcasting, media, and retail.

"The growing use of liability management transactions has become an important factor shaping recovery outcomes, particularly for lenders that do not participate in these transactions. These structures often introduce new superpriority debt and increase leverage, which can materially dilute recoveries for existing creditors when an issuer ultimately files for bankruptcy."

— JOSHUA CLARK, SENIOR DIRECTOR, FITCH RATINGS, APRIL 6, 2026

Reading S&P's recovery data alongside Fitch

S&P's 88.4% loan recovery figure for 2025 YTD reflects falling interest rates, supportive financing markets, and a lower-than-average formal default count through September. But only 13 defaulted instruments had emerged with sufficient data for ultimate recovery estimation by end-Q3 — a thin sample that will be revised. More telling is S&P's observation that since 2021, average revolver recovery has run at 62.4% against a long-term average of 79.1%, and first-lien term loan recovery since early 2022 has averaged 64.8% against a long-term figure of 70.8%. The 2025 YTD rebound sits atop a multi-year period of below-average results.

Bond recoveries in 2025 tell a starker story. S&P's figure of 21.3% through September is the lowest since 2001, against a long-term average of 40.4% — and it fell even as distressed exchanges, which historically produce better bond outcomes than bankruptcy, accounted for the majority of defaults in both 2024 and 2025. That divergence between loan and bond recoveries in a year otherwise characterised by supportive markets is worth watching.

Instrument type	Mean recovery (discounted)	Median recovery	Long-term avg (nominal)	Post-2021 trend
Revolving credit facility	79.1%	95.2%	87.9%	Below avg since 2021
First-lien term loan	70.8%	79.6%	78.8%	Below avg since 2022

Instrument type	Mean recovery (discounted)	Median recovery	Long-term avg (nominal)	Post-2021 trend
Second-lien / unsecured TL	43.9%	31.2%	49.8%	Below avg
Senior secured bonds	57.6%	58.9%	67.7%	Near historical avg
Senior unsecured bonds	44.9%	42.2%	52.0%	Above avg (sr. unsecured)
Senior subordinated bonds	29.9%	18.1%	35.1%	—
Bonds / notes (all)	40.4%	32.4%	47.4%	2025 at 21.3%, lowest since 2001

[Source] S&P Global Ratings, "U.S. Recovery Study: Supportive Markets Boost Loan Recoveries," December 17, 2025. Data through September 30, 2025. Discounted recovery uses each instrument's effective interest rate.

METHODOLOGY NOTE — WHY FITCH AND S&P NUMBERS DIFFER

Fitch's 43% covers companies with $\geq \$100\text{M}$ in first-lien debt that filed for bankruptcy and emerged in 2025, on a par-weighted nominal basis. S&P's 88.4% covers all instruments that emerged from any default type — including distressed exchanges — in the first three quarters of 2025, on a discounted basis using LossStats. Fitch's cohort is confined to large, complex bankruptcy cases in distressed sectors; S&P's 2025 cohort is dominated by distressed exchanges, which resolve faster and at higher values. Read alongside Moody's forward LGD estimates as cited in Icarus Asia research, the multi-year directional signal from all three is consistent: first-lien recoveries are running below historical norms even when any single year looks favourable.

Covenant-lite: the 9.3-point tax on first-lien recovery

S&P's data across its full 1987–2025 dataset shows cov-lite first-lien term loans averaging recoveries 9.3 percentage points below those on non-cov-lite equivalents. For second-lien or unsecured cov-lite term loans the gap is nearly 20 points. Maintenance covenants force renegotiation earlier in a company's deterioration cycle, when enterprise value is higher and restructuring options are cleaner. Without them, borrowers operate through covenant-free distress until a payment default or maturity forces the issue.

S&P's data shows cov-lite moving from under 10% of newly issued institutional term loans in 2008 to over 90% by the mid-2020s. At low market share, cov-lite was reserved for stronger credits. At 90%+ market share, it applies to the full credit quality spectrum. The recovery penalty that was modest when cov-lite was selective becomes a portfolio-level drag when it is universal.

Private credit has so far preserved covenant discipline. S&P's sample of 1,404 direct term loans shows financial maintenance covenants present in roughly 90% of transactions below \$350 million in committed debt. Icarus Asia research cites StepStone data putting ultimate recovery rates for direct-lending term loans at approximately 72%, with senior direct-lending loss rates below 1% per year since 2011. (Primary StepStone source not independently verified; cited as Icarus Asia research.) Whether those loss rates hold as documentation standards migrate toward BSL norms in the upper end of the private market remains an open empirical question.

