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Private credit direct lending FAQs

What is private credit direct lending?

Private credit direct lending refers to capital that alternative asset managers lend directly to businesses, typically with the intent of holding the loan to maturity. It is financing that exists outside of public bond markets and traditional bank lending.

Private credit has become an important part of U.S. and European capital markets. It provides financing to companies of all sizes, across a range of industries, supporting business operations, investment, and expansion. Institutional investors, including pensions, foundations, and endowments invest in private credit to diversify their investment portfolios.

How does private credit support businesses and the economy?

Private credit funds provide financing to businesses of all sizes, supporting an estimated 6.5 million jobs and nearly $900 billion in economic activity in the U.S. over the last three years.[1] Private credit complements bank lending by offering an additional source of capital to support business operations, investment, and expansion, particularly in cases where traditional bank financing is unavailable.

Who can invest in private credit?

Institutional investors - such as pension funds, insurance companies, endowments, and foundations - represent the lion's share of investment in private credit. They typically invest through private funds that aren't available to individual investors.

Retail investors can access private credit through regulated vehicles like business development companies (BDCs) and interval funds, typically via financial advisors and wealth managers who can help select investment funds for investors and explain the product and the risks of investing.

1. Based on forthcoming joint research by MFA and IMPLAN

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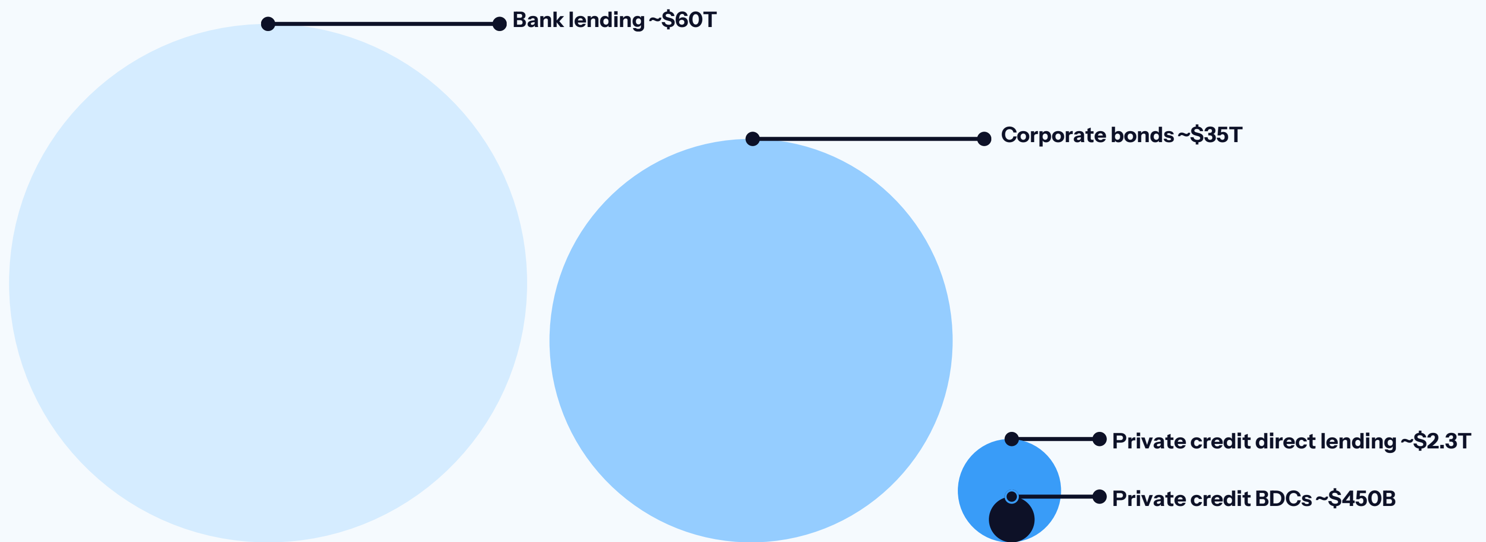
How big is private credit?

Global private credit direct lending markets are estimated to be about $2.3 trillion, a small slice of the financial system.[2] Of that, $450 billion is managed by BDCs.[3] In comparison, global bank lending and the corporate bond market are estimated to be $60 trillion[4] and $35 trillion[5] respectively.



How diversified are private credit portfolios?

Private credit funds typically lend across a range of industries and borrowers and provide a variety of different types of loans. A diversity of loans in a portfolio reduces exposure to risks affecting any single sector.

How do private credit funds protect themselves from loan defaults?

