2025 Private Credit Market Outlook

A Tripartite Series

Part I
Private Credit Market Trends: From Originations to Bank Partnerships and Insurance

Paul, Weiss, Rifkind, Wharton & Garrison LLP

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Overview

Private credit is a rapidly expanding sector that has grown nearly tenfold to reach $1.5 trillion in 2024 and this remarkable growth trajectory is expected to continue, reaching an estimated US$3.5 trillion by 2028. The diverse total addressable market across various asset classes suggests strong potential for continued diversified growth, firmly establishing private credit as a vital capital source for companies seeking financing solutions customized to their specific economic needs.

Paul, Weiss stands at the leading edge of this growing industry, with extensive experience representing alternative asset managers, sponsors and investors in some of their most complex private credit matters. Our elite private credit team is multidisciplinary and led by partners with decades of experience developing creative solutions across a range of structures and transactions to meet our client's objectives, including financings, acquisitions, new platforms and other strategic transactions utilizing private credit.

THEN

Sponsor-Backed Direct Lending

Private Credit

NOW

Fund Finance	CRE Debt	Energy Transition/Solar	Revolvers
Corporate Loans	Supply Chain Finance	NAV Loans	Infra Solutions
Aviation Finance	Equipment Finance	Music, Sports, HC Royalties	Direct IG
Railcar Leasing	Inventory Finance	Litigation Finance	Credit Card Loans
Infrastructure Debt	Auto Loans	Venture Lending	Small Business Loans
Agricultural Lending	Home Improvement	Structured Secondaries	Timeshare Loans
Franchise Finance	Residential Mortgages	Regulatory Capital Relief	Structured Settlement Loans
Corporate Fleet Finance	Rental Car Finance	Direct Lending	Software Services Loans

What is Private Credit?

What Is Private Credit?

A FAST-GROWING ALTERNATIVE ASSET CLASS

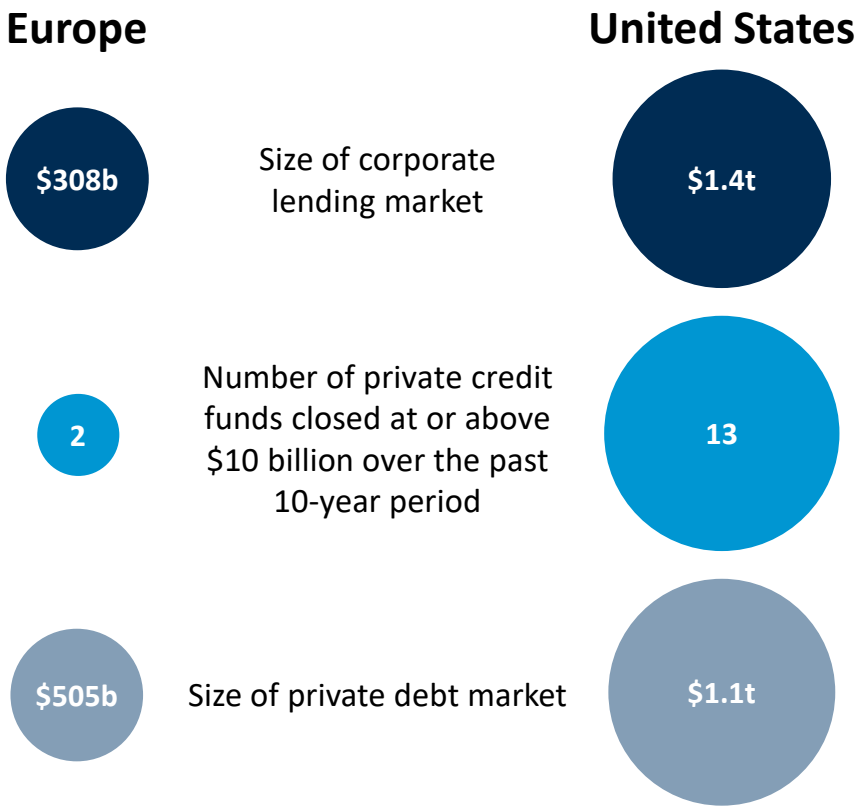
- Private credit refers to loans or other forms of **debt financing provided by non-bank lenders (such as private investment funds, asset managers or institutional investors)** as opposed to traditional banks or public markets.
- It is a growing market, which responds to opportunities not suitable to bank lending.
- Sectors and asset classes prime for private credit lending include **sponsor finance, small and mid-cap corporate lending, infrastructure and asset-backed finance**.
- As banks have gradually retreated from middle-market lending, and public capital markets have exhibited volatility, **private credit has become a vital source of capital for many companies**.
- Private credit utilizes a broad range of financial products that are **tailored to the economics of the financing needs**.

What Is Private Credit?

A FAST-GROWING ALTERNATIVE ASSET CLASS

- Private credit has been one of the fastest-growing segments of the financial system over the past 15 years, **expanding nearly tenfold to reach $1.5 trillion in 2024**.[1]
- While the US market dominates the sector (accounting for around $1.1 trillion in 2024), Europe demonstrates strong potential for growth.

The European market demonstrates strong potential for growth[2]



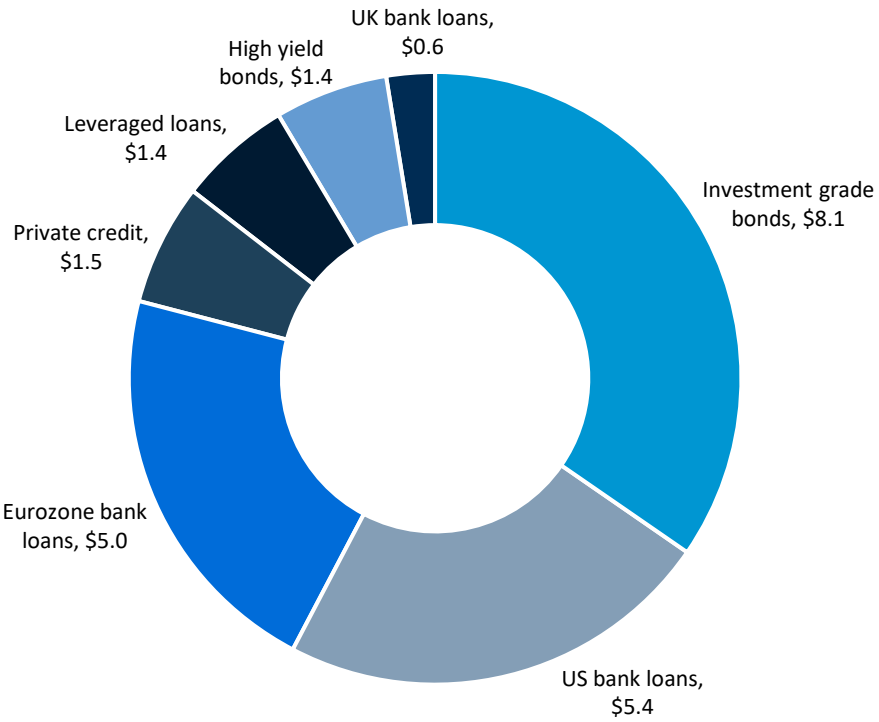
Source:
1. David Miller, *2025 Private Credit Outlook*, Morgan Stanley (Dec. 18, 2024).
2. Chart data: NB Private Wealth, Bloomberg, US Investment Grade Aggregate Bond Index, Credit Suisse Leveraged Loan Index, ICE BoA High Yield Index and Cliffwater Direct Lending.

What Is Private Credit?