LMT mechanics: how priority gets rewritten before bankruptcy

S&P's October 2024 FAQ on LMTs identifies four primary structures, each exploiting standard BSL credit agreement provisions — basket capacity under negative covenants, broad investment permissions, majority-lender amendment thresholds, and unrestricted subsidiary designation rights. Real transactions blend these categories and will continue to develop new variants.

TYPE 1

Collateral / asset transfer (drop-down)

Assets moved from the collateral package securing existing lenders to a nonobligor subsidiary. New secured debt raised against the transferred assets gives those lenders structural priority over the transferred value. J.Crew and Revlon are the defining examples.

TYPE 2

Priming loan exchange (uptier)

A majority lender group amends the credit agreement to permit new superpriority debt above existing first-lien claims. Non-participants are left with a position that is first-lien in name but subordinated in economic substance. Serta Simmons and Trimark are the key precedents.

TYPE 3

Double-dip

New secured debt at a nonobligor affiliate is guaranteed by existing obligors pari passu with existing debt. Proceeds lent back as an intercompany loan, also secured pari passu, with the receivable pledged to new lenders. New lenders hold two claims on the same collateral. At Home and Wheel Pros are examples.

TYPE 4

Pari-plus

New debt at a nonobligor with guarantees from nonobligors holding valuable assets. Proceeds lent to an obligor as an intercompany loan secured pari passu with existing debt. New lenders get a pari passu claim on legacy obligors plus structural seniority at the new borrower entity. Sabre and Trinseo are examples.

Across the 38 LMTs S&P tracked from mid-2017 through August 2024, recovery expectations for the most disadvantaged lenders were cut by an average of nearly 70 percentage points — roughly 40 cents of par value. In 14 of those 38 cases, expected recovery fell to zero.

Travelport's September 2020 priming transaction moved disadvantaged lenders from 75% to 0%. Murray Energy's June 2018 transaction went from 65% to 0%. Serta Simmons took

expected recovery from 55% to 5%. RobertShaw's May 2023 multi-step transaction went from 50% to 0%.

Issuer	Date	Recovery before	Recovery after	Change	Status
Travelport (priming)	Sept 2020	75%	0%	-75 pts	Redefaulted / CCC+
Murray Energy	June 2018	65%	0%	-65 pts	Subsequently bankrupt
Magenta Buyer (multistep)	Aug 2024	65%	Varied	Up to -65 pts	Redefaulted / CCC+
Serta Simmons	June 2020	55%	5%	-50 pts	Subsequently bankrupt
Boardriders	Aug 2020	55%	5%	-50 pts	Repaid (acquired)
PECF / United Site Services	Aug 2024	55%	Varied	Up to -55 pts	Redefaulted / CCC+
TriMark / TMK Hawk #1	Sept 2020	55%	0%	-55 pts	Redefaulted / CCC+
Mitel Networks	Nov 2022	50%	5%	-45 pts	Redefaulted / CCC+
GoTo Group	Feb 2024	50%	5%	-45 pts	Redefaulted / CCC+
RobertShaw (multistep)	May 2023	50%	0%	-50 pts	Subsequently bankrupt
J.Crew	July 2017	40%	15%	-25 pts	Subsequently bankrupt
Revlon	May 2020	40%	15%	-25 pts	Subsequently bankrupt
Party City	July 2020	75%	45%	-30 pts	Subsequently bankrupt
Envision Healthcare #1	April 2022	50%	30%	-20 pts	Subsequently bankrupt

[Source] S&P Global Ratings, "Credit FAQ: Demystifying Loan Liability Management Transactions," October 30, 2024. Representative selection from 38 LMTs tracked. Recovery estimates reflect S&P's embedded recovery ratings for the most disadvantaged lenders.

LMTs as balance sheet repair: S&P's verdict

Of the 38 LMT restructurings S&P tracked through August 2024, 13 companies subsequently filed for bankruptcy — 37%. Of the 22 that avoided Chapter 11, only five qualified as genuine resolutions: PetSmart (rated 'B+'), Renfro Corp. and Boardriders (both repaid in full on

subsequent acquisition), and Rackspace Technology and City Brewing, which completed LMTs that reduced total debt to levels S&P judged sustainable. The remaining roughly 50% of the non-bankrupt cohort had either defaulted outside bankruptcy or carried ratings of 'CCC+' or lower. Effective resolution rate: approximately 14% of companies that avoided formal bankruptcy.

