S&P Global
Market Intelligence

Private Credit: The Rising 'Defaults'

Private Credit has emerged as a dynamic force in Global Finance, with assets under management projected to exceed $3tr by 2028. Driven by post-financial crisis regulatory constraints on traditional banks, Nonbank Financial Institutions (NBFIs), including Private Credit Funds and Business Development Companies (BDCs), have filled the lending void for small-to-medium-sized enterprises. This study explores the rapid expansion of Private Credit, highlighting its diversification benefits, flexible financing structures, and growing interconnectedness with Banks, Insurance companies, and Asset Managers. U.S. bank lending to NBFIs has surpassed $1tr, with global systemically important banks (G-SIBs) playing a pivotal role through subscription lines and collateralized financing, often treated as low-risk securitizations. The study highlights an alarming surge in selective defaults, which outpaced conventional defaults by a 5:1 ratio in 2024, driven by flexible covenants and payment-in-kind conversions.

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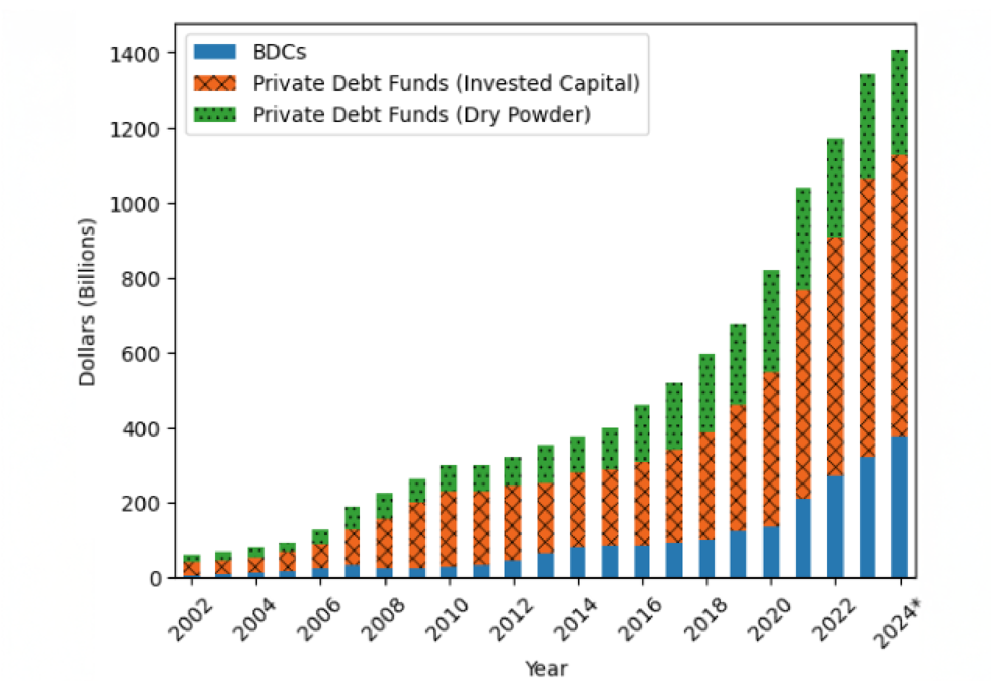
1. Introduction

What is Private Credit? Private Credit or Private debt investments are debt-like private investments provided by non-bank lenders such as private credit funds or business development companies (BDCs), to fund private businesses[1]. Private credit's rapid growth is partly due to the imposition of stricter capital and lending standards on traditional banks in the wake of the financial crisis of 2007-2009. As banks reduced lending to smaller-and-medium-sized companies, private credit stepped in to help fill the gap[2].

The rapid growth of private credit largely attributed to its diversification benefits to investors and expansion of financing possibilities for businesses. As private credit continues to grow, its increasing interconnectedness with financial institutions – such as banks, insurance companies, and traditional asset managers – is reshaping the landscape of credit markets[3]. The below table shows the assets under management at private credit vehicles, that has grown significantly over the past decade or so.

Table 1 | Assets under Management (Private Credit)[4]



Source: Preqin and BDC Collateral via LSEG. *Data for 2024 are as of Q2.