A FAST-GROWING ALTERNATIVE ASSET CLASS

- It is predicted that the private credit market could reach **US$3.5 trillion by 2028**.[3]
- Breakdown of the total addressable market demonstrates private credit's **potential to spur continued diversified growth**.

Private credit total addressable market (USD trillion)[4]



Source:

3. Amanda Lynam and Dominique Bly, *Private Debt: The multi-faceted growth drivers*, BLACKROCK (Sept. 6, 2024).
4. Robin Wigglesworth, *The private credit 'golden moment',* FINANCIAL TIMES (Jul. 6, 2023); chart data: Cobalt, LCD, Bloomberg, FRED and FDIC data, European Central Bank Warehouse and Morgan Stanley.

Trends in Private Credit

Trends in Private Credit

MARKET DYNAMICS PRIME FOR GROWTH

Evolving Role of Banks in the Lending Market

- While banks are reshaping their balance sheets due to tighter regulations, they remain **essential in the credit market**.
- **Banks are partnering with private credit lenders**, providing financing, distributing private credit products, and leveraging origination and risk-management expertise.
- As private credit grows, banks are expected to continue playing a crucial role.

Higher Interest Rates

- Higher interest rates may stress lower-quality credits but benefit **high-quality, fixed-rate assets** or **sectors with low correlation to interest-rate** movements.
- Investment-grade sectors like private placement debt are more **insulated from negative credit events** due to **higher quality and fixed-rate securities**.
- **Security selection remains key**, with deep credit underwriting and enhanced structuring positioning investors well in a high-rate environment.

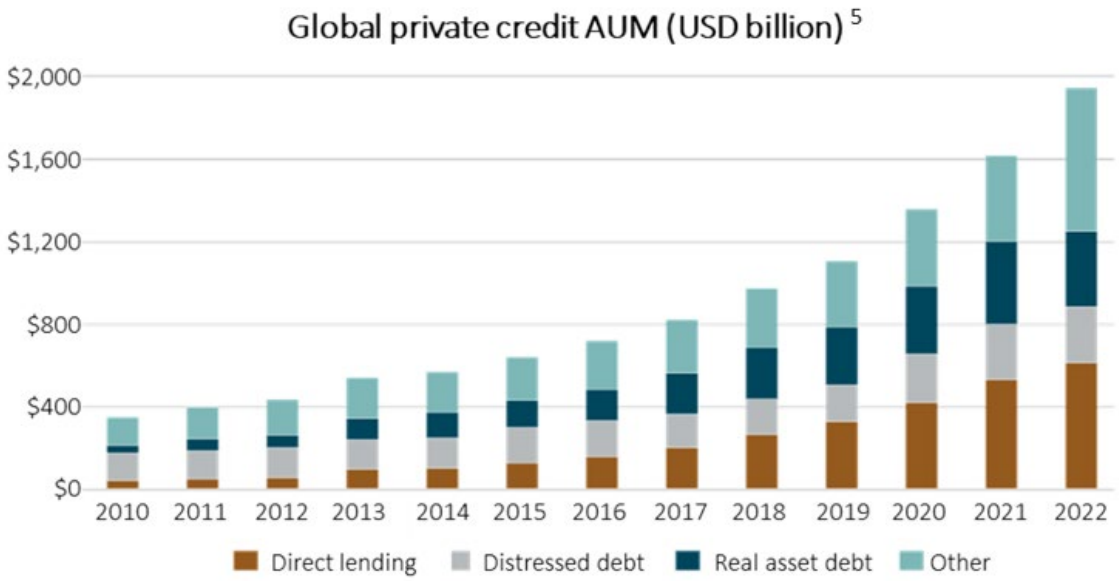
Growing Emphasis on ABF

- Private credit has been able to make **massive investments in asset-based financing (ABF)** and **infrastructure** finance due to the growing demand for yield, including from US life insurer accounts.
- Given the returns profile, private credit opportunities in ABF provide attractive **investment prospects for insurance portfolios**.
- In recognition of this opportunity, private credit funds' total credit **AUM directed towards ABF strategies doubled from 2021 to 2024**.

Trends in Private Credit

INTERSECTION OF PUBLIC AND PRIVATE MARKETS

- The lines between public and private markets are blurring, **creating greater opportunities for market participants**.
- Companies, especially private-backed high-growth firms, are seeking flexible financing structures outside public markets.
- **Private credit investment spans several asset classes**, with the leading asset classes being direct lending, distressed debt and real estate.
- **Direct lending has shown the strongest growth** among these asset classes.



Source:

5. Louay Mikdashi, *Private Credit: An All-Weather Asset Class*, NB PRIVATE WEALTH (Jul. 20, 2023); chart: NB Private Wealth; chart data: Prequin.

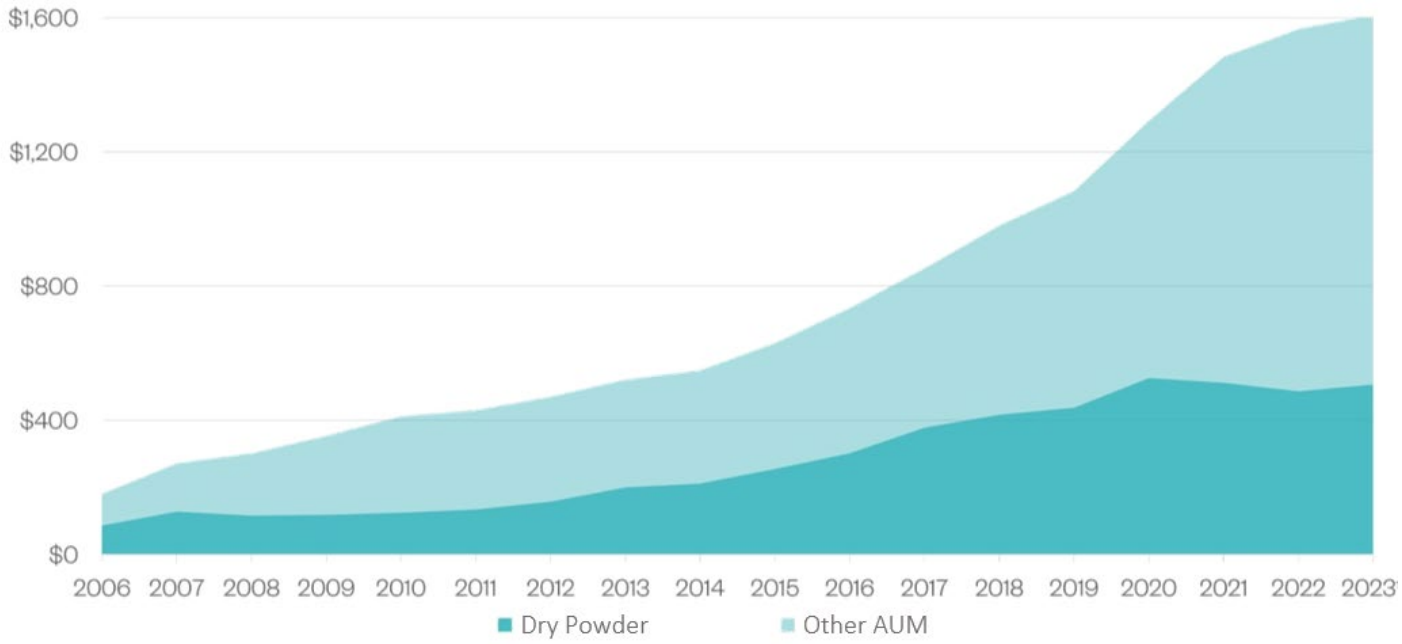
Private Credit and Origination

Private Credit and Origination

OVERVIEW

- Private credit has grown tremendously through **investing in credit market gaps** and profitable credit spaces.
- Key challenge for private credit is **deployment of capital through asset origination** and achieving **outsized returns at scale**.
- Private credit is under **pressure to deploy dry powder**.