Private credit loans are often structured with protections designed to mitigate losses. These loans are often held to maturity and negotiated directly with borrowers to include covenants and other terms that provide the private credit fund with oversight and protections. Managers can also work with borrowers during periods of stress, including adjusting terms or using payment-in-kind (PIK) features—where interest is paid in additional debt rather than cash—to give companies flexibility and support repayment. Together, these features help manage credit risk across the portfolio.

2. Preqin, 2025 Global Private Debt Report, http://www.preqin.com/insights/global-reports/2025-private-debt
3. Mayer Brown, BDC Facts and Stats report, https://www.mayerbrown.com/en/insights/publications/2025/06/bdc-facts-stats
4. McKinsey & Company, 2024 Global Banking Annual Review, https://www.mckinsey.com/industries/financial-services/our-insights/global-banking-annual-review-2024
5. OECD, 2025 Global Debt Report, https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/03/global-debt-report-2025_bab6b51e/8ee42b13-en.pdf

How are private credit assets valued?

Valuation of assets that trade, such as public securities like stocks and bonds, is straightforward because fund managers can rely on daily market prices. Private credit loans, however, do not trade frequently, so fund managers must estimate the price at which the asset could be sold.

Managers may reference recent transactions in comparable investments with similar terms, rates, credit risks, and other characteristics. When market data is limited, managers estimate fair value using rigorous and established accounting standards and valuation methodologies, often with input from independent pricing experts. Common practices include estimating the value of a loan based on the cash payments it is expected to generate and assessing the quality of the collateral, including how much investors could recover if the loan defaults.

Why can't investors withdraw from private credit funds at any time?

Private credit funds limit withdrawals to protect investors from runs and forced asset sales at discount prices that can reduce the value of the portfolio.

Funds invest in loans that are illiquid and typically held to maturity. These loans often have maturities of five to seven years, although terms can vary depending on the borrower and investment strategy. Because such assets cannot be sold quickly, funds limit the frequency and size of investor withdrawals. This ensures that one investor's decision to exit does not disadvantage others who remain invested.

For private BDCs, a common private credit investment available to individual investors, withdrawal limits are usually around 5% of total assets per quarter. These limits are disclosed in advance, and are designed to align redemption rights with the liquidity of a fund's portfolio, and reflect the long-term nature of private credit investing. Investors commit capital for longer periods in exchange for the potential to earn higher expected returns, often referred to as an "illiquidity premium."

How are private credit funds and their managers regulated?

Private credit is regulated through a framework that varies based on the type of investor and fund structure. Funds offered to institutional investors are typically structured as private funds, while those available to retail investors—such as mutual funds and BDCs—are subject to more prescriptive rules.

Private credit managers are generally registered with the Securities and Exchange Commission (SEC) as investment advisers. They are subject to fiduciary duties, disclosure requirements, and routine regulatory examinations, and must report detailed information to regulators to support oversight of market risks.

Private funds are offered through private placements and are not subject to the same product-level rules as retail funds, but they must provide comprehensive disclosures to investors. By contrast, retail vehicles like mutual funds and BDCs are registered with the SEC and must comply with requirements related to diversification, leverage, and liquidity.

In addition, private credit activities may be subject to state lending laws, and banking regulators oversee banks' interactions with private credit funds as part of broader financial supervision.

Is private credit systemically risky?

Private credit does not pose a systemic risk to the financial system because funds typically use limited leverage, rely on committed capital rather than short-term funding, and do not take deposits.

Funds also limit investor redemptions to align with the illiquid nature of their underlying assets, which reduces the risk of forced asset sales during periods of stress. Any losses at a fund are borne by investors rather than transmitted through the financial system, and private credit funds are not backed by government guarantees.

Researchers and policymakers have examined private credit's potential to transmit stress and generally find limited channels for contagion. A recent Office of Financial Research (OFR) report found that counterparty exposures between private credit funds and the banking system appear limited, suggesting a lower risk of spillovers. Bank stress tests similarly found that the largest banks are well capitalized to absorb losses from private credit funds and other nonbank financial institutions.

What data is available about private credit?

Private credit funds report detailed information to regulators, including disclosures on their assets under management, borrowing and leverage, investor concentration, counterparty exposures, and liquidity characteristics. This information is shared among U.S. financial regulators, including the Financial Stability Oversight Council (FSOC), and is used to monitor market developments and assess potential financial stability risks.

Some BDCs are publicly traded and must file regular disclosures with the SEC that include loan-level data on portfolio holdings, valuations, and credit exposures. Private credit funds that are affiliated with insurance companies also make public filings with insurance regulators and the SEC.

Private credit transactions also generate public records beyond fund-level reporting. For example, secured loans typically require filings with state offices that allow other creditors to see what assets have been pledged as collateral. State insurance and lending disclosures provide additional visibility into private credit exposures.