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Private Credit Trends

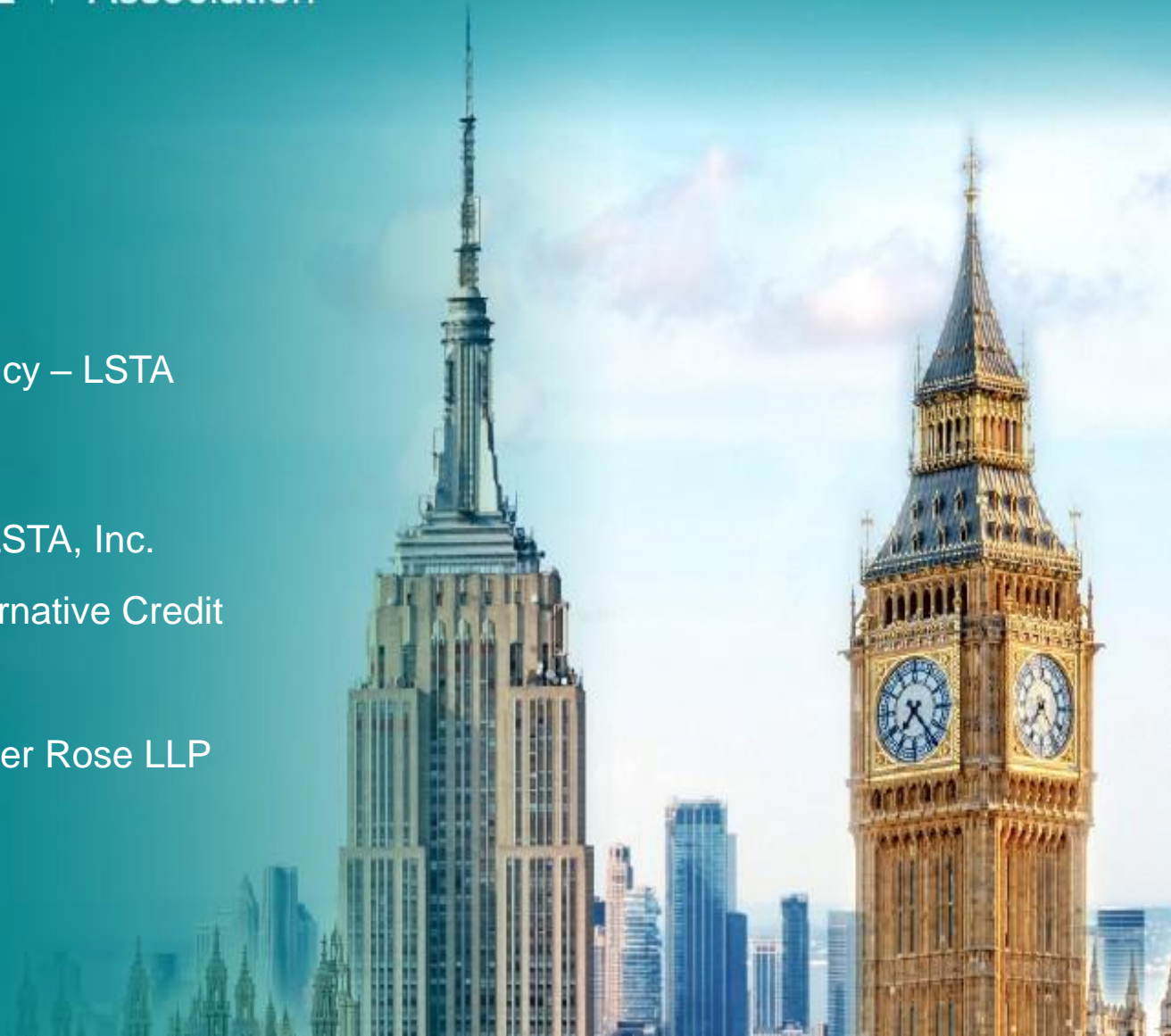
Moderator

- Tess Virmani, Deputy General Counsel & EVP, Head of Policy – LSTA

Speakers

- Hugo Pereira, VP of Market Analytics & Investor Strategy, LSTA, Inc.
- Sabrina Rusnak Carlson, General Counsel, First Eagle Alternative Credit
- Matthew Scherneck, Partner, Hogan Lovells
- Patrick Walling, Partner, The Private Credit Group, Proskauer Rose LLP

Thursday, May 20, 2025



Private Credit Trends



Sabrina Rusnak Carlson
General Counsel
First Eagle Alternative Credit



Matthew Scherneck
Partner
Hogan Lovells US LLP



Patrick Walling
Partner
The Private Credit Group,
Proskauer Rose LLP



Hugo Pereira
Vice President of Market Analytics &
Investor Strategy LSTA, Inc.



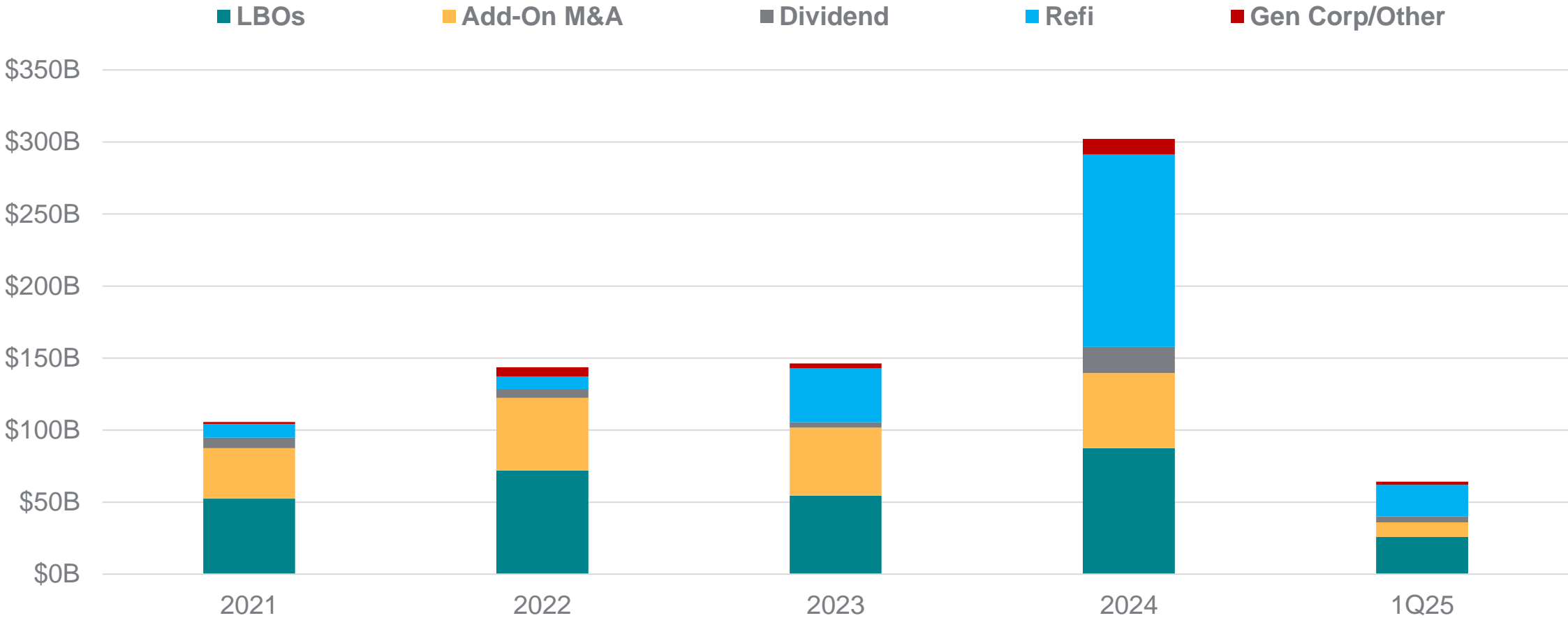
Tess Virmani
Deputy General Counsel, EVP
– Head of Policy
LSTA, Inc.