Private credit AUM (USD billions)[6]



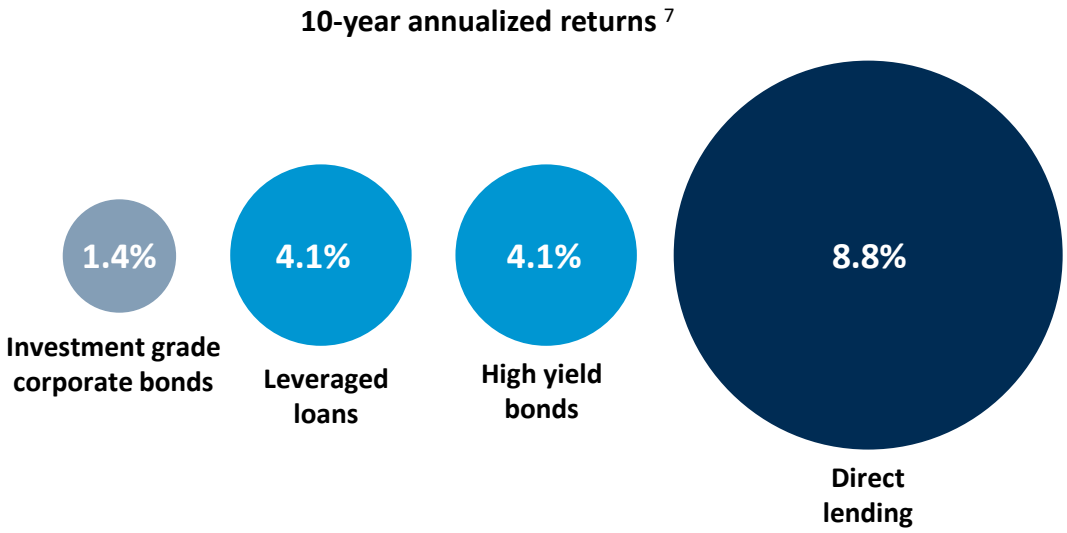
Source:

6. Vishesh Raisinghani, *The Making of Strange Bedfellows in Private Credit*, Middle Market Information LLC (Nov. 4, 2024).

Private Credit and Origination

CREDIT MARKET GAP AND PROFITABLE CREDIT SPACES

- Given deposit funding and capital requirements, banks are competitive for liquid, short duration, investment grade lending.
- Bank capital requirements create **opportunities for private credit in long tenor corporate debt, infrastructure and asset-backed lending**.
- Credit funds have been able to rival bank cost of funds through captive insurance.
- **Direct lending has yielded blockbuster returns compared to bank/public market products**.
- Private credit can offer **greater agility in credit decisions and ongoing decision-making** in the case of borrower distress.
- Dry powder reserves continue to grow across asset classes, enabling private credit to respond to opportunities.
- Private credit is set to play a key role in funding the energy transition by meeting the growing infrastructure capital demand (for more detail, see *Infrastructure and Private Credit Market*).

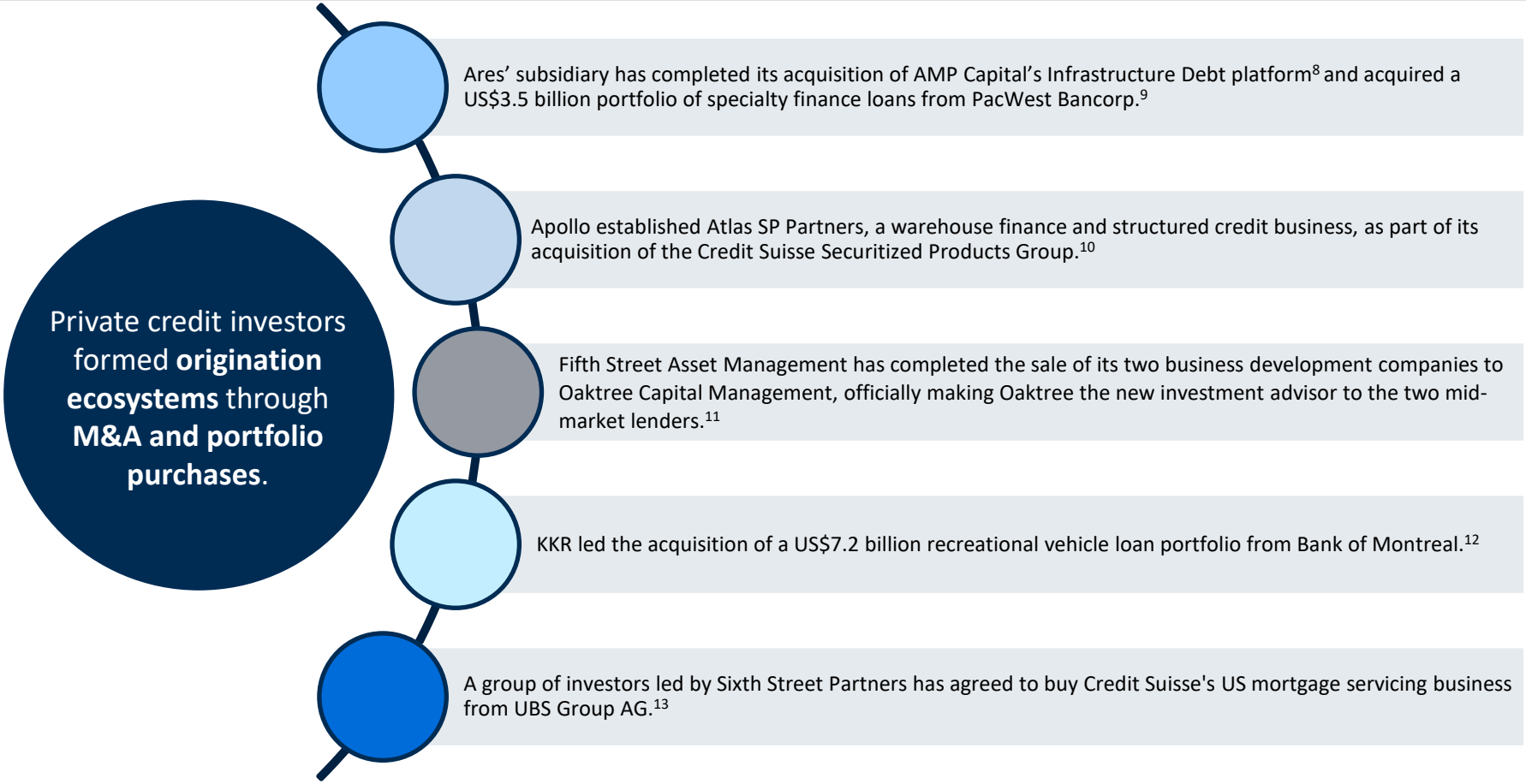


Source:

7. Louay Mikdashi, *Private Credit: An All-Weather Asset Class*, NB PRIVATE WEALTH (Jul. 20, 2023); chart data: Bloomberg, US Investment Grade Aggregate Bond Index, Credit Suisse Leveraged Loan Index, ICE BoA High Yield Index and Cliffwater Direct Lending.