[1] Private Credit: Characteristics and Risks
[2] The Credit Markets Go Dark
[3] Bank Lending to Private Credit – Fed Reserve
[4] Bank Lending to Private Credit – Fed Reserve

Private credit has several beneficial features. It provides corporations a financing alternative to equity financing, bank financing, broadly syndicated loans, and the public bond markets[5]. It has been growing rapidly over the years but it's not a new phenomenon, it's just bilateral lending for corporate borrowers, which has been around for ages – longer than public credit markets[6]. It diversifies investors' portfolios, while offering them stable, attractive returns. Since, private credit is not standardized, it affords flexibility to accommodate innovative arrangements, loan sizes, and terms that meet a borrowers' particular needs. Creditors can negotiate for their preferred level of disclosure and protections while borrowers benefit from a short underwriting timeline and streamlined due diligence compared to bank loans[7].

While the growth has been exponential, there is rising concentration of funds that hold the most assets under management. The top 20 global private credit fund managers collectively hold more than one-third of dry powder which amounts to ~$138bn in uncommitted capital, or 36% of the ~$385bn in global private credit dry powder[8].

Table 2 | Top 20 Private Credit Firms by AUM in Private Debt

Company name	Location	Number of funds (actual)		Amount raised in the past 10 years ($B)	Dry powder ($B)*	AUM ($B)*
		Closed	In market			
Apollo Global Management Inc.	US	25	8	25.21	6.44	480.00
Blackstone Inc.	US	27	6	70.72	25.00	354.70
Ares Management Corp.	US	34	12	104.48	39.90	335.30
Ares SSG	Hong Kong	11	0	9.52	1.08	308.60
KKR & Co. Inc.	US	31	14	27.55	7.83	242.00
Guggenheim Funds Investment Advisors LLC	US	3	1	2.00	0.08	198.00
Carlyle Group Inc.	US	15	5	12.35	1.56	189.80
Neuberger Berman Group LLC	US	9	5	18.20	3.31	182.00
Oaktree Capital Management LP	US	63	8	51.06	10.84	129.00
Brookfield Asset Management Ltd.	Canada	1	0	2.40	0.00	124.00
Nuveen LLC	US	0	0	NA	NA	120.00
Goldman Sachs Asset Management LP	US	24	3	70.99	17.65	110.00
MetLife Investment Management LLC	US	0	1	0.46	0.15	104.50
HPS Investment Partners LLC	US	27	11	74.80	17.57	98.00
Blue Owl Capital Inc.	US	8	3	8.77	2.31	95.10
TPG Capital LP	US	3	1	2.67	0.00	80.00
Golub Capital LLC	US	37	12	26.75	3.71	70.00
UBS O'Connor LLC	US	2	1	3.16	0.36	57.50
CVC Capital Partners PLC	Jersey	7	2	8.44	0.34	46.07
SLC Management	US	0	0	NA	NA	40.00

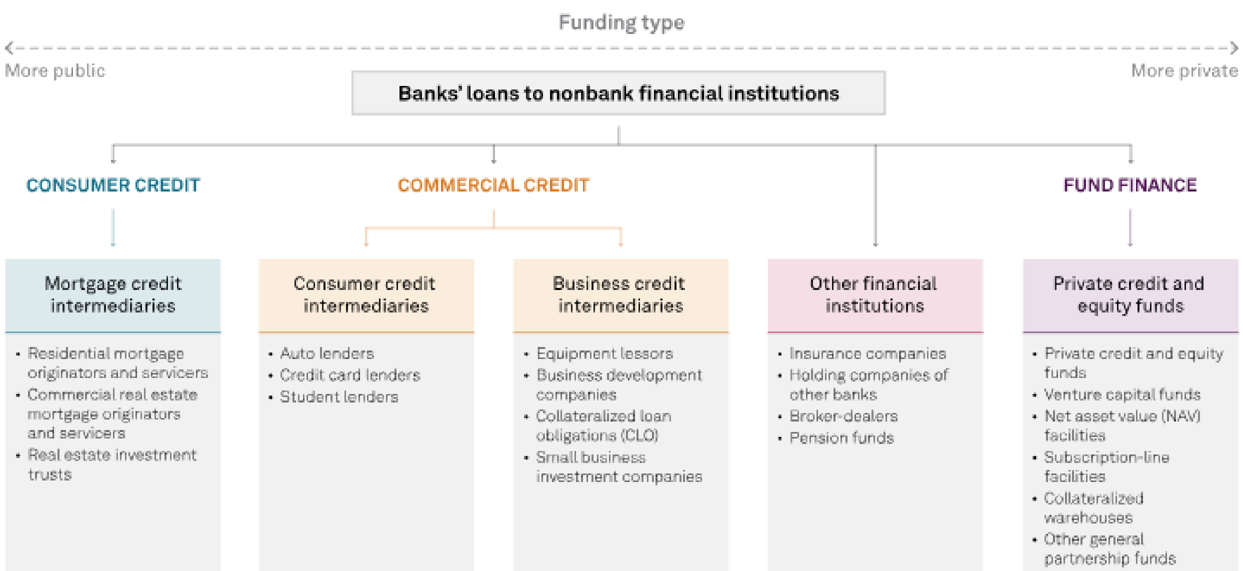
Data compiled Dec. 16, 2024.

