LESSONS FROM THE GREAT CREDIT CRISIS

INCLUDING IMPLICATIONS FOR THE WALL OF IMPENDING DEBT MATURITIES

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SUMMARY
Boom/bust cycles are as old as the credit markets. Each cycle is unique in its specifics, but each share a common set of themes. At the highest level, cycles start tentatively. Investors, freshly burned by the sins of the last credit crunch are slow to reengage. Thus, early cycle deals tend to have conservative capital structures, with relatively lower leverage and wider interest rate spreads. As the cycle grinds on, however, success builds on success and deal structures become ever more ambitious until, finally, a bubble of excess forms. When the economy inevitably falls into recession, liquidity dries up creating a mound of defaulted debt instruments and an even larger pile of still performing loans and bonds that lack a clear exit strategy.

Of course, as the economy ultimately recovers and starts growing again, defaulted issuers are able to restructure and exit bankruptcy. Surviving issuers are able to deleverage via earnings growth and/or equity capital raises, including initial public offerings and asset sales.

The reason credit markets – like all financial markets – repeat this boom/bust cycle over and again is twofold. First, the economic cycle tends to have long periods of growth interrupted by short periods of recession. During the growth phase, default rates tend to be low and thus credit appears to be nearly riskless. Investors respond by pouring money into the markets and, in response, credit quality deteriorates. The second reason is that memories may not be short, but they are faulty. In each cycle, credit investors rarely repeat historical mistakes, but are lulled into new excesses.

Certainly this is the case among the three great boom/bust cycles of the modern leveraged finance era, which began in the 1980’s. The first, from the 1980’s, taught market players that private equity firms had systematically undercapitalized their leveraged buyouts with equity contributions of less than 10 percent of total capitalization. When the cycle turned, therefore, there was little to cushion debtors from losses. Thus, over the past 20 years the market has seen much higher equity contributions, typically in the 25 – 35 percent range, but with some as high as 50 percent or more.

In the cycle of the late 1990’s, the excess was around blue-print telecom deals. Lenders financed first-lien loans to issuers that had little more than a sexy business plan to build out cellular, CLEC and other telecom-related ventures. When the internet and telecom bubble burst in 2000, rolling waves of bankruptcies pushed the default rates up and created a large swath of low-recovery defaulted loans. Not surprisingly, this type of blue-print deal has been missing from the leveraged landscape ever since.

The late 2000’s produced the latest and, for now, greatest bust of all. The big mistake of this cycle, however, was unlike those of the past two cycles. Sure, deal structures loosened and the market saw sky high levels of leverage – with debt multiples typically ranging from 8x to 10x by the 2006 and 2007 time periods. This compares to historical debt multiple norms of 4x to 6x. The real issue was not just the excessive leverage of the issuers but, more importantly, the excessive leverage of the lenders. A combination of structured finance technology and credit default swaps allowed banks and institutional asset managers to greatly increase the use of leverage, including up to 40 turns of leverage on illiquid, mark-to-market vehicles. The perils of leverage are particularly acute when applied in massive doses in structured vehicles that are illiquid or require mark-to-market accounting. When risk appetites contracted, margin calls for more equity in mark-to-market funds created rampant forced selling, producing unprecedented volatility that drained liquidity from the system. As a result, below investment grade companies face a daunting wall of debt maturities that will magnify investment opportunities and risks over the next five years.
This chapter gives a perspective on the lessons learned from the late 2000’s credit bust and some of the major risks that remain, in particular the large 2013-2015 maturity cliffs still outstanding. We examine how market participants may apply the lessons learned to deal with the impending wall of debt maturities. This includes developments in the capital markets and innovations in the bankruptcy and reorganization process that may have a profound impact on how deals are structured in the years ahead.

**A SYSTEMIC INSOLVENCY CRISIS**

The importance of understanding systemic risk is amongst the most important of the lessons learned from the late 2000’s credit bear market—and what made this credit crisis particularly unique and painful. The credit crisis created an unprecedented situation in which the banking system and investment grade companies faced systemic liquidity constraints which curtailed their ability to roll over short term liabilities, creating a crisis of insolvency, not just liquidity. This rendered historical credit quality metrics useless. The resulting panic pushed corporate credit spreads to unheard of peaks, creating a surge in defaults which affected every industry—another unique quality of this cycle.