Private Credit and Origination

PRIVATE CREDIT ORIGINATION PLATFORMS

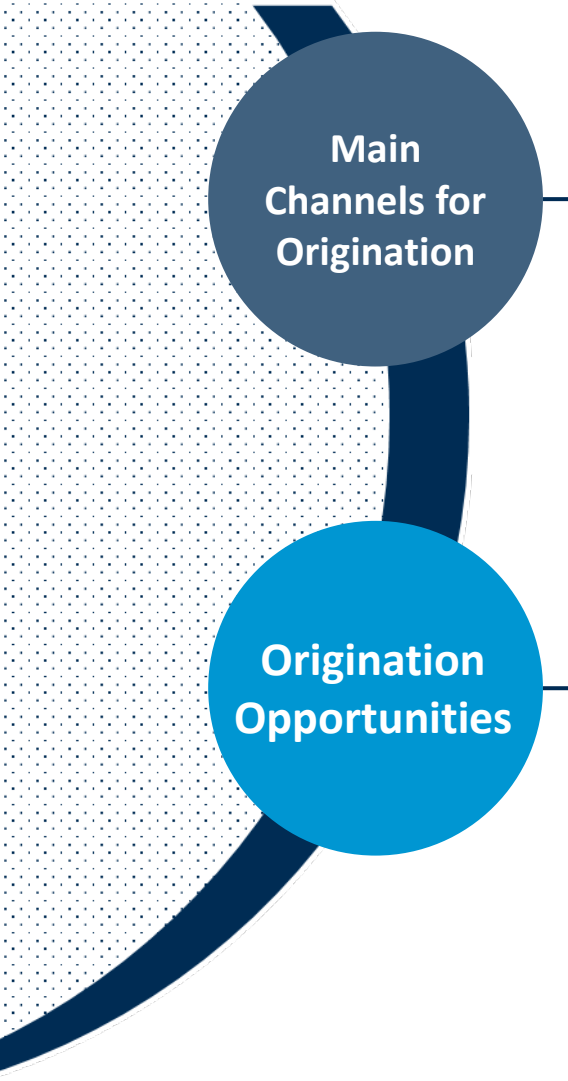


Source:

8. *Ares Management Corporation Completes Acquisition of AMP Capital's Infrastructure Debt Platform*, BUSINESS WIRE (Feb. 10, 2022).
9. Robin Blumenthal, *Inside the love-hate relationship between banks and private credit*, PRIVATE DEBT INVESTOR (Apr. 2, 2024).
10. Sridhar Natarajan, Carmen Arroyo, and Allison McNeely, *Apollo Snags $5 Billion From BNP to Expand Private Credit Bets*, BLOOMBERG (Sept. 20, 2024).
11. Justin Slaughter, *Fifth Street closes BDC sale with Oaktree*, PRIVATE DEBT INVESTOR (Oct. 18, 2017).
12. *KKR acquires $7.2 Billion Portfolio of Prime Recreational Vehicle Loans*, BUSINESS WIRE (DEC. 15, 2023).
13. Jan-Henrik Foerster and Myriam Balezou, *Sixth Street Consortium to Be Buyer of UBS Mortgage Unit.*, BLOOMBERG, (Aug. 15, 2024).

Private Credit and Origination

PRIVATE CREDIT ORIGINATION OPPORTUNITIES



Main Channels for Origination

- **Direct lending**.
- **Acquisition of debt** in the secondary market.
- Utilization and proliferation of **origination platforms**.
- Collaboration through partnerships (**including bank partnerships**).

Origination Opportunities

- Trajectory of the European market presents an opportunity for **geographical (and asset) diversification**.
- M&A, as an origination channel, **can accelerate private credit growth** through **consolidation of sub-scale specialty finance lenders**.
- Alternative asset classes present **direct lending opportunities that match private credit's lending appetite**.
  - Private credit, in particular, has a competitive advantage in **long tenor**, **illiquid**, **complex**, **highly leveraged**, **bank capital-intensive investments**.
  - Key growth opportunities include **infrastructure**, **commercial real estate**, **special situations and distressed debt**.
  - Inroads are also being made by **private credit into CLO markets** which historically were dominated by the BSL market.

Banks’ Role in Private Credit

Banks' Role in Private Credit

CHANGING CREDIT MARKETS ALLOW BANKS AND PRIVATE CREDIT TO WORK TOGETHER

Evolving Role of Banks
Changes to banking regulation and capital requirements have steered banks to adjust business models to focus on segments that maximize return-on-capital.

Strategic Partnerships for Growth
Private credit and bank partnerships create strategic and mutual channels to increase revenue.

Source:
14. Drew Maloney, *New Partnerships Between Banks and Private Credit Lenders Deliver Opportunities for Businesses Across the Country*, AlphaWeek (Mar. 26, 2024).

Banks' Role in Private Credit

PUBLIC AND PRIVATE MARKET CONVERGENCE

As public markets become increasingly concentrated and private markets continue to expand, their convergence creates novel opportunities. **Private credit is looking to the investment grade space** for stable returns, reduced risk exposure and increased diversification. **Banks are looking to private markets for capital-efficient solutions** to access higher returns in long-dated corporate loans, infrastructure, real estate and leveraged loans.

Partnerships allow banks and private credit to achieve **win-win outcomes**.

FITCH WIRE

Alt IMs See Continued Private Credit Growth from Bank Tie Ups

Goldman Sachs to deepen exposure to booming private credit industry

Wall Street bank is building new unit to service and compete with private investment firms

PitchBook

Tired of sidelines, Wall St. banks team up with private credit lenders

WSJ

Wall Street Races to Bring Private Credit to the Masses

Investing titans are jostling to launch funds made up of hard-to-trade private loans

businesswire

AGL Credit Management announces the launch of AGL Private Credit Platform and exclusive Cooperation Agreement with Barclays

Banks' Role in Private Credit

PUBLIC AND PRIVATE MARKET CONVERGENCE

Moody's 2025 private credit outlook report projects **a $3 trillion opportunity** as banks look to shift assets off bank balance sheets.

This includes **residential mortgages**, **higher-risk commercial real estate**, **project finance**, and **asset-backed finance like auto loans, aircraft leasing** and **student loans**.

This—combined with private credit's dry powder reserves and growing origination pipeline—creates an opportunity for **partnerships between banks and private credit**.

Source:

15. Graphic data: *2023 Annual Global Private Debt Report*, PITCHBOOK (Mar. 20, 2024).

Banks' Role in Private Credit

PRIVATE CREDIT SOLUTIONS CREATE WIN-WIN OUTCOMES FOR BANKS AND PRIVATE CREDIT

Banks can **fully exploit existing and new origination channels**.

Private credit obtains access to **deal flow to deploy dry powder**.

Banks' origination role **facilitates maintenance of customer relationships**.

Fee arrangements drive revenue generation for all parties.

Banks are able to obtain access to higher-return markets in a **capital-efficient** manner.

Structuring trends over the last 12 months have focused on **tailored strategic arrangements**.

Backstop arrangements and **separately managed accounts persist** as partnership tools.

Emergence of **jointly-marketed platforms and joint ventures** will dominate the market in 2025.

