



When Lenders Become Owners: What Rising Lender Foreclosures Mean for Valuations

Lender control transactions are accelerating as sponsors step back and incumbent creditors reset unsustainable capital structures. Through the exchange or equitization of legacy debt, the issuance of exit securities and, in some cases, fresh senior capital, lenders can emerge as the owners and controlling stakeholders of the reorganized business. These transactions raise a fundamental question: How should investors value the resulting securities?

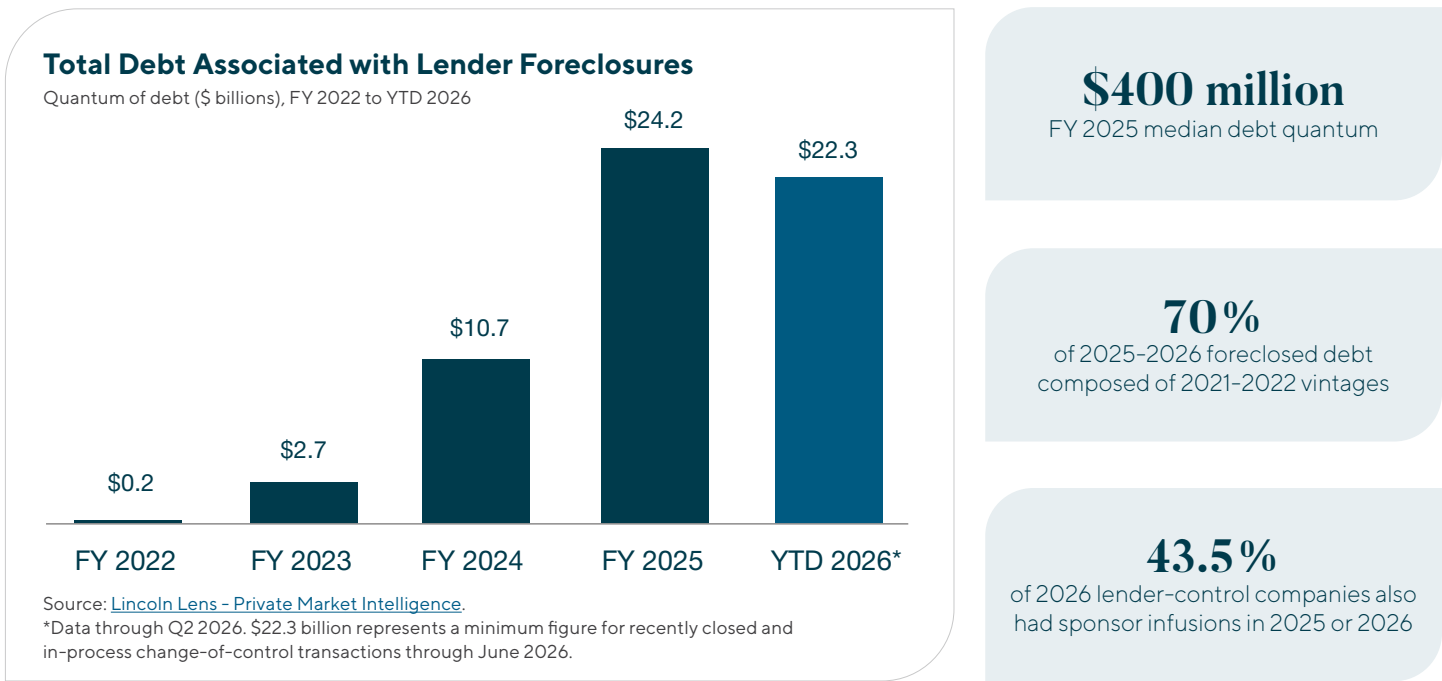
Lincoln International's [valuation experts](#) examine how control, investor alignment and the expected path to liquidity determine whether post-restructuring securities are best evaluated through an enterprise-level or security-level lens.

Lender Control Transactions Are Accelerating

Direct lending is entering a new phase. For much of the current credit cycle, stress was managed through amendments, maturity extensions, payment-in-kind features and sponsor support. A resetting of valuation levels from their post-COVID-19 highs, longer hold periods, approaching maturities, tighter refinancing conditions, sponsor fund constraints and repeated amendments have since increased the frequency of lenders taking control.

Lincoln examined companies in which lenders had taken control, or were imminently expected to do so, from the sponsor. In 2025, total debt associated with lender foreclosures rose to the highest level observed in the [Lincoln Lens - Private Market Intelligence](#) database. 2026 is on track to significantly exceed this measure, with Lincoln identifying at least \$22.3 billion of debt associated with recently closed and in-process lender-control restructurings through YTD 2026.

Loans originated in 2021 and 2022 represented approximately 70% of debt associated with lender-control transactions in 2025 and 2026, consistent with pressure in capital structures formed when valuations and leverage were elevated. In addition, 43.5% of companies with lender-control transactions in 2026 received sponsor infusions in 2025 or 2026, suggesting that restructurings often follow efforts to stabilize the business.



Lender change-of-control transactions often arise when a sponsor is unwilling or unable to provide additional support. The incumbent lender group then negotiates a restructuring intended to maximize value. Although outcomes vary, lenders often receive board representation and other governance rights that transfer control from the sponsor to the creditor group, creating a reset capital structure and a lender-controlled path to value realization. Importantly, a lender foreclosure

does not necessarily imply a loss of principal. Depending on the value and subsequent performance of the underlying business, lenders may ultimately recover their full invested principal or realize proceeds in excess of their original investment.