Abrupt changes in the reorganization and insolvency landscape meant debtors could no longer finance themselves through a time consuming restructuring process, as exemplified by the GM and Chrysler reorganizations. This forced companies and their lenders to make tougher decisions much earlier on in the process. These changes in the way debtors and creditors interact in the face of insolvency are likely to have long term consequences for the way companies are reorganized and important implications for dealing with the impending wall of debt maturities.

The financial disruption and economic conditions which pushed companies to the brink of bankruptcy also created a severe lack of financing to fund operations during a restructuring, including Chapter 11 proceedings. The ability to arrange rescue financing or new money debtor-in-possession (“DIP”) financing dried up because lenders were husbanding precious capital and because the repayment of rescue financing, including DIP loans, which were long considered to be of limited risk, was no longer a certainty. The uncertainty of obtaining DIP financing forced companies to enter bankruptcy sooner (while they still had sufficient cash reserves to reorganize) and to pay higher interest rates, than ever seen before, in the rare cases where they were able to obtain DIP financing. Companies such as LyondellBassell and SmurfitStone, for instance, paid yields in the mid-to-high-teens (compared to historical levels of 7 - 9 percent). In some cases, post-petition lenders willing to provide a DIP were able to preferentially boost the position of their prepetition claims through so-called rollup loans. These rollup loans transformed existing debt into junior DIP’s which had a priority in right of repayment ahead of existing lenders that did not participate in the new DIP financing.

Issuers that were unable to access even these high-cost DIPs were faced with a stark set of choices: (i) reorganize quickly and efficiently in order to avoid, or exit, bankruptcy as soon as possible; (ii) conduct a sale of major assets under section 363 of the bankruptcy code, often at distressed prices; or, (iii) simply liquidate. Creditors were similarly faced with difficult choices, and junior creditors falling at the bottom of the capital structure found themselves with much reduced influence because the value of the enterprises in Chapter 11 were severely diminished. This had the effect of removing a main point of control for junior or subordinated creditors: contesting the valuation of the enterprise in connection with confirmation of a plan of reorganization.
How did private equity sponsors react during this most recent cycle? There were very few equity capital infusions into debtor companies during this time period. In many cases, due to the eradication of private equity values, equity sponsors stepped to the side and facilitated the restructuring or plan of reorganization recognizing that their original equity investment was lost. In theory, a private equity sponsor could help a distressed portfolio company avoid bankruptcy and preserve some portion of the original equity invested in the company with an outright injection of capital. In practice, this has been exceedingly rare during the current downturn, with only one instance out of 186 in which a private equity sponsor saved a company (Frontier Drilling) from bankruptcy without forcing debt-holders to make concessions as well. The limited partner community also put pressure on private equity firms to not invest capital from newer vintage funds, into struggling portfolio companies of older vintage funds. This severely limited private equity portfolio companies access to new equity capital. In many cases, sponsors made the only rational decision which was to avoid contributing capital or making loans to protect underwater equity positions. Some sponsors were surely motivated to cooperate with their Lenders in order to protect their reputations or not impede their pending fundraising activities. The lack of new capital to support these deals helped perpetuate numerous instances of impaired or underwater equity investments across the entirety of the private equity landscape.

A SECULAR LIQUIDITY CONTRACTION DUE TO SHRINKING FUNDING CAPACITY
Another important lesson learned in the late 2000’s cycle is that bursting the credit bubble created an over-arching, long term (or secular) liquidity contraction that may live well beyond the short term credit crisis. The scope of this secular liquidity contraction as well as the massive refinancing overhang was fueled by historically low interest rates, the exceptional growth of structured investment vehicles, and an overly accommodating bank regulatory environment. Like a rubber band that was stretched to its limit, this has the potential to create a powerful liquidity crunch as the capital provided at the market peak contracts over the next several years.

During the mid-2000’s, collateral managers issued roughly $300 billion of collateralized loan obligations (CLO’s) that generated about 60 percent of the demand for leveraged loans at the peak of the credit boom. Since the market collapsed in 2007, new CLO issuance has been almost entirely non-existent. Most legacy CLO vehicles are able to reinvest the proceeds from loan repayments until they are forced to liquidate from 2010 to 2014. As a result, recent loan prepayments from record high yield bond issuance has funded the limited demand for loans from these legacy CLO’s. But with the legacy CLO’s beginning to liquidate right when the wall of impending loan maturities peak, pessimistic market participants fear another major liquidity crisis. Even the optimists do not expect loan issuance levels to reach the magnitude seen from 2005 to 2007 - when issuance averaged $437 billion a year - given that the nature of CLO demand is likely to change in a meaningful way over the next several years. As of 2010, CLOs held about 50 percent of all outstanding leveraged loans in the market. A material funding problem arises in 2012 to 2014 when approximately $320 billion of leveraged loans are expected to mature and will need to be refinanced (most of these loans are held by CLOs). As a rapidly increasing number of CLOs enter the end of their