Banks' Role in Private Credit

BANK PARTNERSHIPS: RECENT EXAMPLES[16]

Goldman Sachs	Goldman Sachs raised $21 billion for private credit investment via direct lending funds.
BARCLAYS AGL	Barclays and AGL Credit Management launched a private credit investment platform with a $1 billion commitment from ADIA.
BNP PARIBAS APOLLO	BNP is looking to raise $1.1 billion for a new direct lending fund. BNP and Apollo entered a "strategic collaboration", with Apollo securing an initial $5 billion commitment.
citi LuminArx APOLLO	Citi launched a private lending vehicle with LuminArx Capital, which, with institutional partners, contributed over $2 billion. Citi and Apollo entered into a $25 billion private credit, direct lending program partnership.
Deutsche Bank	Deutsche Bank debuted DB Investment Partners, an investment manager targeting private credit opportunities.
JPMORGAN CHASE & CO.	JP Morgan earmarked over $10 billion for a direct lending partnership with FS Investments, Cliffwater and Shenkman Capital Management.
MIZUHO GOLUB CAPITAL	Mizuho and Golub Capital launched a strategic distribution partnership, purchasing a passive, non-voting minority stake in Golub Capital's management companies.[17]
Morgan Stanley	Morgan Stanley is considering (1) allocating up to $2 billion to a new private credit fund; and (2) a structure that would entail raising as much as $5 billion from LPs.
PNC TCW	PNC and TCW Group partnered on a platform aiming to have $2.5 billion available to invest in its first year.
SOCIETE GENERALE Brookfield	Société Générale and Brookfield Asset Management plan to raise a $10.8 billion fund.
WELLS FARGO Centerbridge	Wells Fargo and Centerbridge Partners launched a $5 billion direct lending fund.
LLOYDS OAKTREE	Lloyds Bank and Oaktree Capital Management, L.P. launched a strategic partnership to support UK middle-market sponsor-backed borrowers.
CANAL ROAD GROUP	Bank of Montreal entered into a partnership with Canal Road Group in a deal that will enable the latter to invest up to US$1 billion in direct lending.

Source:

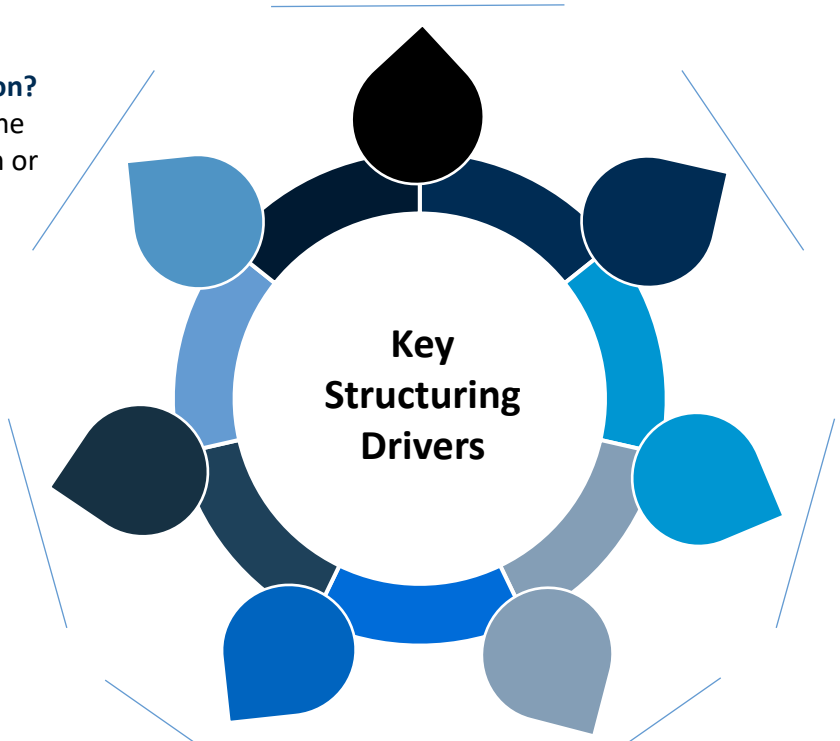
16. Carmen Arroyo, *Banks Funnel Billions More into Private Credit as Frenzy Spreads*, BLOOMBERG LAW (May 30, 2024).
17. *Mizuho and Golub Capital Announce Strategic Partnership*, YAHOO! FINANCE (Sept. 30, 2024).

Banks' Role in Private Credit

BANK PARTNERSHIPS: KEY STRUCTURING DRIVERS

Fees – what fees are earned?
Revenue may be generated from referral fees, management fees, capital fees, financing fees and/or credit protection fees.

People – who drives origination?
Origination may be through the bank team, private credit team or on a joint basis.



Scale – bilateral partnership or multilateral platform?
While bilateral structures are more common, the ability to bring in additional private credit investors to an existing platform creates flexibility to develop a multilateral structure.

Scope – what products are originated?
Current areas of focus include leveraged loans, investment grade corporate loans, infrastructure loans and asset-backed investments.

Decision-making – who controls?
Underwrite may be: (a) completely discretionary subject to eligibility, (b) using deal-by-deal veto rights or (c) through both sides represented on an investment committee.

Capital – who provides funding?
100% bank, 100% private credit or a proportionate allocation between partners.

Economic bolt-ons – how to improve credit/return?
Leverage or credit support can be used to tailor the returns profile.

Banks' Role in Private Credit

BANK PARTNERSHIPS: SPECIAL CONSIDERATIONS APPLICABLE FOR DIFFERENT ASSET CLASSES AND JURISDICTIONS

1 Asset – Backed Exposures

Resecuritization considerations require careful analysis and structuring to ensure compliance with regulations. This is a particular consideration in Europe where an intensive regulatory regime surrounds debt tranching/securitization.

2 Corporate Loans

Protection of **customer relationship** and interplay with the broader experience and needs of the client is a key focus in corporate lending, dictating structures and transactional features.

3 Unfunded Positions

Matched funding is vital to ensure **no asset / liability mismatch** is created within the funding partnership. From funding timelines to matching commitment availability and revolving periods, structuring focuses on alignment and operational de-risking.

4 Capital and Bank Regulatory Considerations

Analysis of **bank capital treatment of the partnership** is key to effective structuring. Correct bank regulatory treatment will drive the format and structure of the partnership.

5 Specific Considerations in Europe

Enforcement and regulatory permissions may be needed in multiple jurisdictions. The borrower market is less familiar with private credit as general source of capital (as opposed to **distressed debt** and **loan-to-own investing**), driving additional transactional layering.

Banks' Role in Private Credit

BANK PARTNERSHIPS: ALTERNATIVES AND OTHER PRIVATE CREDIT SOLUTIONS

Underwriting Backstops – Originate to Distribute

Underwriting backstops are **a flexible and discrete tool** for managing banks' balance sheet capacity and/or dealing with unsuccessful syndications. May be set up on a **single name or programmatic basis**, generating underwriting fees, freeing up balance sheet capacity and keeping the bank – client relationship intact.

Significant Risk Transfer Transactions (SRTs)

Some public markets – such as Europe – where traditional securitizations are challenging (due to limited tolerance of new assets, limited market window openings, and deal size inflexibility), favor alternative investment structures, including significant risk transfer (SRT) transactions where private credit takes portfolio risk in exchange for a risk-appropriate return, allowing a bank to obtain capital relief.

Bank Private Credit

Some banks are responding to the private credit market with **proprietary offerings of "private credit"**, earmarking funds for deployment, approving larger ticket sizes and raising private credit funds for origination purposes:

- JPMorgan has deployed more than $10 billion from its balance sheet across over 100 such deals since 2021.[18]
- Goldman Sachs has raised over $20 billion to invest in private credit style opportunities.[19]

Source:

18. Hannah Levitt, *JPMorgan Earmarks $50 Billion More for Its Direct-Lending Push*, BLOOMBERG (Feb. 24, 2025).
19. Eric Platt, *Goldman Sachs pulls in more than $20bn to invest in private credit*, FINANCIAL TIMES (May 29, 2024).