Overview

- Private Corporate Credit (PCC) Market Trends
- Comparing Broadly Syndicated (BSL) and PCC loans
- Evolution of the Corporate Lending Landscape
- Who are the lenders in PCC?
- New regulatory developments for registered funds
- Docs Dive – Are PCC credit agreements more protective?
- PIK Interest
- Defaults and amendments

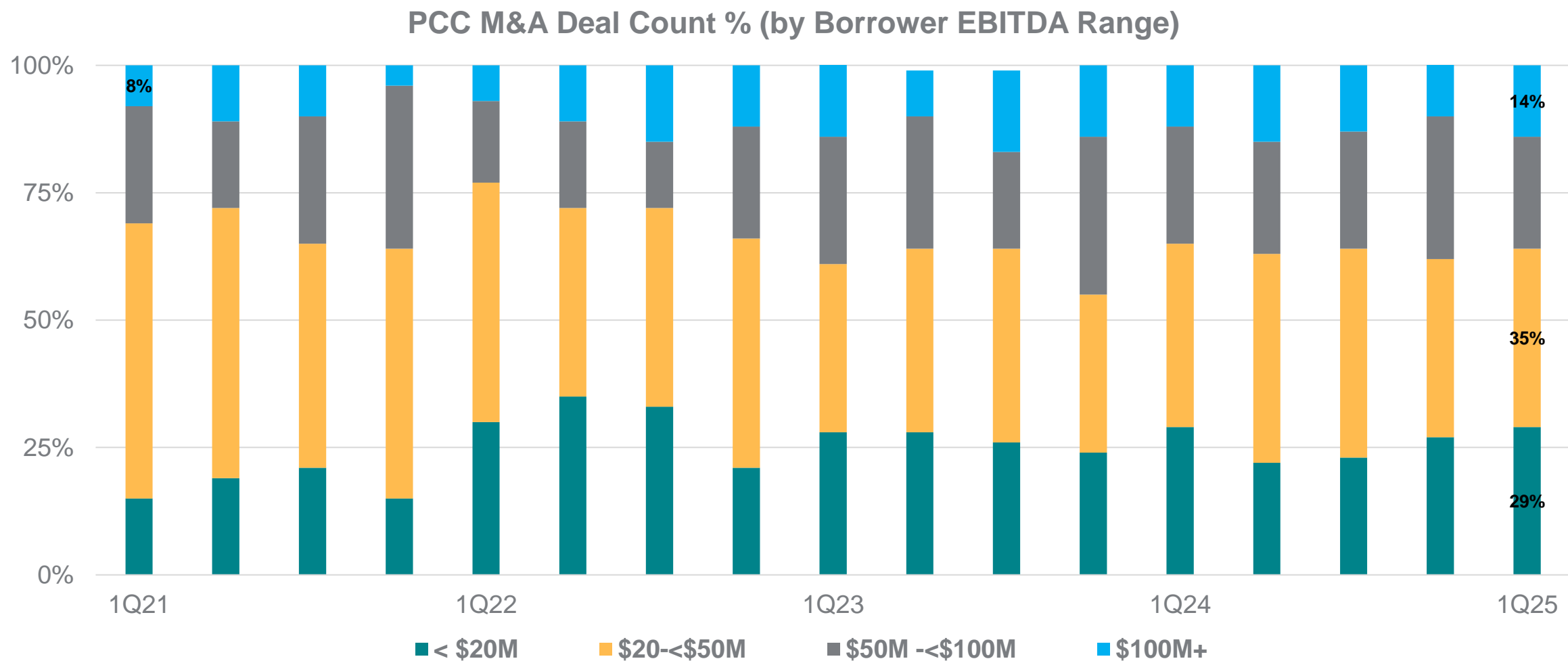
While M&As (LBOs) Dominate PCC Lending, Additional Refinancing Activity Elevated 2024 Volumes to Record Levels