5 2023 Annual Report to Congress – Office of Financial Research
6 What's next for Private Credit?
7 Private Credit: A Renaissance in Corporate Finance
8 Source: S&P Global Market Intelligence & Preqin. Analysis includes the top 20 firms with the largest debt aum as of 2024. Excludes firms with unavailable aum as of 2024.

2. Bank Lending to Nonbanks

U.S. bank loans to Nonbank Financial Institutions (NBFIs), including private credit funds, have exceeded $1tr[9]. This growth has fueled the expansion and revenue of several banks alongside further facilitating an increasingly large, competitive and diverse NBFI industry. $770bn of unfunded commitments provided by the bank's points to further expansion in this space. Table 3. shows the funding spectrum of banks towards NBFIs.

Table 3 | Interplay and Interconnection



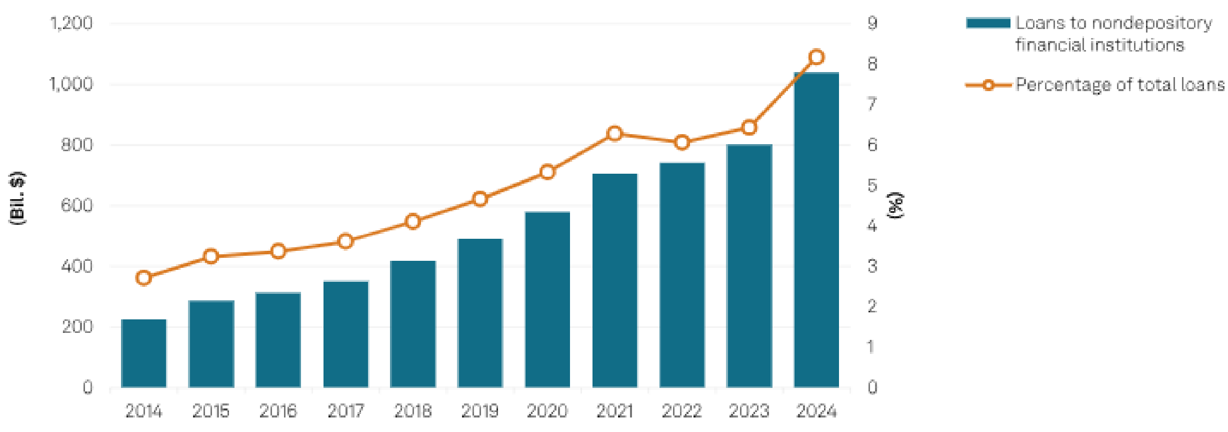
Source: S&P Global Ratings.

Banks are largely lending to NBFIs such as private equity, credit funds, and nonbank lenders through subscription line facilities and collateralized warehouse financing. Since most of these private credit funds borrow from banks as wholly owned , bankruptcy-remote special purpose vehicles that are over-collateralized, these loans qualify as securitizations for the purpose of capital regulation[10]. Banks can use a 20% risk-weight in their calculation of capital, as opposed to 100% risk-weight that would be required for the underlying collateral (i.e. mid-market loans). These loans can add to bank's net interest income and often lead to investment banking fees related to securitization. Rated banks that are active in this space have well-managed the associated credit risk to date, most notably through collateral requirements, lending covenants, and good diversification by borrowing and underlying asset class.

[9] Systematic Risk – S&P Global Ratings (SPGR)
[10] Bank Capital and the Growth of Private Credit

FDIC-insured banks reported at year-end 2024, that their 'loans to nondepository financial institutions' increased to more than $1tr which is double the amount that was reported in 2019. Table 4. shows the rising lending trend of banks to NBFIs over the years.