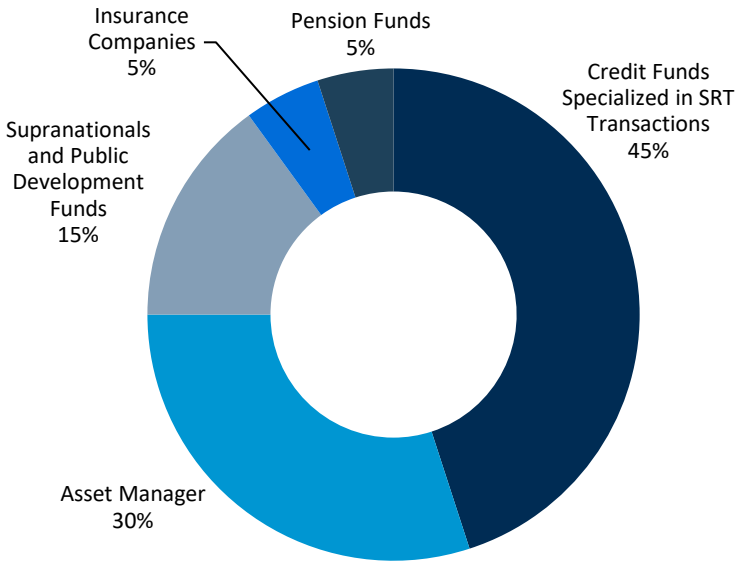
Banks' Role in Private Credit

EUROPEAN BOOM IN SIGNIFICANT RISK TRANSFER TRANSACTIONS SPREADING TO U.S.

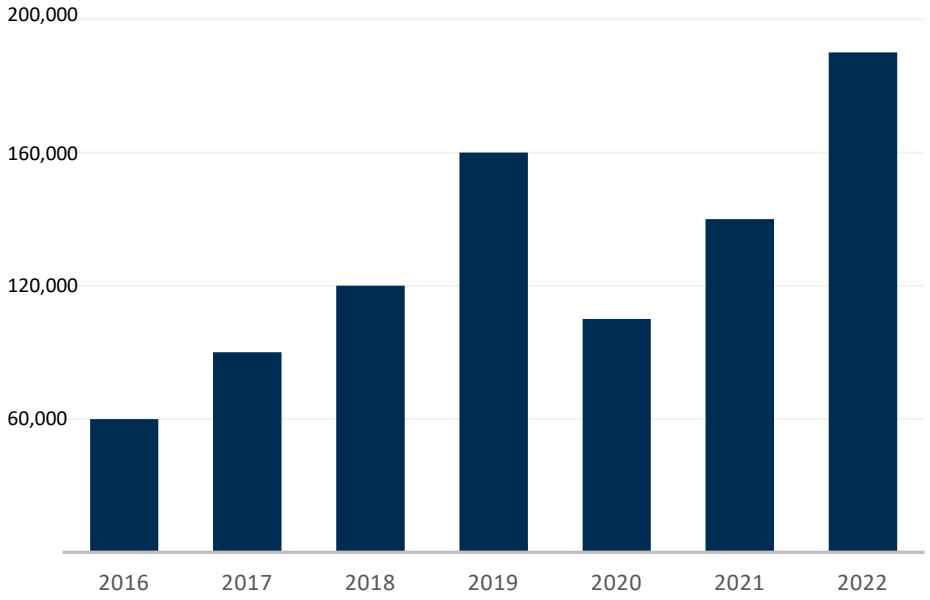
SRT Creates Significant Opportunity for Private Credit

Credit Funds Lead the SRT Investor Base[20]

Key investor categories active in the European SRT market as at June 2023



Global Synthetic Securitization Volumes - Underlying Asset Pool Size (million EUR)[21]



Source: European Systemic Risk Board.

Source:

20. Evan M. Gunter, Nick W. Kraemer and Abhik Debnath, *Credit Trends: Global Refinancing--Rated Corporate Debt Due Through 2025 Totals $11.3 Trillion*, S&P GLOBAL (Feb. 8, 2021).
21. James Keenan, David Trucano, Brendan Galloway and William Im, *Synthetic risk transfers: A growing opportunity in private debt*, BLACKROCK (Mar. 2024); chart: IACPM Synthetic Securitization Market Volume Survey 2023.

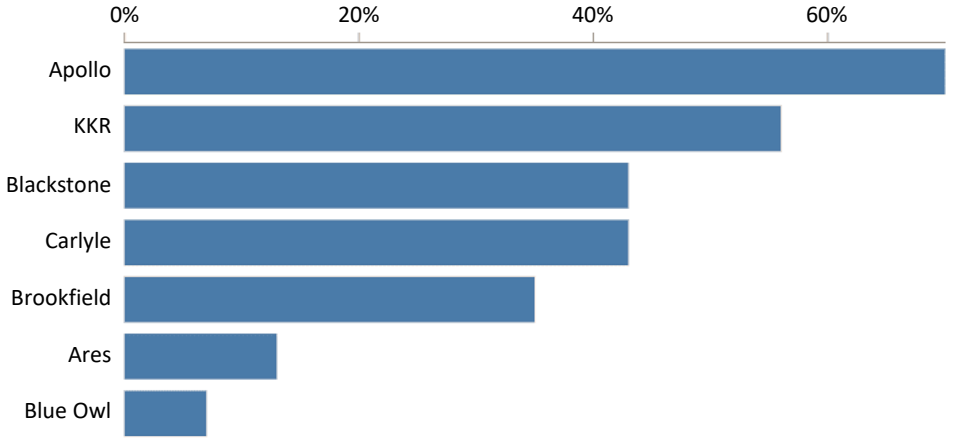
Insurance and Private Credit

Insurance and Private Credit

HORIZON SCANNING

- Insurers, similar to banks, are equally driven to **optimize return on capital**.
- Private credit's longer dated exposure profile aligns with the **long-dated liability profile of insurers**.
- Traditional investments by insurers in private credit have been through **separately managed accounts or as deal-by-deal structured investments** to achieve efficient capital treatment in long-duration assets such as commercial real estate.
- Use of platform structures that can accommodate multiple insurers is increasing.
- **Bank – insurer joint venture style partnerships are likely to be a growth area**, with insurers providing capital and banks:
  - finding opportunities; and
  - making deal-by-deal acceptance decisions within agreed parameters.

Estimated share of private credit assets funded by insurers (USD trillion)[22]



"Surging demand from yield-hungry US life insurer accounts has allowed private credit to also make serious inroads in asset-based financing and infrastructure finance, MS says."[23]

"[Blackstone Credit and Insurance] had one of its busiest quarters ever, with $21 billion invested or committed, including in global direct lending, along with infrastructure and asset-based credit," Blackstone president and COO Jon Gray said on a July 18 earnings call.

Source:
22. *Banks and private credit: best of frenemies?*, FINANCIAL TIMES (Nov. 22, 2024).
23. Zack Miller, *Blackstone sees strong Q2 originations, private credit returns*, PITCHBOOK (Jul. 22, 2024).

Insurance and Private Credit

LEVERAGING ALTERNATIVE STRUCTURES – RATED NOTE FEEDERS

RATED NOTE FEEDERS

A Key Investment Vehicle for Insurance

- Rated note feeder funds are **increasingly used by U.S. and non-U.S. insurance companies** as a **vehicle for investing** in private credit funds and other private funds, enabling insurance investors to **participate in private fund investment strategies while managing their regulatory capital requirements**.