1 Frontier is an oilfield service portfolio company of Riverstone, Avista, and Global Energy Capital. The sponsors invested an additional $175 million in the form of redeemable PIK preferred stocks.  
2 Moody’s Global Corporate Finance research

3 Standard & Poor’s LCD data
4 Standard & Poor’s LCD data
reinvestment period from 2010 to 2014, the capital available to purchase new loans or refinance old ones will decline rapidly. As a result, the U.S. leveraged loan market is estimated to lose approximately $275 billion in new funding capacity between 2010 and 2015 due to expiration of CLO reinvestment rights.\(^5\)

The CMBS market, which provided over 20% of the funding capacity for commercial real estate loans, also remains impaired. Estimates for total losses on US commercial mortgage loans were recently raised to $287 billion, of which $180 billion, or 63 percent, will be absorbed by commercial banks. This is expected to be driven by rising vacancy rates, falling asset values (asset prices are predicted to fall 40 to 42 percent on average from original valuation levels) and a continued drop in rents (at a 9% annualized rate, the worst decline on record).\(^6\) As a result, by the end of 2010, 81 percent of commercial real estate borrowers are expected to be looking at negative equity positions. This places lenders in a precarious position and will reduce their capital bases, just as the commercial real estate market is faced with over $1.3 trillion of debt maturities to absorb between 2011 and 2013.

A significant amount of funding capacity is also being drained out of the leveraged loan market due to reduced bank lending. In fact, as a result of surge in default rates (among other reasons) during 2009, US banks posted their sharpest decline in lending since 1942 as shown in Exhibit A. The prospects for a long term liquidity contraction may portend a longer economic recovery process. Besides registering their largest full year decline in total loans outstanding in 67 years, US banks set a number of other negative milestones at year end 2009, as reported by the FDIC:

- 702 US banks are deemed to be at risk of failing – a 16 year high
- The number of US bank failures in 2010 will likely eclipse the 140 recorded in 2009
- More than 5 percent of all loans at US banks were at least 3 months past due – the highest level recorded in the 26 years the data have been collected

The ability of the traditional banking system to refinance the pending debt maturities may be negatively affected by the ongoing deleveraging of bank balance sheets and the fundamental weakness in the financial institution sector in general. The pressure put on bank capital ratios limits the ability of these institutions to lend and may continue to do so despite coordinated policy and regulatory support. Most of the shadow banking system is also impaired or in flux. The global securitization markets, which seized up

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\(^5\) Fitch Ratings research  
\(^6\) Goldman Sachs Commercial Real Estate research
during the financial crisis, have removed a vital source of new funding for corporate and commercial real estate financing. Even today, there is only modest evidence that the securitization market can recover from its recent collapse.

**A WALL OF IMPENDING DEBT MATURITIES**

Applying these lessons to the future means paying attention to systemic risks and developments in the way debtors and creditors interact when faced with insolvency. These factors are expected to change the investment strategies and management expertise necessary to survive and prosper.

At any point in time a majority of outstanding leveraged loans are expected to mature within five to seven years, and most high yield bonds are expected to mature within ten years. Historically, the maturity profile of these asset classes has not presented a significant refinancing concern as new issue markets grew faster than impending maturities. The crisis of the late 2000’s, however, changed this. When the credit crunch hit, the leveraged loan and high yield bond markets were faced with an unprecedented concentration of debt maturities – more than $1 trillion of which was outstanding as we write this chapter. Over the next five years demand for capital to fund global credit maturities including investment grade debt, commercial real estate and OECD sovereign debt could very well crowd out risk capital needed to meet the demand for refinancing of over 2,000 US non-investment grade companies facing impending debt maturities.

This impeding wall of debt maturities raises questions about the ability of the capital markets to deal effectively with the refinancing overhang facing corporate and commercial real estate borrowers. Lower asset values make it difficult for leveraged companies to access the equity capital markets, to sell assets or non-core subsidiaries or to find new investors willing to contribute new capital to help facilitate a recapitalization of the business. Prospects for meaningful refinancing or execution of amend-and-extend loans may be further constrained as banks may be unwilling to provide debt that matures after the $500 billion of high yield bonds that mature from 2014 to 2017. The size of the credit refinancing overhang is larger than any we have seen historically.