Table 4 | Lending to NBFIs



Source: S&P Global Ratings.

Table 5 | Top 10 U.S. Banks (Exposure to NBFIs)

Rated banks with at least $2 billion of exposure

Bank	Total ($ bil.)	Change since 2021	% of loans	% of tier 1 capital
Wells Fargo & Co.	158.3	10.9%	17.3%	104%
JPMorgan Chase & Co.	133.4	24.4%	9.5%	45%
Bank of America Corp.	118.4	49.4%	10.2%	53%
Citigroup Inc.	105.6	12.9%	15.0%	61%
The Goldman Sachs Group Inc.	94.0	48.9%	35.5%	82%
Morgan Stanley	62.0	32.6%	20.7%	73%
First Citizens BancShares Inc.	29.1	NA	20.8%	132%
Truist Financial Corp.	29.5	53.4%	9.6%	55%
U.S. Bancorp	24.0	130.2%	6.3%	44%
BMO Financial Corp.	23.2	16.6%	15.6%	87%

The G-SIBs have accounted for the majority of NBFI loans in the U.S. banking system. For instance, such loans made 17% of Wells Fargo's total loans and equated to almost 100% of its tier 1 capital[11]. The above table shows the Top 10 U.S. banks by loan to NBFI[12].

[11] U.S. Banks' $1 Trillion In Loans to Nonbanks – S&P Global Ratings
[12] Data as of Q4-2024 except for Goldman Sachs. Goldman Sachs as of Q3-2024.

3. Unregulated Market

The private credit market is still a highly unregulated market. SEC finalized a set of rules governing the behaviors of private fund advisers, called Private Fund Adviser Rules that went into effect August 2023, but was scrapped in June 2024 by a U.S. Court[13].

The rules were designed to protect investors who directly/indirectly invest in private funds by increasing visibility into certain practices involving compensation schemes, sales practices, and conflicts of interest through disclosure; establishing requirements to address such practices that have the potential to lead to investor harm; and restricting practices that are contrary to the public interest and the protection of investors. The SEC divided the Private Fund Adviser into seven categories,

1. Preferential Treatment
2. Restricted Activities
3. Quarterly Statements
4. Annual audits
5. Advisor-led secondaries
6. Recordkeeping
7. Compliance policy annual review

Since they've been scrapped the current regulation that allows the SEC to regulated private debt funds is the Investment Advisers Act (IAA) of 1940[14]. The act provides the SEC with significant authority to regulate private debt fund advisers, particularly through registration, anti-fraud provisions, and post-Dodd-Frank reporting requirements. However, its limitations such as exemptions for smaller or non-securities focused advisers, the narrow scope of oversight, reliance on anti-fraud enforcement, and resource constraints restrict the SEC's ability to comprehensively regulate private debt funds. These gaps have prompted ongoing regulatory efforts like the Private Fund Adviser Rules, but the IAA's framework remains a product of its time, creating challenges for overseeing the rapidly evolving private debt market.

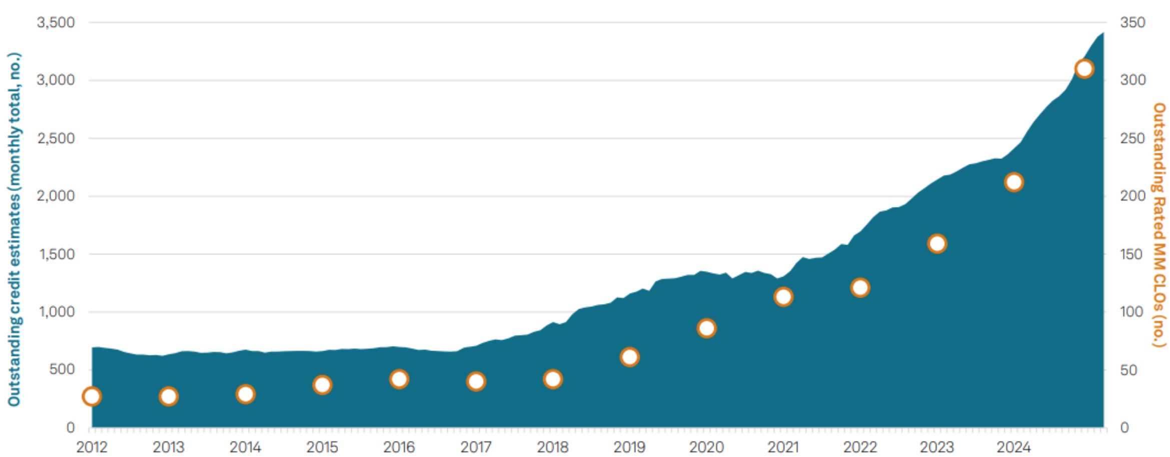
[13] Private Fund Adviser Rules
[14] Investment Advisers Act of 1940