Structure of Rated Note Feeder Funds

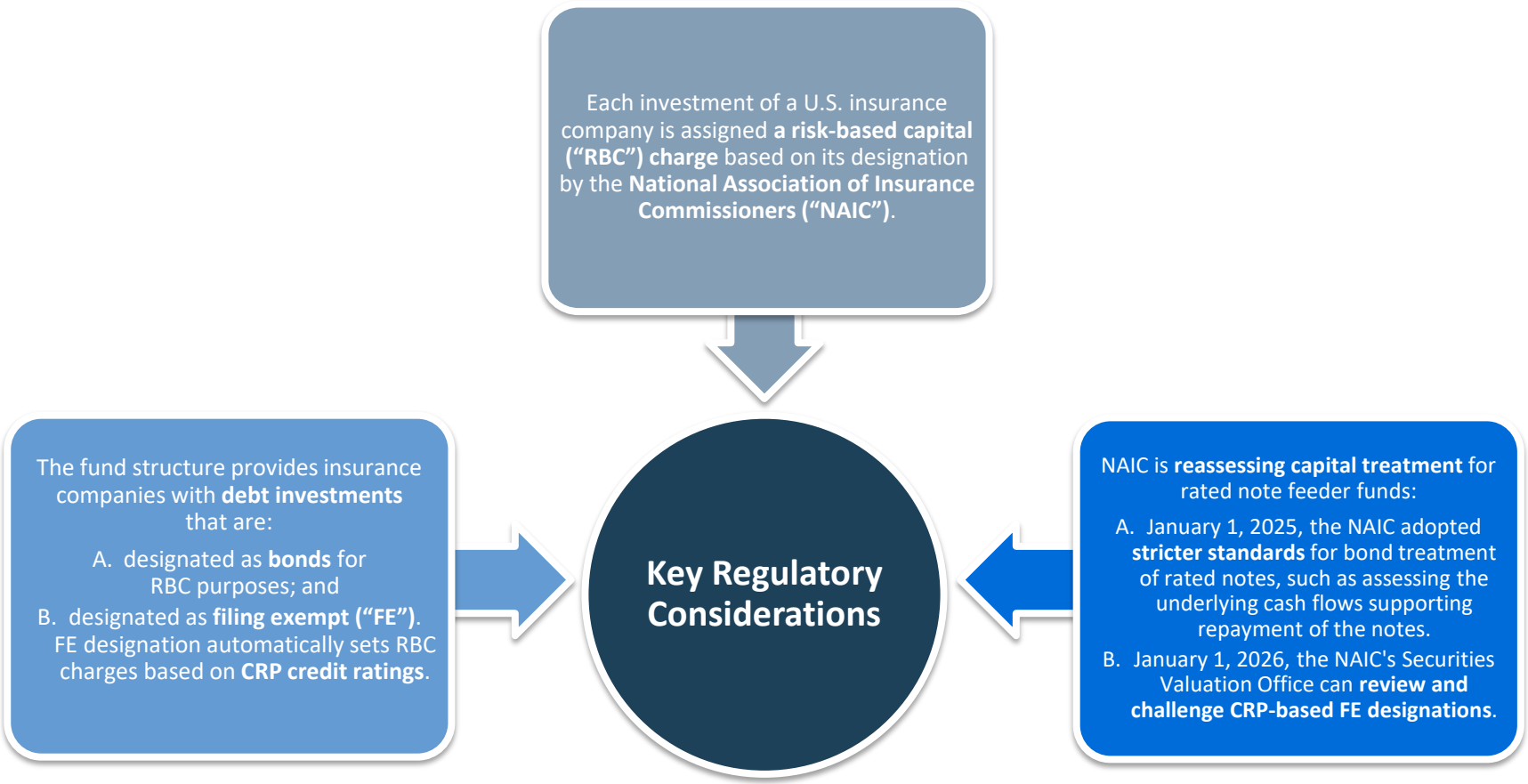
- Rated note feeder funds issue debt securities that **benefit from subordinated debt tranches** and **from equity tranches** to absorb initial losses.
- This **enhances the creditworthiness** of the debt securities as compared to the underlying investments.

Structuring Considerations

- Economic terms and structure of rated note feeder funds are **flexible** and able to accommodate:
  - the main fund's **investment strategy, portfolio and projected cash flows**;
  - **rating agency criteria**; and
  - investor-specific **capital charge, accounting, tax and other considerations**.

Insurance and Private Credit

LEVERAGING ALTERNATIVE STRUCTURES – RATED NOTE FEEDERS



- **Reactions from sponsors of rated note feeder funds to heightened regulatory scrutiny**:
  - **Engaging investment banks** to assist with the pricing and marketing of rated notes.
  - Determining note and fund terms through **market comparisons**.
  - Conducting more **fulsome diligence** of the underlying fund assets that will support the notes.
  - Preparing more **robust and comprehensive documentation** for rated note issuances.

Insurance and Private Credit

LEVERAGING ALTERNATIVE STRUCTURES – RATED NOTE FEEDERS

Key Structuring Considerations for Rating Agencies, Fund Managers and Investors

Rating Agencies – Ratings Analysis:

- **Fund manager quality**: Track record, alignment of interest, operational stability and risk management framework.
- **Asset quality**: Credit quality, diversification, liquidity and stress testing.
- **Cash flow projections**: Accuracy of modeling, realism of assumptions and predictability.
- **Capital structure**: Debt-to-equity ratio, structural subordination and adequacy of equity cushion.
- **Debt service**: Interest rate and priority of payments.
- **Availability**: Drawdown period and maturity.
- **Security**: Strength of collateral package, enforceability of legal rights and credit and liquidity enhancements.

Fund Managers – Structuring and Operationalization:

- **Availability**: Addressing the fund's needs for flexible capital over time while complying with rating agency requirements.
- **Cash flow optimization**: Interest rate, sweeps and payment of priorities to provide flexibility while minimizing cash drag.
- **Fund terms**: Aligning capital call and drawdown mechanics, redemption rights, recycling provisions and claw-back rights.
- **Stapling**: Analyzing whether debt and equity should be stapled.

Investors – Diligence and Risk Management:

- **Market and credit analysis**: Internal analysis, third party due diligence and peer benchmarking.
- **Accounting**: Accounting and consolidation analysis.
- **Tax implications**: Treatment of rated notes, income recognition, withholding and other liabilities.
- **Contingency planning**: Processes for action in the event that the desired rating is not obtained or maintained for the notes.
- **Regulatory compliance**: Compliance with regulatory and internal policies, including investment and solvency guidelines.
- **Regulatory flexibility**: Ensuring sufficient flexibility in the fund structure to adapt to ongoing regulatory developments.

Private Credit and Liability Management

Private Credit and Liability Management

LIABILITY MANAGEMENT: MARKET TRENDS

LIABILITY MANAGEMENT

- Sharp increase in the use of "**liability management**" transactions by stressed or distressed issuers over the last several years likely to extend to private credit.

FOCUS ON RELIEF

- Issuers in distress typically seek relief in the form of some combination of:
  - **Financial covenant relief** under existing debt.
  - **Liquidity** by reducing cash outgoings (e.g., PIK interest) or an injection of additional cash (via new-money financing).
  - **Extensions of the maturities** of outstanding debt.
  - **Debt discount**.