The cumulative five year overhang totals a staggering $5.3 trillion (well over twice the size of the US Federal Reserve’s currently bloated balance sheet), as reflected in the graphs contained in Exhibit B below.

**Exhibit B**

![Graph of U.S. Corporate Debt Maturities](image1.png)

- **Corporate Maturities ($ billions)**
- **Cumulative Total Maturities ($ billions)**

1: Factset
2: JP Morgan Leveraged Finance 2010 Outlook

![Graph of U.S. Commercial Real Estate Maturities](image2.png)

- **Commercial Real Estate ($ billions)**
- **Cumulative Total Maturities ($ billions)**

1: Barclays CMBS 2010 Outlook
Certainly, some portion of this credit overhang will inevitably be restructured, refinanced or repaid as the market improves. But as of early 2010, the scale of impending credit maturities may well outstrip near term liquidity available through traditional means as previously noted. The broader refinancing needs across the entirety of the debt capital markets adds significant weight to the potential size of the future supply/demand mismatch. The risk will be magnified if economic growth remains sluggish or alternatively if interest rates rise in a meaningful way.

The volume of impending debt maturities, through 2016, totals over $7 trillion and is broken down by category as follows:

- $1.34 trillion of leveraged loans and high yield bonds
- $2.84 trillion of investment grade corporate credit
- $2.88 trillion of commercial real estate credit

The bulk of the refinancing overhang needs to be dealt with 12 to 24 months in advance of final maturity. After the most credit worthy companies access the capital markets, weaker issuers will need to pursue creative strategies to survive the tidal wave of maturities over the next two to three years as much of the over $7 trillion in aggregate maturities are front end loaded. Other areas of the capital markets (such as OECD sovereign debt funding requirements) will add incremental burden to the scale of this mountainous refinancing overhang.

**WILL SOVEREIGN DEBT BE THE NEXT CHAPTER IN THE CREDIT CRISIS?**

Perhaps the greatest systemic risk is posed by the rapid increase in sovereign debt undertaken as countries utilized aggressive monetary and fiscal policy to stem the short term effects of the credit crisis.

The recent credit crisis is the first time since the 1930’s in which the debts of first-world countries – as well as developing nations – seem in jeopardy. At the very least, the high levels of sovereign debt that had built up by 2010 may result in significantly below trend economic growth over the next decade. By the end of 2010, OECD sovereign debt is projected to skyrocket to 71 percent of GDP compared to 44 percent of GDP in 2006. This represents a 70 percent increase in just the last five years. Total OECD sovereign debt gross annual issuance is forecast to nearly double from approximately $8.5 trillion in 2007 to approximately $16.0 trillion in 2010.\(^7\) While it would be difficult to measure intrinsically, the annualized roll over refunding needs from global OECD sovereign debt issuers will most certainly exert significant pressure on funding capacity across the broader credit markets for years to come.

According to the Bank of International Settlements, it would take fiscal tightening of between 8 to 10 percent of GDP in the US, the UK and Japan every year for the next five years to return sovereign debt levels to where they were in 2007. Research indicates a temporary increase in sovereign debt always happens after a credit crisis. Studies by the IMF show that the budget deficits of crisis-struck countries now equal more than 25 percent of global savings and 50 percent of savings within the OECD. However, the recent increase in sovereign debt levels and leverage ratios is on a different scale today because it simultaneously affects all the big economies, not just localized to a single emerging market economy (think previous debt crisis’ in Argentina, Korea or Russia, etc.). IMF research has found that when sovereign debt levels reach 60 to 90 percent of GDP the impact of more government spending is to reduce economic growth and even to make the economy shrink. Sovereign debt is already well within these levels in the US (84.8 percent), the UK (68.7 percent)

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\(^7\) OECD data
and the euro zone (78.2 percent). It is already more than twice these levels in Japan (218.6 percent). As a result, many developed economies may lack the dynamic engine to help them grow their way out of their debt exposure levels by expanding GDP in any meaningful way.