LMTs defer the credit event, redistribute losses among previously equal lenders, and in most cases leave the borrower with a heavier debt load than before. Providing new money at superpriority terms adds leverage. Exchanging existing debt at a haircut typically benefits the ad-hoc group disproportionately. A company that completes an LMT and subsequently files does so with a more complex capital structure and a more adversarial lender base than one that went straight to Chapter 11.

"With the threat of these restructurings by distressed entities, lenders can no longer rely on realizing average par recoveries of 75%–80% (and more than 90% on a median basis) by virtue of their position at the top of the capital structure, with liens on substantially all assets."

— S&P GLOBAL RATINGS, CREDIT FAQ ON LMTs, OCTOBER 30, 2024

The four structural shifts behind weaker recoveries

Debt cushion erosion

Between 1987 and 2021, over a third of first-lien term loans emerging from default in S&P's dataset had debt cushions at least equal in size to the first-lien tranche itself. Since 2021, fewer than 5% of first-lien loans in the sample carry cushions that large, and more than 83% have a cushion of 25% or less of total debt. Icarus Asia research cites Moody's data showing first-lien loans historically represented only about 35% of total debt at default on average. In more recent LGD assessments, loan-only structures dominate the default population and carry notably lower expected first-lien recoveries. (Primary Moody's source not independently verified; cited as Icarus Asia research.)

Covenant-lite at scale

The 9.3-point first-lien recovery penalty is not a new finding. What has changed is the scale. When cov-lite applied to fewer than 10% of institutional term loans, the portfolio-level effect was marginal. At over 90% market penetration, that penalty applies to the overwhelming majority of new BSL issuance, including credits that would have required maintenance covenants in any prior cycle.

LMT frequency and severity

S&P's LMT frequency data shows an upward trend from one to two transactions per year between 2017 and 2019 to a materially higher run rate from 2020 onwards, with the 2024 year-to-date count through August exceeding most prior full-year totals. Icarus Asia research references LSTA analysis noting that first-lien term loans historically recovered around 79 cents while second-lien term loans recovered about 42 cents — implying that a primed first-lien position could see recoveries closer to second-lien historical levels. (Primary LSTA source not independently verified; cited as Icarus Asia research.) Serta and Trimark demonstrated that outcome in practice.

The shift to all-secured structures

Icarus Asia research cites analysis of 2023–2024 LBO financing showing sponsors moving toward near-entirely secured capital structures, replacing the traditional mix of secured loans and subordinated bonds. With less junior debt to take first losses, enterprise value shortfalls at default reach the first-lien layer sooner. (Underlying primary sources not independently verified; cited as Icarus Asia research.)

BSL versus middle market: Fitch's recovery rating distribution

Fitch's April 7, 2026 report shows the share of BSL first-lien instruments assigned 'RR1' — implying 91–100% recovery — declining year-on-year in 2025 across multiple sectors. Asset-based lending revolvers continue to dominate 'RR1' given their specific collateral claims. Cash flow revolvers and term loans show weaker recovery prospects across most sectors. Middle market first-lien instruments cluster in 'RR3', Fitch's 51–70% recovery category, which Fitch attributes to more limited collateral coverage than in the BSL market.

S&P's longer-run data offers partial support for a middle-market premium. First-lien term loans from issuers with \$350 million or less in total debt at default averaged 77.9% discounted recovery from 1987 to 2025, against 67.0% for larger issuers. Lower middle-market firms — those with less than \$175 million in total debt — averaged 83.7%. S&P attributes this to simpler structures, fewer conflicting lender groups, tighter documentation, and the near-absence of LMTs in direct lending. Its more recent analysis suggests the premium has narrowed, and acknowledges incomplete public data coverage of smaller private defaults.

Contractual defences: what they cover and what they miss

The principal lender protections developed in response to LMT precedents are each named for the case that prompted them. A "J.Crew blocker" restricts transfers of material intellectual

property or assets to unrestricted subsidiaries. "Serta protection" requires consent from all affected lenders before their debt or liens can be subordinated. A "Chewy blocker" prevents the release of guarantees and security when a subsidiary ceases to be wholly owned. Language targeting double-dip and pari-plus structures has begun to appear, though S&P classifies it as infrequent and inconsistent.

None has been meaningfully tested in court. More fundamentally, they are point-in-time responses to mechanics already executed. Borrowers find alternative routes through the same documentation. A J.Crew blocker covering only the investment covenant can be circumvented via the asset sale or restricted payment covenants. The BSL market has not undertaken the systematic basket and covenant overhaul that would close the underlying flexibility gap, and S&P does not expect it to, given the limited negotiating power of individual loan buyers in a syndicated market.