4. Rising 'Defaults'

For private credit loans, S&P Global Ratings (SPGR) provides a credit estimate (CE). A credit estimate[15] is a confidential indication of the likely long-term credit rating of a business. SPGR issued a record 3,549 CEs year-end 2024 and for Q1-2025, it has issued close to 850 credit estimates[16]. These credit estimates are typically requested by third-party CLO managers who are lenders. Many of the CLO managers that SPGR rates also have BDCs that use CLOs as a mechanism to fund their direct lending.

Table 6 | Credit Estimates

All outstanding S&P Global Ratings credit estimates (2012–Q1 2025)*



*Covers all outstanding S&P Global Ratings U.S. credit estimates, including a small number of estimates for obligors not currently held within a CLO transaction. CE--Credit estimate. MM--Middle market. CLO--Collateralized loan obligation. Source: S&P Global Ratings.

A major selling point of private credit is the low default rates. However, this reputation hinges on a narrow definition of default, typically covering only traditional defaults, such as missed payments or Chapter 11 filings. It often overlooks instances like conversion of cash pay interest to PIK, amortization holidays or maturity extensions without adequate offsetting compensation – events generally considered as a Selective Default[17]. There has been a marginal increase in percentage of PIK income across publicly and private BDCs over the past year.

[15] Credit Estimate does not constitute a Credit Rating
[16] Private Credit and Middle-Market CLO Quarterly - SPGR
[17] An obligor rated 'SD' (selective default) or 'D' is in default on one or more of its financial obligations including rated and unrated financial obligations but excluding hybrid instruments classified as regulatory capital or in non-payment according to terms.

Table 7 | Take your PIK

Publicly traded BDCs

BDC	PIK (mil. $) 2023	PIK (mil. $) 2024	PIK interest / gross investment income (%) 2023	PIK interest / gross investment income (%) 2024	No of investment portfolio companies Obligors (2024)
ARES Capital Corp.	364.0	463.0	13.9	15.5	550
Blackstone Secured Lending Fund	51.6	83.0	4.5	6.3	276
Blue Owl Capital Corporation	210.0	245.1	13.3	15.4	236
Golub Capital	53.7	73.8	8.9	9.8	386
Main Street Capital Corp.	12.3	25.3	2.5	4.7	190
Prospect Capital Corp.	132.1	134.5	15.5	15.6	114
Sixth Street Specialty Lending, Inc.(TSLX)	18.2	29.6	4.2	6.1	115
Median	**53.7**	**83.0**	**8.9**	**9.8**	**N/A**