First-world sovereign debt is generally viewed as being risk-free and it serves as the benchmark by which other risk based assets are priced. It forms the core of low risk investment portfolios. It is also the liquid asset that back stops the current regulatory reforms which requires banks to hold sovereign debt in proportion to their higher risk assets and to help support short term funding obligations. Because of this, the prospective risk of a future sovereign debt default could have a debilitating effect on global economies. Similarly, a meaningful repricing of sovereign debt (i.e., Greece) on a broad scale would send shock waves through the financial markets. Such a shock could potentially lead to large scale balance sheet write downs for financial institutions around the world. At best, increasing levels of sovereign debt issuance will put downward pressure on bond prices, causing interest rates to rise. In fact, the White House estimates that US interest payments on government debt will nearly triple from 2009 to 2019, because of expected increases in debt levels and rising interest rates. At worst, the global excess of sovereign debt could be the catalyst that leads to the next wave in the current credit crisis.

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8 Sources: US Treasury, Bank of England and European Central Bank
9 Bloomberg
The systemic challenges are extensive, but developments in the debt capital markets are expected to facilitate a refinancing of the wall of impending debt maturities. Although high-yield default rates reached 13.7% in 2009, several technical developments new to the late 2000’s cycle kept rates lower than they otherwise would have been. First, a meaningful share of defaults consisted of distressed debt exchanges rather than bankruptcy filings. In addition, the high yield market experienced record issuance and new bonds issued as part of the exchanges quickly returned to the universe of performing issues. Lastly, the high yield bond market absorbed $65 billion in new secured bonds, the majority of which were issued to refinance existing leveraged loans. The combination of better liquidity and improving fundamentals aided the decline in default rates, helping private equity firms and issuers to shore up their balance sheets by extending maturities via loan amendments and bond takeouts. Looking ahead, participants generally see default rates receding as the economy improves. Of course, this could all change if further stress enters the credit markets in the form of (i) an unexpected large corporate credit default; (ii) larger than expected loan losses in the banking sector; (iii) protracted high unemployment rates; or, (iv) risk contagion from excesses in the sovereign debt markets.
TRENDS IN RESTRUCTURINGS & INSOLVENCIES

Companies unable to meet their impending debt maturities through the capital markets will be forced to affect complex restructurings or reorganizations. A number of trends and tactics emerged during the credit crisis that can lower the cost and time necessary to complete corporate restructurings and reorganizations. These trends include increased use of loan extensions, debt exchanges and buy-backs, prepackaged plans of reorganization and 363 asset sales. It is important to understand the causes of these trends and whether they continue to be relevant in dealing with the anticipated next phase of the current distressed cycle. While none of these tactics were new to this cycle, many distressed borrowers simply had no choice - due to severely constrained liquidity - but to devise a strategy that could be implemented with lightning speed. In evaluating its options, a distressed borrower had to analyze (i) whether a restructuring could be accomplished inside or outside of a bankruptcy proceeding; (ii) if pursuant to a proceeding, would financing be available; (iii) could the borrower survive long enough in bankruptcy to consummate a plan of reorganization; and, (iv) if the borrower could not reorganize or if it did not have the financing to remain in bankruptcy, could it sell its assets pursuant to a 363 sale at reasonable valuation level?

In addition to the dearth of liquidity, changes to the Bankruptcy Code in 2005 made it less hospitable for debtors to remain in bankruptcy for an extended time period. Some examples of these modifications include:

- Exclusivity period for the Debtor to file a plan of reorganization under Section 1121(d)(2)(A) - absolute 18 month period
- Deadline to assume or reject leases under Section 365(d) - retailers have to make significant business decisions at the outset of a case and decide to assume or reject leases within 270 days
- Reclamation Rights under Section 503(b) - modifications imposed further constraints on liquidity by giving trade vendors enhanced rights

Those debtors that could not see their way to a rapid reorganization or 363 sale simply liquidated. Given the above, Chapter 11 proceedings became significantly shorter in duration. For certain large, too big to fail companies, valuable assets and sometimes, the healthy portion of its business, were transferred into a reorganized entity and spun out with liabilities remaining behind to be administered or worked out over several years e.g. Chrysler and Lehman Brothers. Bankruptcy courts had no choice but to recognize the emergency nature of those high profile 363 sales. It is not clear that bankruptcy courts will adopt that approach for ordinary debtors.