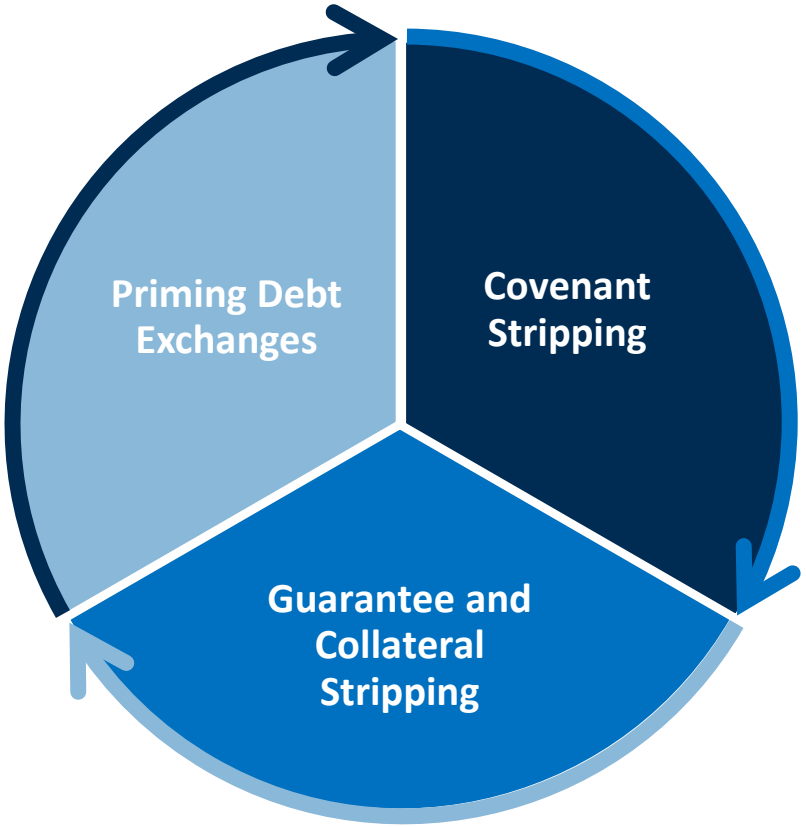
PRIMING AND OTHER TOOLS

- The issuer incurring (or at least credibly threatening to incur) "**priming**" debt – being debt that is structurally senior, or otherwise structurally advantaged – is often key to obtaining the relief sought.
- Liability management transactions are structured to utilize existing baskets and agreement mechanics, including **drop-down transactions, and priming debt exchanges**.

Private Credit and Liability Management

LIABILITY MANAGEMENT: TRANSACTION STRATEGIES

In addition to "new-money" financing for liquidity, an issuer may seek to incur priming debt to exchange existing debt **at a discount and/or with an extended maturity**.



If the requisite creditors participate in an exchange, such exchange can be **coupled with an "exit consent"** to strip the covenants for any holders that do not exchange.

An issuer may attempt to **release guarantees and/or collateral supporting debt** as a means to incur priming debt and/or incentivize creditor participation.

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LIABILITY MANAGEMENT: UPTIER AND DROP-DOWN TRANSACTION STRUCTURES

Uptier Transactions

Company and participating lenders **amend existing debt documents to issue new senior priming debt**.

Exchange is often enabled by "**exit consents**" from participating lenders to amend the existing debt.

Opportunity to participate **may not be offered to all lenders** (or, in more recent versions of this structure, may be offered to the remaining lenders only on less favorable terms), increasing the value to participating lenders.

Drop-Down Transactions

Company transfers assets away from credit group to an "**unrestricted subsidiary**" (i.e., a subsidiary not subject to the liens and claims of existing secured lenders) or a **non-guarantor restricted subsidiary** and then issues new debt secured by those assets.

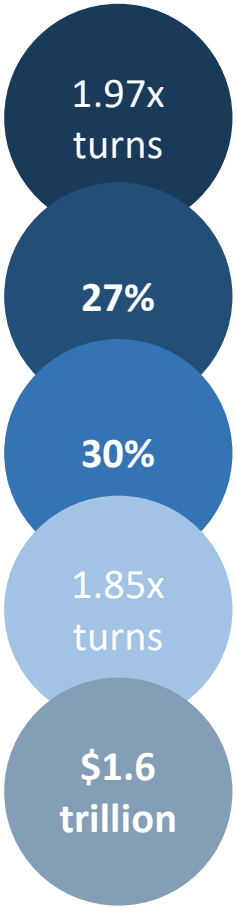
Asset transfer is often permissible under existing terms in the company's credit documents without lender consent, making **the possibility of a drop-down transaction a key source of negotiating leverage for issuers and sponsors**.

Asset transfer **may be combined with guarantees and/or intercompany loans**.

Private Credit and Liability Management

LIABILITY MANAGEMENT: COVENANT TRENDS[24]

- "**LME Blockers**", relied on by many private credit investors for protection, often contain serious flaws:
  - ***Chewy-blockers*** focus on non-wholly owned subsidiaries, but **do not cover drop downs of domestic subsidiaries** below foreign subsidiaries; can also be amended away by a majority.
  - ***J.Crew blockers*** often (i) **only cover IP**, regardless of nature of business, (ii) do **not block transfers to Non-Guarantor Restricted Subsidiaries** and (iii) cover contributions, but **not sales**; can also be amended away by a majority.
  - ***Serta blockers*** work against contractual lien or payment subordination, but **do not work against majority amendments** allowing large-scale drop downs.



Average day 1 first lien pari capacity.

Deals with first lien "pick-your-poison" (RP reallocation) debt capacity.

Deals without any anti-Serta language.

Average of day 1 UnSub Investment capacity.

Deals without J.Crew protections.

Source:
24. *2023 Annual Global Private Debt Report*, PITCHBOOK (Mar. 20, 2024).

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LIABILITY MANAGEMENT: EXPECTED TRENDS

1

Drop-Down Transactions Continuing in Private Credit

- Covenants, while generally tighter than in syndicated and bond markets, typically give some **flexibility for drop-downs**.
- May be used as **vehicle for sponsor investment** and/or for leverage in negotiations with lenders.

2

Less Ability to "Divide and Conquer" Lenders for Non-Pro Rata Uptiers in True Club Deals

- Instead, more likely to see **amendments to reset financial covenants, PIK interest or extended maturities** in return for tightening documents.
- If turnaround is unsuccessful, more likely to see **consensual turnover of equity** than bankruptcy (unless operational restructuring is needed).
- But as some private credit deals become more widely held and even trade for various reasons, **non-pro rata transactions may spread to private credit**.

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Paul, Weiss stands at the leading edge of the rapidly growing private credit industry, with extensive experience representing alternative asset managers, sponsors and investors in some of their most complex private credit matters. Our elite private credit team is multidisciplinary and led by partners with decades of experience developing creative solutions across a range of structures and transactions to meet our client's objectives, including financings, acquisitions, fund formations, new platforms and other strategic transactions utilizing private credit.

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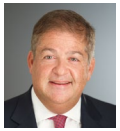
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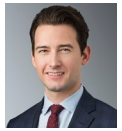
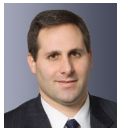
Lauren Bilzin


Brian Bolin

Timothy Cruickshank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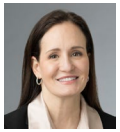
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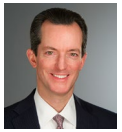
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Manuel S. Frey

Reuven Garrett

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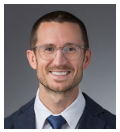
Brian Hermann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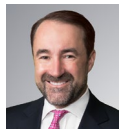
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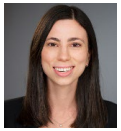
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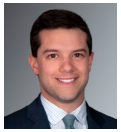
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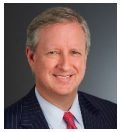
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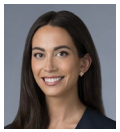
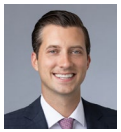

Caroline Epstein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