Under the new ownership structure, the lender group may also gain the right to appoint directors, approve budgets, control major transactions and determine when the business is sold. For valuation purposes, these rights can matter as much as the new loan's coupon, maturity and seniority.

Control and Investor Alignment Dictate Valuation Methodology

Completing the restructuring gives rise to the question: How does one value the new or restructured investments? [ASC 820](#) requires a market-based exit price at the measurement date. The key question is not only which security is being valued but how market participants would expect to realize its value. An individual loan or equity security may be the unit of account, while the valuation lens may still begin with enterprise value when the holder participates in an aligned group that collectively controls the business and its path to exit.

The valuation guides issued by the American Institute of Certified Public Accountants (AICPA) and the International Private Equity and Venture Capital Valuation (IPEV) support an enterprise-level approach, such as the Current Value Methodology (CVM), when the investor or an aligned investor group controls the company and a security-level approach, often a yield analysis, when the investor neither has control nor participates in an aligned investor group with control.

Control may be clear when an investor owns a majority of the post-reorganization equity or controls the board, but a minority position does not automatically require a security-level valuation. If the investor participates in an aligned owner group that collectively controls the board, major decisions and exit timing, market participants may still view the position through an enterprise-level lens.

That collective-control perspective depends on alignment at the measurement date. Indicators include:

1. Agreements that encourage joint decision-making and limit unilateral transfers, including tag-along, drag-along, right of first refusal (ROFR) and right of first offer (ROFO), transfer consent, lockup or similar provisions; and
2. Investors hold the same class or substantially similar economics. Collaborative behavior during the lender foreclosure process often results in ownership of the same securities.

Alignment should be reassessed at each measurement date. Diverging fund lives, liquidity needs, regulatory constraints, investor objectives or willingness to provide capital can shift the valuation lens.

Alignment requires judgment, and conclusions may differ among investors holding the same securities. Those differences can lead investors to select different methodologies and reach different fair value conclusions based on their assessment of the relevant facts and circumstances.

Questions That Drive Method Selection

- What security is being measured, and what rights, priorities and obligations does it carry?
- Who controls the board, major corporate decisions and the timing of a sale?
- Are post-restructuring holders still economically aligned at the measurement date?
- Do the agreements encourage collective action and limit unilateral transfers?
- Since emergence, have changes in fund life, liquidity needs, investor objectives, performance, governance or market evidence affected alignment or how the security would transact?

Post-restructuring debt generally requires one of two valuation lenses. An enterprise-level approach uses a current value method or enterprise value waterfall; a security-level approach generally uses a yield method. The selected lens should reflect how market participants expect to realize value, with the result reconciled to the security's rights, risks and economics.

Enterprise-level lens

Current Value Methodology (CVM)

- Most relevant when the investor or an aligned owner group collectively controls the business, major decisions and exit timing.
- Estimate enterprise value using market and / or income approaches.
- Allocate value through the post-restructuring waterfall based on each security's rights and priorities.

Security-level lens

Yield method

- Most relevant when the investor lacks outright or collective control, the loan can trade independently or investor interests have diverged.
- Project expected cash and PIK interest, fees, amortization and principal recovery.
- Apply a market participant yield that reflects credit risk, structural protections, liquidity, expected life and recovery.

Under a security-level lens, a post-restructuring security's issue price is often not an arm's-length calibration point because the terms are negotiated among existing stakeholders and may reflect non-market economics. A loan issued at par should therefore not be presumed to be worth par at the measurement date. The selected yield should reflect current leverage, loan-to-value, prioritization, coverage, liquidity, collateral and recovery. Third-party new-money terms or a broadly marketed process, however, may provide useful market participant evidence of required yields.

Selecting the market yield is often the most judgmental part of a security-level analysis. Lincoln's bimonthly Private Credit Snapshot, extensive private market valuation data and integrated capital advisory capabilities provide contemporaneous evidence on pricing, leverage and yield requirements across the capital structure. Orderly post-emergence trades can also be informative, but their weight depends on size, process and seller motivation.

An Integrated View Matters

These securities sit at the intersection of direct lending, restructuring and enterprise valuation. Lincoln combines deep experience [valuing complex post-restructuring capital structures](#) with real-time private market data and an integrated investment banking platform, including our [Capital Advisory Group](#)'s experience advising on restructuring, liability management and other complex capital structure situations. This combination provides a differentiated perspective across both valuation lenses: Our [mergers and acquisitions](#) and sector expertise informs the enterprise value underpinning an enterprise-level waterfall, our capital advisory expertise provides insight into how post-reorganization capital structures are negotiated and resolved, and our private credit market intelligence informs the market yield appropriate for a security-level analysis.

Key takeaway

When lenders become owners, the valuation lens should reflect how market participants expect to realize value. A minority position can still support an enterprise-level approach when investors are aligned and collectively control the path to exit. As alignment weakens or the debt begins to trade independently, security-level yield and market evidence become more relevant.

Ready to discuss the opportunities ahead for you?

Connect with a senior professional at connect@lincolnternational.com