PCC Volume by Purpose



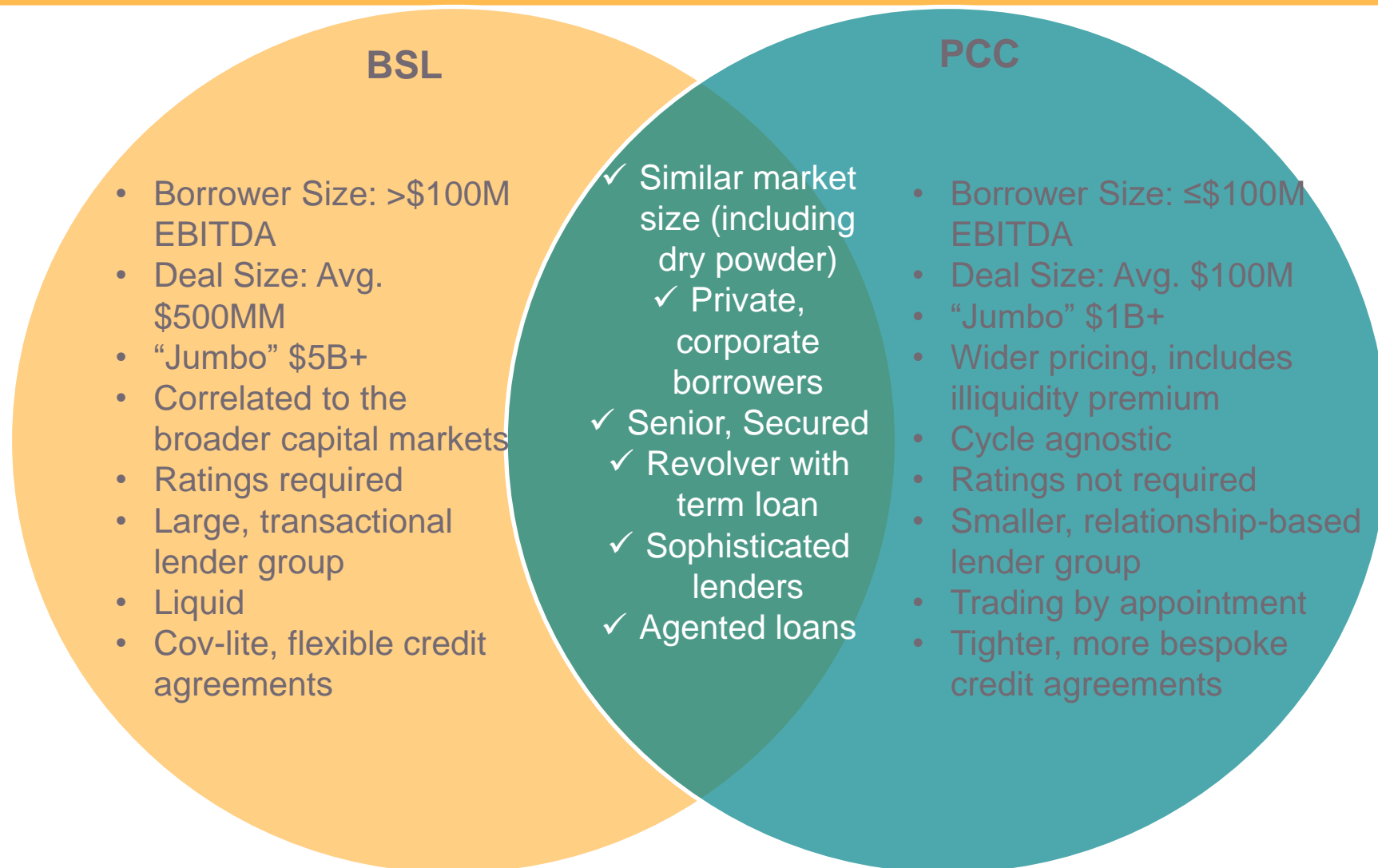
Source: KBRA DLD

While Smaller Borrowers (Lower Levels of EBITDA) Continue to Drive PCC Deal Flow, the \$100M+ Share has Nearly Doubled

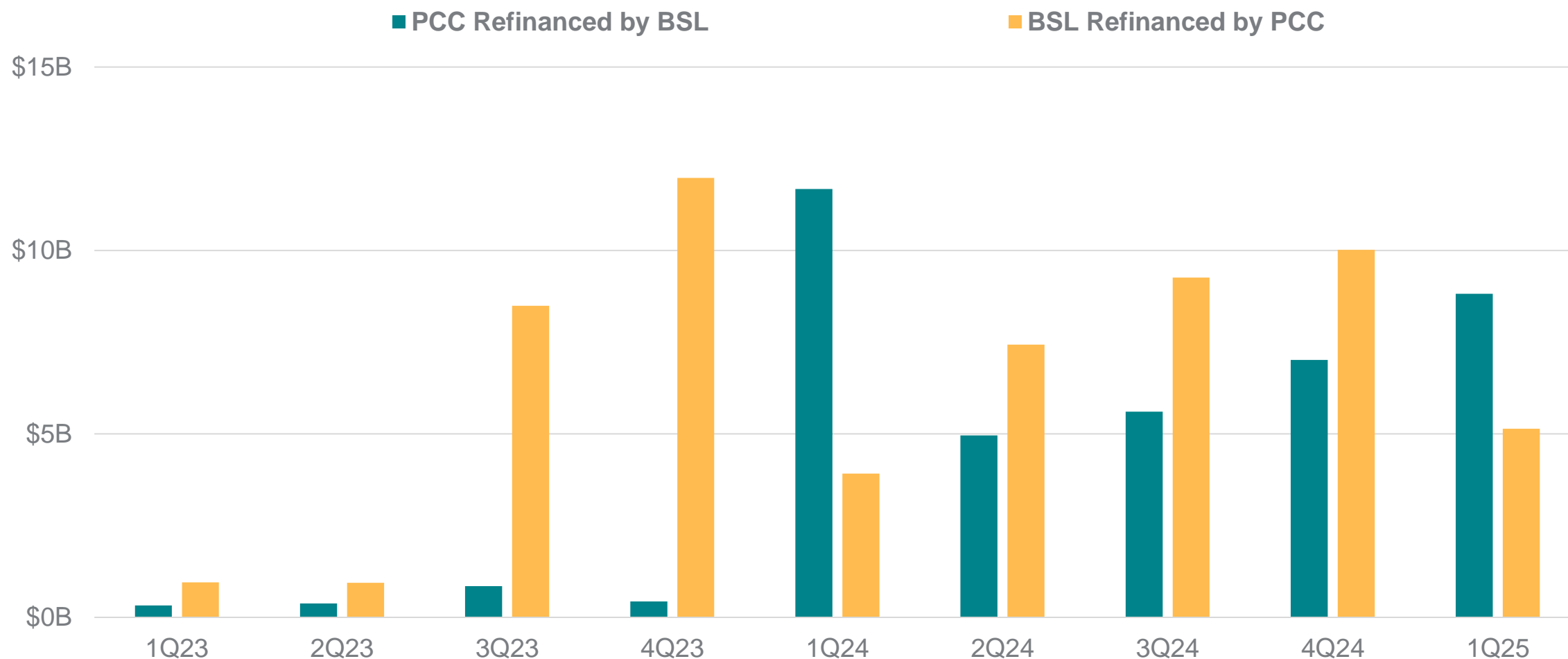


Source: KBRA DLD

Comparing Broadly Syndicated Loan (BSL) and Private Corporate Credit (PCC)



The Broadly Syndicated Loan (BSL) and Private Corporate Credit (PCC) Markets Have Formed a Symbiotic Relationship



Source: Pitchbook LCD

Strategic Partnerships: Banks and Credit Funds

Private Debt Investor

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News & Analysis

Citigroup and Apollo form \$25bn direct lending venture

Mubadala and Apollo's Athene will be strategic partners in the enterprise, which focuses on below investment-grade deals.