RATING AGENCY NOTE — LMT RISK AND RECOVERY RATINGS

S&P states explicitly in its October 2024 FAQ that it does not see an effective way to capture prospective LMT risk in issue or recovery ratings. Its recovery ratings model outcomes reflecting the existing capital structure priority — what happens in a conventional restructuring. They cannot price the probability that a majority lender group will rewrite that priority before a formal filing, because the outcome depends on undisclosed company capacity calculations, third-party valuations, and deal mechanics not knowable in advance. Fitch's recovery ratings show strong alignment with traditional bankruptcy outcomes but do not extend to LMT-driven restructurings. Recovery ratings are not a reliable forward estimate of what a lender will receive in an LMT scenario.

Implications for CLOs and portfolio-level risk models

Icarus Asia research notes that most CLO models and bank credit systems still assume through-the-cycle first-lien recovery rates in the 70–80% range. Against Moody's empirical 59.6% for 2023 and its forward LGD estimate of approximately 68% — both cited in Icarus Asia research with primary Moody's sources not independently verified — assumptions at the upper end of that range overstate expected recovery on current-vintage leveraged loan portfolios. For CLO equity and mezzanine tranches, a 10- to 20-percentage-point recovery shortfall has a material effect on expected cash flows and stress-scenario outcomes.

S&P's instrument-level evidence confirms the cov-lite recovery penalty across decades of defaults. CLO portfolios built predominantly from cov-lite BSL paper carry a structural recovery deficit relative to the historical averages embedded in pre-2010 models. That deficit is not a cyclical deviation. It reflects changes in documentation and capital structure composition that have compounded since 2010 and show no sign of reversal.

In 14 of the 38 LMT cases S&P tracked from 2017 through August 2024, recovery expectations for the most disadvantaged lenders reached zero. Senior secured, first-lien, contractual priority — none of it prevented the outcome. The historical averages that anchor CLO models, risk weightings, and private credit return assumptions were built on a market with junior debt cushions, maintenance covenants, and no out-of-court mechanism for majority lenders to subordinate holdouts. That market is gone. The averages remain.

Sources and references

- 1 Fitch Ratings. "U.S. First-Lien Recoveries Fall to Decade Low in 2025." April 6, 2026. [fitchratings.com](https://www.fitchratings.com)
- 2 Fitch Ratings. "U.S. First Lien BSL Recoveries Decline While Middle Market Concentrated in 'RR3'." April 7, 2026. [fitchratings.com](https://www.fitchratings.com)
- 3 S&P Global Ratings. "Credit FAQ: Demystifying Loan Liability Management Transactions And Their Impact On First-Lien Lenders." October 30, 2024. [spglobal.com](https://www.spglobal.com)
- 4 S&P Global Ratings. "Default, Transition, and Recovery: U.S. Recovery Study: Supportive Markets Boost Loan Recoveries." December 17, 2025. [spglobal.com](https://www.spglobal.com)
- 5 Icarus Asia. "Liability Management Transactions impacting Senior Secured Lenders' recoveries" Research note. *Primary source for Moody's figures (historical ~87% avg, forward ~68% LGD, 59.6% empirical 2023) and for StepStone, Polen Capital, LSTA, and Ion Analytics citations. All figures attributed to underlying institutions; primary sources not independently verified.*
- 6 Moody's Investors Service. 2024 Probability of Default and Recovery Study. As cited in Icarus Asia research [5]. [scribd.com](https://www.scribd.com) (third-party copy)
[Primary sourcing from Moody's that has not been independently verified.]
- 7 StepStone Group. "Recovery rates as a mitigator against default rates." March 2024. As cited in Icarus Asia research [5]. [stepstonegroup.com](https://www.stepstonegroup.com)
[Primary sourcing from StepStone that has not been independently verified.]
- 8 Polen Capital. "Leveraged Credit: 2024 Review and 2025 Outlook." As cited in Icarus Asia research [5]. [polencapital.com](https://www.polencapital.com)
[Primary sourcing from Polen Capital that has not been independently verified.]
- 9 Ion Analytics / Debtwire. "First-lien expected recovery rates slip below historic average for European leveraged loans." 2024. As cited in Icarus Asia research [5]. [ionanalytics.com](https://www.ionanalytics.com)
[Primary sourcing from Ion Analytics/Debtwire that has not been independently verified.]