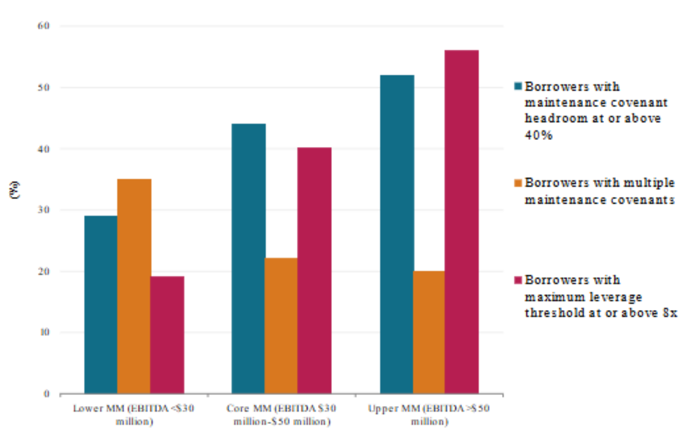
Non-traded perpetual BDCs

BDC	PIK (mil. $) 2023	PIK (mil. $) 2024	PIK interest / gross investment income (%) 2023	PIK interest / gross investment income (%) 2024	No of investment portfolio companies Obligors (2024)
Apollo Debt Solutions BDC	7.9	19.5	1.3	1.6	324
Ares Strategic Income Fund	2.4	26.1	2.2	4.7	588
Blackstone Private Credit Fund (BCRED)	236.8	366.0	4.1	5.5	603
Blue Owl Capital Corporation II	33.8	34.9	12.4	13.6	182
Blue Owl Credit Income Corp.	144.2	189.2	9.3	7.4	339
Blue Owl Technology Finance Corp.	150.3	139.5	22.0	20.4	148
Golub Capital Private Credit Fund (GCRED)	0.5	6.8	1.5	3.9	270
HPS Corporate Lending Fund	31.7	72.4	3.6	5.1	315
Sixth Street Lending Partners (SSLP)	14.4	34.7	5.9	5.2	67
Median	**31.7**	**34.9**	**4.1**	**5.2**	**N/A**

BDCs--Business development companies. N/A—Not applicable. Figures represented are as of year-end 2023 and year-end 2024. Source: S&P Global Ratings.

There has been a median uptick of a 100 basis points in PIK income across both public and private BDCs that talks to the flexible covenants provided in these credit agreements. Maintenance covenants are still the standard in most private credit agreement, however, their effectiveness has deteriorated due to generous leverage limits that make it harder for lenders to act on early signs of borrower underperformance. More than a third of borrowers from SPGR's CE pool that were subject to actively tested leverage-based maintenance covenants appear to have loose thresholds with current headroom above 40% and even higher proportions in the core and upper segments of the middle market[18]. These large cushions reflect covenants that were set very wide to closing levels, as opposed to signaling meaningful deleveraging.

Table 8 | Loose Covenants



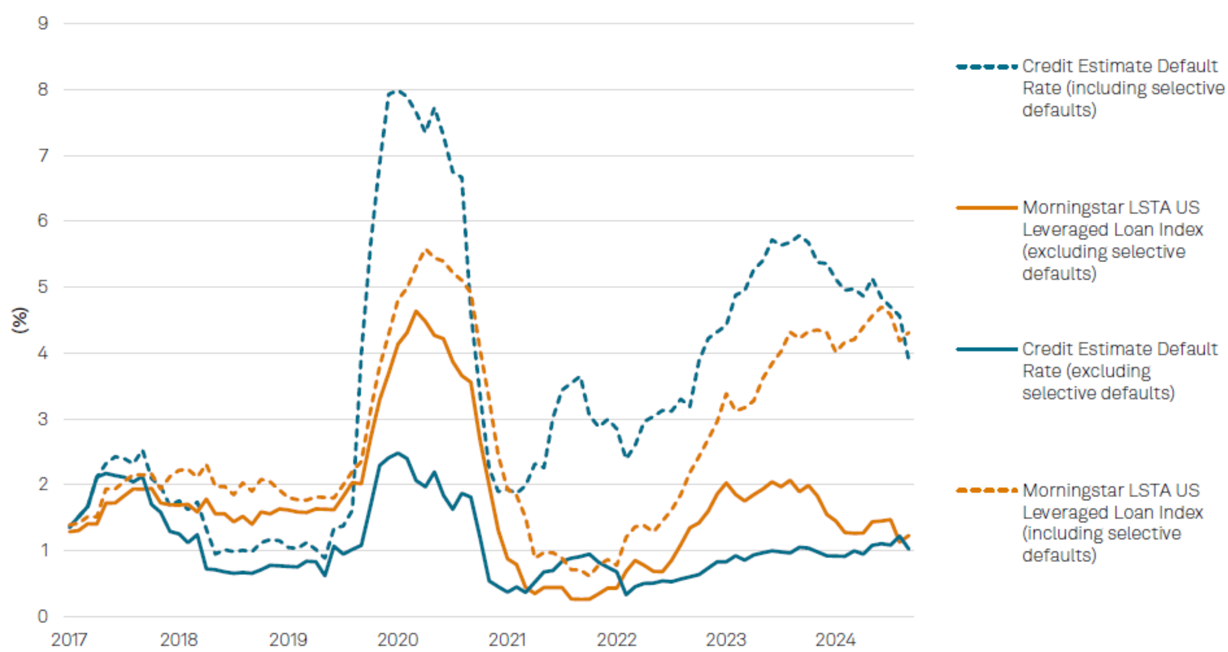
MM--Middle market. Source: S&P Global Ratings.