Sergio Padilla - 26 September 2024

Share

A-

A+

100%

In the largest collaboration between a bank and a private credit manager, Citigroup and [Apollo](#) announced that they have formed an exclusive partnership to provide \$25 billion of direct loans over the next few years.

Bloomberg

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Markets

Wells Fargo, Centerbridge Direct Debt Deals Reach \$2.8 Billion

Venture with Centerbridge has arranged six deals since June

Banks are teaming up with private firms to source transactions

By Olivia Fishlow and Paula Seligson

January 30, 2025 at 6:30 AM EST

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In this Article

Wells Fargo & Co

65.85 ▲2.61%

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Centerbridge Partners LP

Private Company

A venture between Wells Fargo & Co. and Centerbridge Partners dedicated to direct lending has arranged \$2.8 billion in deals since its formation a year ago, according to a statement seen by Bloomberg News.

The business development company, known as Overland Advantage, led six deals alongside Wells Fargo, including a \$74 million second-lien credit facility for [MaxiTransfers](#) and a \$215 million deal for [FFF Enterprises Inc.](#) Other deals include financings for [Continental Services](#), [Capital Vacations](#), [SGA Dental Partners](#) and [TriWest Healthcare Alliance Corp.](#)

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PRESS RELEASE

J.P. Morgan increases direct lending commitment to \$50 billion

J.P. Morgan dedicates balance sheet and adds co-lenders to provide private credit to clients.

Miami | February 24, 2025

J.P. Morgan announced today at its 30th annual [Global Leveraged Finance Conference](#) a significant expansion to its private credit commitment. The firm is allocating \$50 billion from its balance sheet, along with nearly \$15 billion from multiple co-lenders. This strategic move is designed to extend the firm’s direct lending capabilities and provide tailored private credit solutions to meet the evolving needs of clients.

Since 2021, J.P. Morgan has successfully deployed over \$10 billion across more than 100 private credit transactions, serving both corporate and sponsor clients. This latest commitment underscores the bank’s dedication to being a leader in both the broadly syndicated and private credit markets.

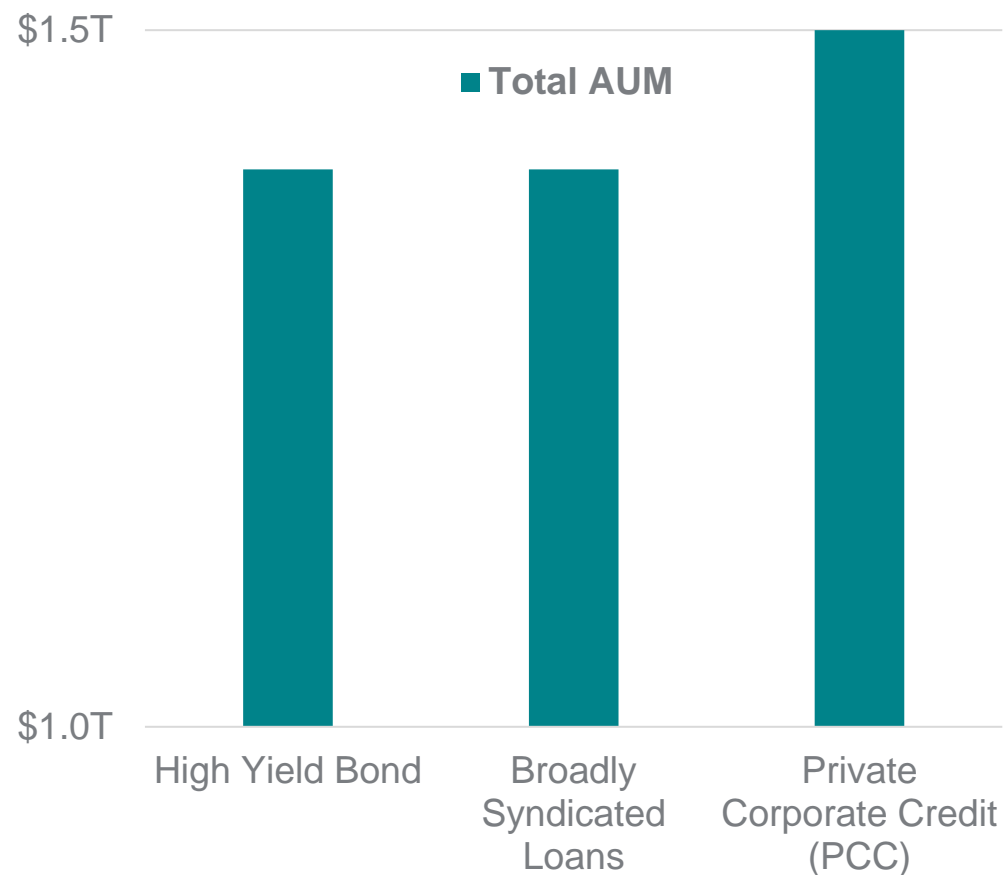
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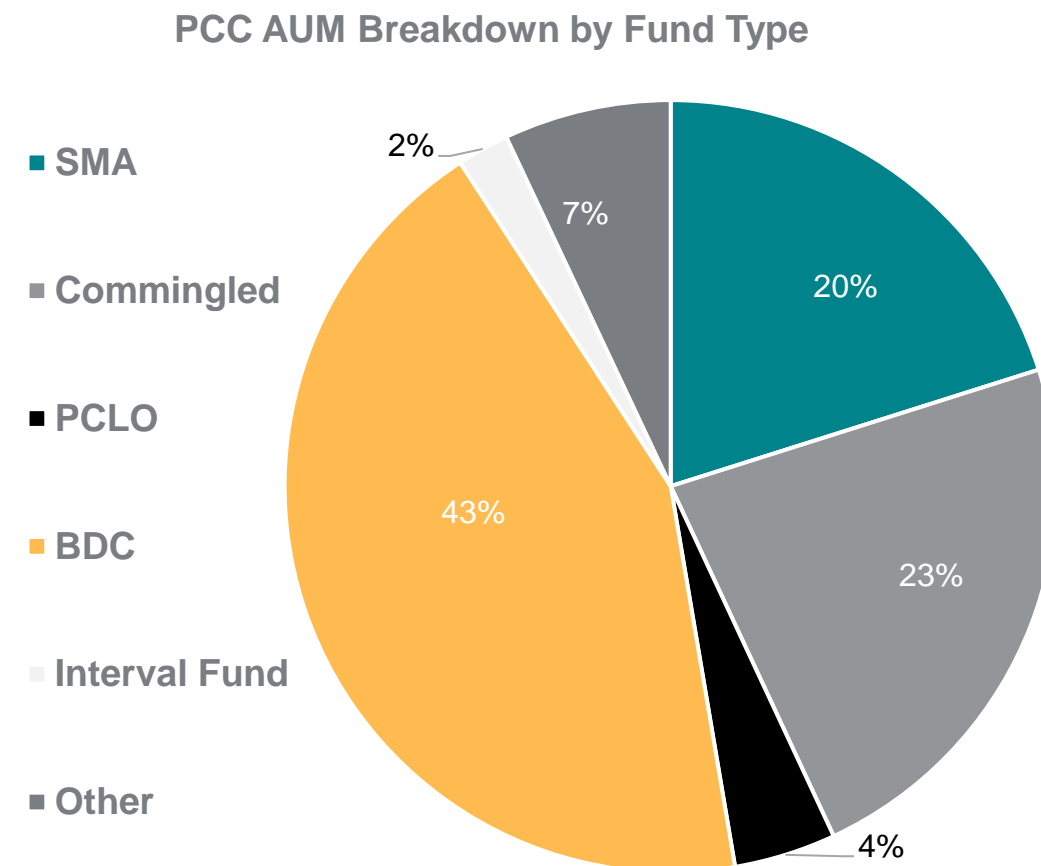
30 YEARS OF ADVANCING THE CORPORATE LOAN MARKET

