Abstract: Economic growth slows for an extended period after a financial crisis. We construct a model in which a one-time buildup of debt can depress the economy persistently, even when there is no financial technology shock. We consider the debt dynamics of firms under endogenous borrowing constraints, with lenders having an option to forgive defaulting borrowers. A firm is referred to as debt-ridden when it owes maximum debt and pays all income in each period as an interest payment. In the deterministic case, a debt-ridden firm continues inefficient production permanently. Further, if the initial debt exceeds a certain threshold, the firm intentionally chooses to increase borrowing and, thus, to become debt-ridden. The emergence of a substantial number of debt-ridden firms lowers economic growth persistently. A debt restructuring policy or the relief of debt-ridden borrowers from excessive debt may be able to restore their efficiency and economic growth.