[18] Loose Maintenance Covenants Permeate Private Credit - SPGR

These generous covenants are leading to a rising trend in selective defaults, which is quite concerning. CE selective defaults outpaced conventional defaults 5 to 1 in 2024, about 2% of CEs converted interest payments partially or fully to payment in kind in 2024.

Table 9 | Rising 'Defaults'

Credit estimate default rates compared to syndicated loan default rates



Sources: S&P Global Ratings and Pitchbook/LCD.

The table above shows the vast difference between CE Default (including SDs) and CE Default (excluding SDs), which is almost 3x. In recent years, Chapter 11 bankruptcy reorganizations have become less prevalent compared to their peak during the 2008-09 financial crisis. In 2024, distressed exchanges which SPGR typically classifies as selective default (SD), accounted for roughly 60%[19] of Global Corporate Defaults. These looser terms provided borrowers and their sponsors with significant leeway to access restricted payment provisions and debt incurrence capacities. A parallel trend is emerging in the direct lending sector, where borrowers facing financial challenges are increasingly seeking covenant waivers or amendments to gain flexibility.

Private credit borrowers often secure temporary relief through negotiations that may include additional support from sponsors. These arrangements typically result in less favorable payment terms for specific debt instruments, rather than a comprehensive restructuring of the entire debt

[19] Private Credit Boom Narrows Gap to BSL Market

portfolio, leading SPGR to categorize them as selective defaults (SDs) rather than conventional defaults. In 2024, SDs in certain markets significantly outpaced conventional defaults, such as missed principal or interest payments or bankruptcy filings, with an approximate ratio of 5:1. Unlike comprehensive bankruptcy restructurings, SDs including distressed exchanges, are not primarily focused at reducing excessive debt loads. Instead, they focus on keeping financial strained companies operational. In 2024, a common practice in these markets involved converting cash interest payments to payment-in-kind (PIK), typically deferring cash obligations by around one year – aligning with medium extension of debt maturities.

There is an increasing flexibility in payment terms across private markets – a trend that can obscure or delay early warning signals of trouble or allow a company to deteriorate even further before triggering a conventional default. For instance, borrowers now have a built-in PIK toggle option: since it does not need explicit lender approval, lenders might miss a valuable change to tighten protections or close off covenant loopholes, even though the PIK premium comes with enhanced economics.

5. Industry Outlook

The Private Credit market is experiencing exponential growth, with assets under management (AUM) projected to surpass $3tr[20] by 2028. Non-bank financial institutions (NBFIs) are increasingly capturing market share from traditional banks, prompting major financial institutions to simultaneously criticize and invest heavily in this asset class[21]. This dual approach reflects the competitive tension within the sector, as banks seek to counter the erosion of their lending dominance. A notable trend is the rising concentration among top-tier Private Credit managers, with leading funds aggressively vying for market dominance. As of 2024, the 20 largest private credit funds control approximately 36% of global dry powder, with 17 of these headquartered in the United States[22]. This concentration has fueled significant consolidation activity over the past year, as major players seek to expand their influence in the private markets.

BlackRock, historically a laggard in the private debt space relative to peers like Blackstone, Apollo, and KKR, has made substantial strides through strategic acquisitions. In the past year, BlackRock deployed approximately $28bn towards major private market acquisitions i.e. HPS Investment

[20] Private Credit – primed for growth – Moody's
[21] JPM commits $50bn to private credit transactions
[22] See Table 2

Partners[23], Preqin[24], Global Infrastructure Partners[25], and ElmTree[26]. These transactions have significantly bolstered BlackRock's presence in alternative investments, positioning it as a formidable competitor in a space where scale and expertise are critical.

Similarly, Vanguard, traditionally recognized for its ultralow-cost index funds, has made a strategic pivot into private markets[27]. This shift targets investors willing to pay premium fees for access to sophisticated strategies promising high yields and lower default risks. Vanguard's entry underscores the growing allure of private credit, driven by its potential for enhanced returns in a complex, data-driven investment landscape.

Collaboration among industry giants has also intensified, with partnerships such as Blackstone, Vanguard, and Wellington Management[28], as well as State Street with Apollo, and Capital Group with KKR. These alliances have facilitated the launch of hybrid funds blending public and private assets, enabling managers to command higher fees while offering diversified exposure to institutional and high-net-worth investors.