8

At \$1.5+ Trillion, the Private Corporate Credit Market is Now Larger Than the HY Bond and Broadly Syndicated Loan Markets



Source: LSTA Private Corporate Credit Survey



Positive Developments for Credit Funds in 2025

— Coinvestment

- The SEC issued notices of intent that indicate several pioneering exemptive relief orders will be issued shortly allowing certain business development companies and closed-end management investment companies to co-invest in portfolio companies with each other and certain affiliates.
- FS Credit Opportunities Corp. et. al. petition was first, and a number of others have followed
- Reflects a more principles-based approach which has been desired by industry.

— Multiclass Fund Structures

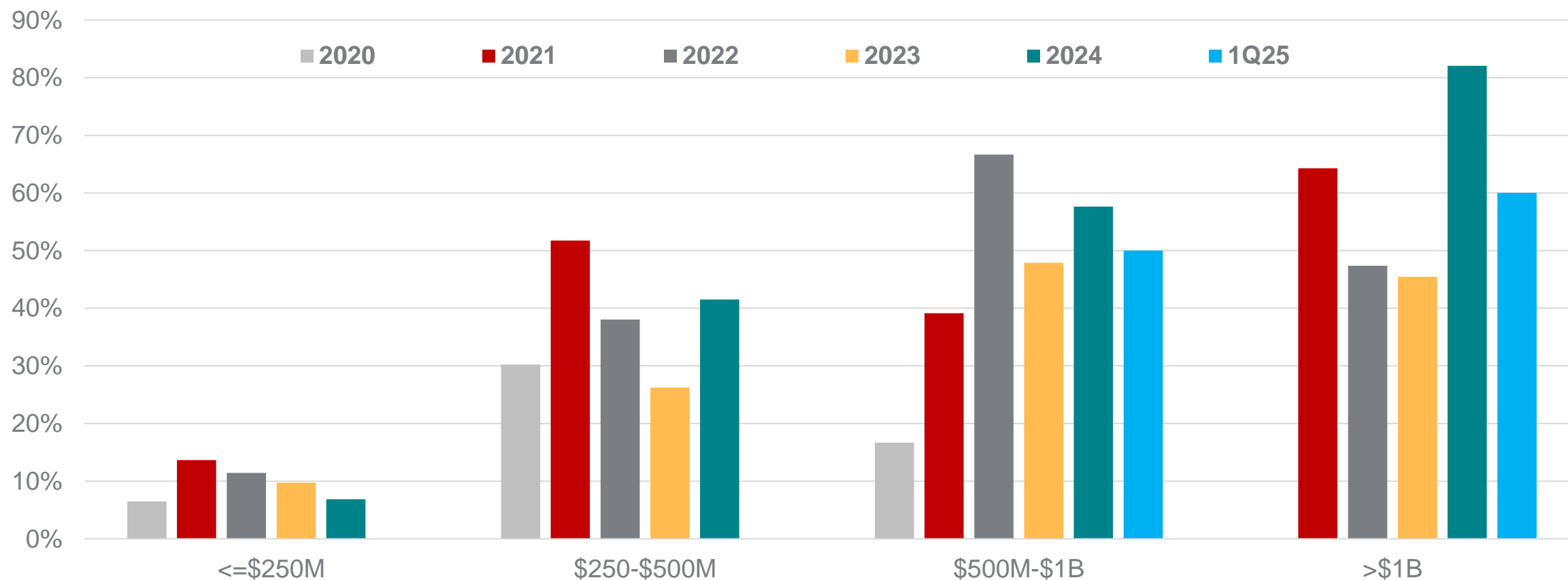
- These orders allow additional registered fund types to offer multiple classes of shares with varying fee structures and rights.
- US Securities and Exchange Commission (SEC) has approved multiple applications for multi-share class exemptive relief for private business development companies (BDCs) and certain registered closed-end funds.
- For the first time BDCs that are continuously privately offered may have multiple share classes with varying sales loads, asset-based service fees and/or distribution fees. Before the SEC had only allowed non-listed publicly offered BDCs to obtain this type of exemptive relief.

Positive Developments for Credit Funds in 2025 (cont'd)

- Framework for general solicitation and the verification of accredited investors
 - On March 12th the SEC staff issued a no-action letter that provides private fund sponsors a workable approach to relying on Rule 506(c) of Regulation D by offering an alternative method for verifying accredited investor status.
 - A private fund sponsor could be deemed to have taken "reasonable steps to verify" a purchaser's accredited investor status if certain conditions are met relating to minimum investment amounts and investor representations.
- Taken together, these steps will improve the efficiency of fund management and capital formation as well as paving the way for an increase in retail access to private assets