Debtors were not the only parties faced with difficult choices. Creditors throughout the capital structure had to shed usual patterns and abandon the tried and true distressed playbook. Senior secured creditors were less apt to provide new financing to protect their investments and lenders’ credit committees were unwilling to approve any new extension of funds unless the prospect of repayment was extremely high. Subordinated and mezzanine lenders who were accustomed to being the fulcrum security found themselves, in many cases, to be holding debt that was completely underwater. In prior cycles, if a junior or 2nd lien creditor had under secured debt, the commencement of litigation or opposition to a plan of reorganization was oftentimes a successful strategy to increase a recovery. In the current cycle, the significant decline in values rendered that strategy less feasible, not to mention the
prospect of funding litigation expenses without a clear path to recovery of legal and financial advisor fees was a disincentive to proceed with a scorched earth strategy.

Another strategy that lenders had to confront and begrudgingly accept was the conversion of their debt into a majority of the equity of the reorganized debtor. In certain aspects, lender groups are becoming unintended private equity investors. Rather than liquidate or sell at artificially low prices, senior lenders had, in a number of cases, no choice but to restructure the balance sheet, appropriately treat junior classes of debt and extinguish existing equity. In many ways, debt for equity conversions have to be treated as an acquisition by the lenders including hiring or retaining management and hiring a new board of directors. CLOs and CDOs were unaccustomed to this exercise and, for the most part, do not have the resources to assume the responsibility of acquiring and running a borrower’s business.

The overall decline in enterprise values relative to leverage had one positive outcome: it encouraged senior, junior and mezzanine lenders to seek and accept consensual restructurings and plans of reorganization. During this current cycle, the fulcrum security seemed to come to rest higher up in the balance sheet which encouraged junior creditors to seek resolution at a much earlier stage in the process or face the risk that liquidation would ensue and eliminate any chance of recovery for such junior lenders. Senior lenders, in turn, offered warrants and more than token recoveries for out of the money constituents in order to avoid litigation and liquidation.

While the number of defaults in mid-2010 begun to decline, the sheer number of debt maturities through 2014 may well produce a second phase of restructurings and insolvencies. Private equity firms managing portfolio companies should be prepared to take rapid action, including arranging DIP financing, renegotiating a pre-arranged or pre-packaged plan of reorganization and directing management to pro-actively address liquidity, upcoming maturities and the possibility that an out of court restructuring may not be feasible. The prevailing dangerous economic currents that changed the way bankruptcies were conducted, e.g., illiquidity and the decline in values, are likely to be present when the wall of debt begins to come due.

CONCLUSION
The ultimate lessons to be learned from the late 2000’s cycle are still emerging. As the smoke clears, however, there are several lessons that appear clear to us. First, the excessive use of financial leverage to increase investment returns creates extraordinary systemic risk in an interdependent world and complex investment instruments that obfuscate leverage are dangerous to the financial system. Second, companies facing debt maturities will need creative and aggressive plans to avoid bankruptcy which may no longer be relied on as a safe haven to avoid liquidation.

Another lesson of the late 2000’s is that the historical data can be – as the mutual fund disclaimer states – a poor guide for future performance. Today, market players have less faith in risk management tools that rely on the predictive power of regression models, bell-shaped curves and other stalwarts of modern financial theory.

Expanding on this point, one of the most critical lessons of the financial crisis that began in 2008 was a wake-up call that the credit markets can actually run dry as reflected in 2008’s negative developments at high profile institutions such as Bear Sterns, Lehman Brothers, AIG, Fannie Mae and Freddie Mac. It took nearly one year and intense global government intervention to convince lenders to start providing meaningful funds to leveraged companies during the crisis.
Next time around, participants may be more skeptical that they can predict – or even put parameters around – potential risk based on historical performance and, therefore, insist on lower leverage and more investment protection.

For the next several years, meanwhile, the refinancing and reorganization process will require flexible long-term capital solutions from new pools of money run by managers with broad-ranging expertise that combine credit investing and capital markets skills with restructuring and private equity governance expertise. Unlike investment managers who are forced to bring the same solution to every problem, these managers will seek to adapt to rapidly changing conditions in search of the best risk/reward opportunities were there capital and expertise provide an investment advantage.

Perhaps these will be enduring themes. More likely, they will prove temporal lasting a decade, maybe less. From time immemorial, after all, the genius – or folly – of the credit markets is that defaults are rarely at a stable average. They are either below trend, spiking or coming down. As a result, credit appears to be easy money during periods when the economy is strong and default rates low. When they are high, liquidity dries up, forcing the risk/return profile of the credit markets to improve, as it did in 2008 and 2009. In the years to come, however, the return of bull-market structures may be slowed by the vast overhang of debt maturities that must be addressed.