Wall Street's optimism for private credit has shifted focus outside of its existing investor base towards 401(k) retirement plans, valued at approximately $12.4tr in 2024. This asset class, often regarded as the "holy grail" for alternative investment managers, represents a significant opportunity for private credit firms seeking new capital sources beyond traditional institutional and high-net-worth investors. Recent developments, including a forthcoming executive order[29] expected to ease regulatory barriers for including private market investments in 401(k) plans, have validated the industry's persistent lobbying efforts[30] to access this vast pool of retirement savings.

Empower[31], managing $1.8tr in defined contribution plans, has emerged as a pioneer in integrating private market investments into 401(k) offerings, signaling a transformative shift in retirement plan options. Similarly, Creative Planning, overseeing more than $350bn in assets for individual and 401(k) plan clients, has followed suit, expanding access to private credit and other alternative assets. These moves reflect a broader trend among leading asset managers to

[23] BlackRock strikes $12 Billion deal for HPS
[24] BlackRock to acquire data provider Preqin
[25] BlackRock's acquisition of GIP
[26] BlackRock acquires ElmTree
[27] Vanguard joined the Private Markets Craze
[28] Blackstone Moves to Extend Its Reach
[29] Executive Order to Help Open Up 401(k) to Private Markets
[30] Private Equity wants Government Help for a Final Push
[31] 401(k) Giant to Allow Private Markets Investments

democratize private markets, offering retail investors exposure to strategies historically reserved for institutional portfolios, albeit with higher fees and potential risks.

The growing emphasis on attracting retail investors to private credit funds has sparked significant scrutiny. A recent Moody's report[32] highlights potential risks to investors, private fund managers, and the broader financial system as this asset class extends beyond institutional portfolios. The report identifies several challenges for private-asset managers, including heightened reputational risk, increased regulatory oversight, and elevated operational costs stemming from the complexities of serving retail clients.

For retail investors, the risks are multifaceted:

1. **Liquidity Constraints in Downturns**: During economic downturns, individual investors often liquidate assets to meet financial needs. However, private credit funds, with their illiquid structures, may restrict investors' ability to access capital, potentially exacerbating financial strain.
2. **Market Concentration and Diversification Challenges**: A small cohort of dominant private fund managers controls a significant portion of the market, frequently co-investing in similar deals or across each other's funds. This concentration limits retail investors' ability to achieve adequate diversification, increasing portfolio risk.
3. **Risk of Suboptimal Investments**: Retail investors may be channeled into less desirable assets, potentially those offloaded by institutional investors seeking exits. This raises concerns about alignment of interests, transparency, and the overall integrity of private credit products offered to retail clients.

Similar warnings have been issued by Boston Fed economists[33].They have raised concerns over riskier lending by private funds using capital issued by the banks, which indirectly exposes the banks to counterparties that the banks wouldn't normally finance.

[32] Moody's sounds Alarm on Private Funds for Individuals
[33] Private-Credit Growth Pose Risks

6. Conclusion

Private Credit projected to exceed $3tr in assets under management by 2028, has redefined corporate finance by filling the lending gap left by post-2008 regulatory constraints on traditional banks. Its appeal lies in its flexibility, diversification benefits, and attractive risk-adjusted returns, yet its rapid expansion raises critical considerations. The deep interplay between banks and Nonbank Financial Institutions (NBFIs), evidenced by over $1tr in loans to NBFIs, underscores private credit's integration into the broader financial ecosystem, with global systemically important banks (G-SIBs) leveraging low-risk securitizations to fuel this growth. However, the market's concentration, with the top 20 firms controlling 36% of global dry powder, signals potential systemic risks. Regulatory oversight remains constrained under the Investment Advisers Act of 1940, particularly after the 2024 repeal of the SEC's Private Fund Adviser Rules, leaving gaps in investor protection. The rise of selective defaults, outpacing conventional defaults 5:1 in 2024, highlights the challenges posed by loose covenants and payment-in-kind arrangements. As private credit targets retail investors, particularly through the $12.4tr 401(k) market, there are growing concerns about liquidity, diversification, and transparency. While this space should be encouraged to grow, given its profound impact in the mid-market space, robust regulation is essential to ensure that the growth is sustainable while safeguarding investors and the stability of the financial markets.