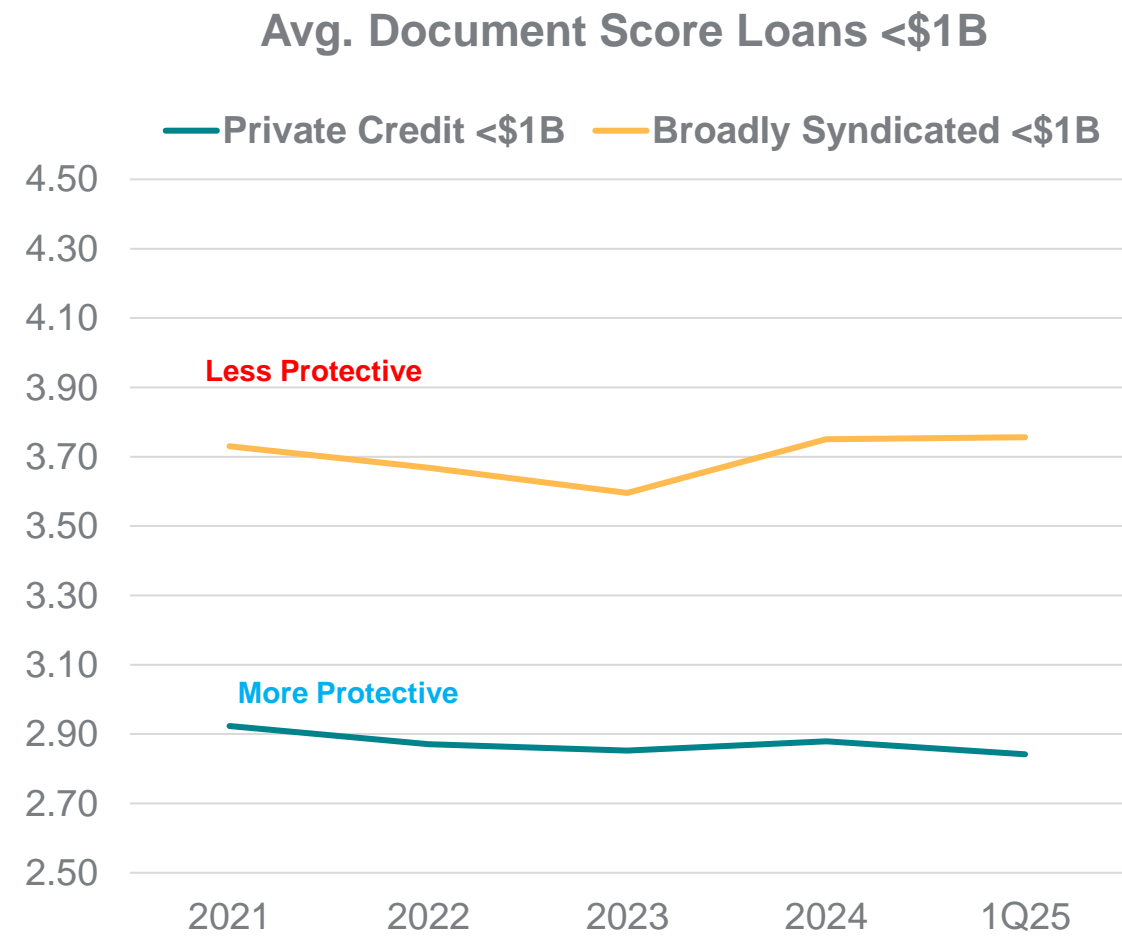
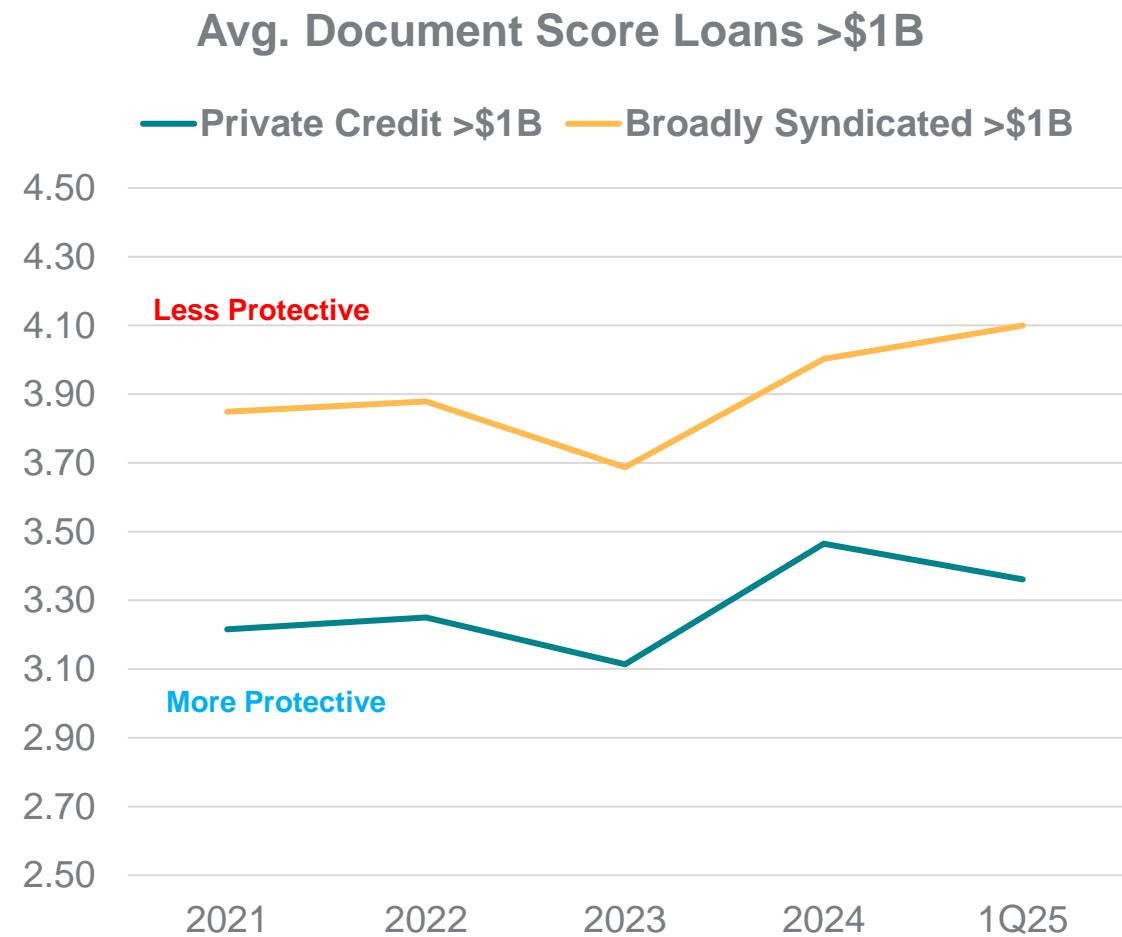
Documentation is “More Protective” Across the PCC Market as Compared to the BSL Market Where 90% of New-Issue Loans are Cov-Lite

Covenant-Lite Share of New Issue Private Credit Loans by Initial Loan Amount, 2020-1Q25



Source: Covenant Review, A Fitch Solutions Company

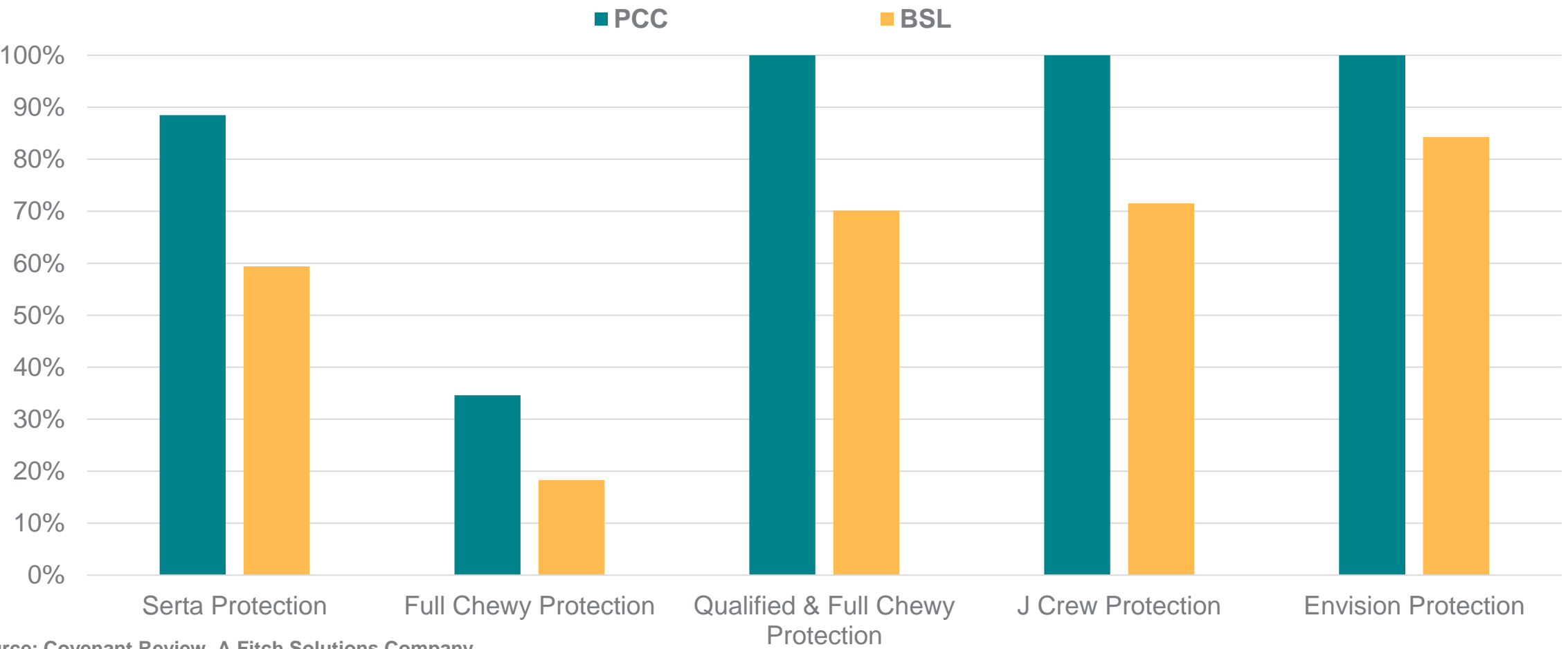
Greater Lender Protections Seen in <\$1B Loans, the Majority of PCC Activity



Source: Covenant Review, A Fitch Solutions Company

More PCC Loans Have LMT Blockers

Share of PC vs BSL with Key Protections, 1Q25

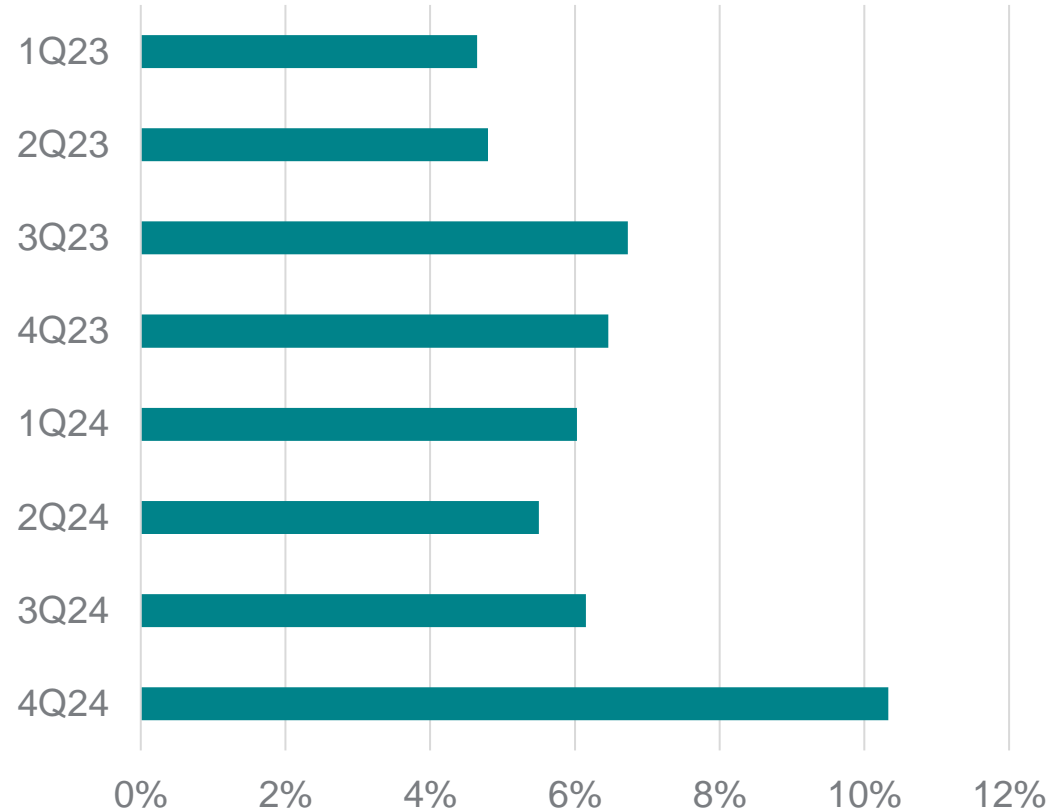


Source: Covenant Review, A Fitch Solutions Company

Payment in Kind (PIK) Interest

- PIK interest allows for some or all of the accrued interest on a loan to be added to the principal balance of the loan (capitalized) on each interest payment date instead of being paid to the lender in cash (cash-pay interest).
 - Typically, the margin is PIKable
- Reduces the amount of interest that the borrower must pay regularly in cash
 - PIK interest clauses typically permit the borrower to elect to capitalize a portion of the interest, sometimes subject to applicable conditions
 - Rare in syndicated deals; complicates trading
 - Increasingly common in PCC transactions
- As borrowers become more stressed, use of PIK interest increases, however, headline PIK numbers aren't unequivocally negative – they include PIK interest on loans to performing companies with PIK optionality or partial PIK pay at origination.

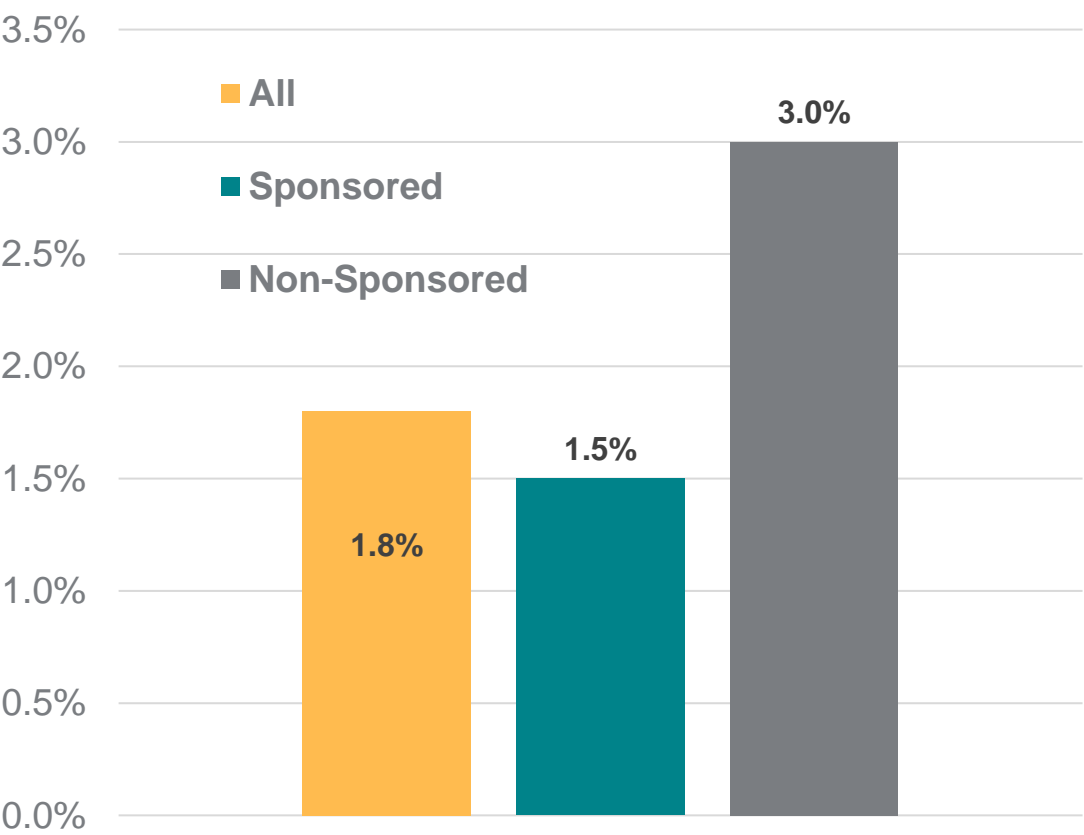
New PIK Investments in BDCs



¹ Includes partial PIK
Source: SOLVE

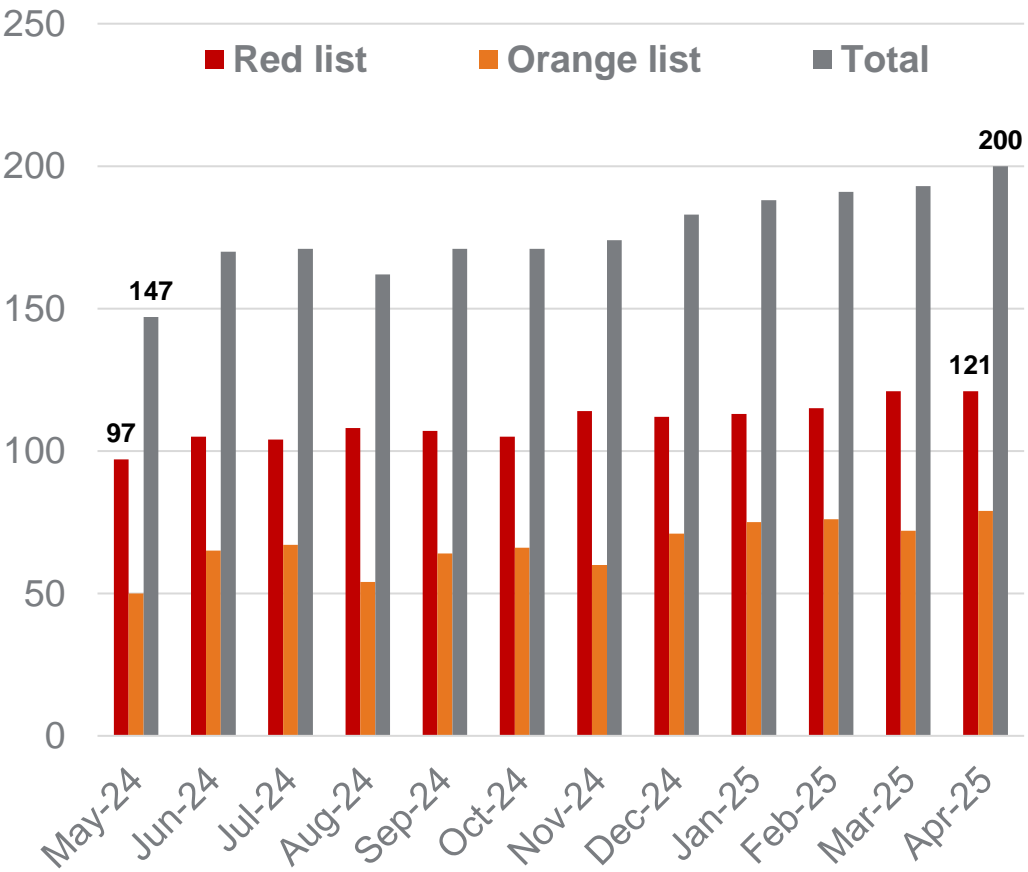
The TTM Default Rate for PCC Remains Low But There are More Loans at Risk

TTM Issuer Default Rate (by count)



Source: KBRA DLD Default Research

Default Radar



■ Closing Remarks / Q&A