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The Rise and Transformation of Private Credit: Opportunities and Risks

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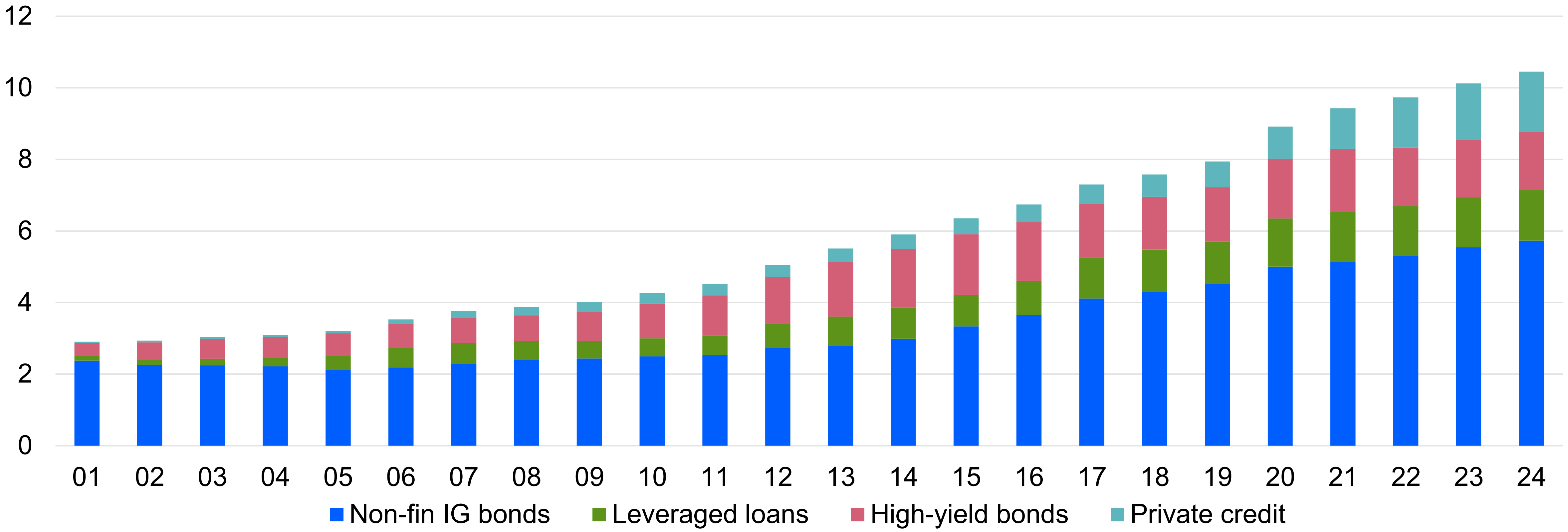
September 2025

Overview

Taking Stock of Private Credit

Nonbank Credit Is on the Rise…Led by Private Credit

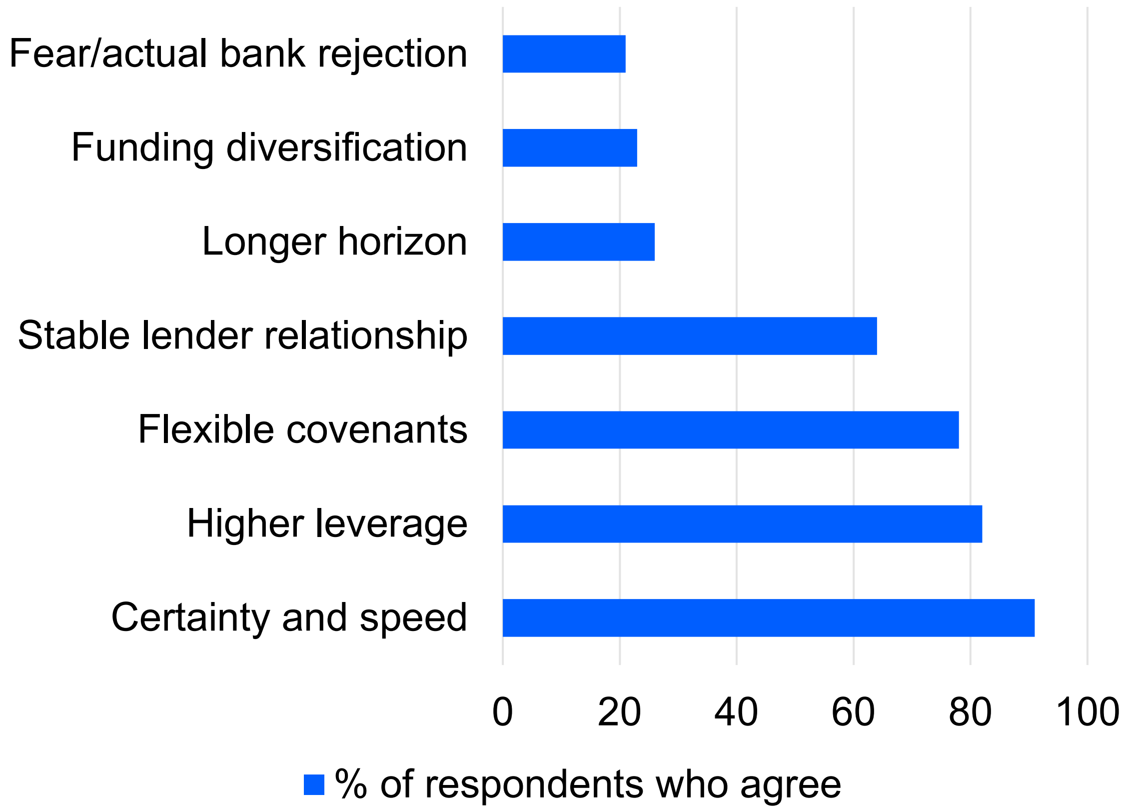
U.S. corporate debt outstanding, $ tril



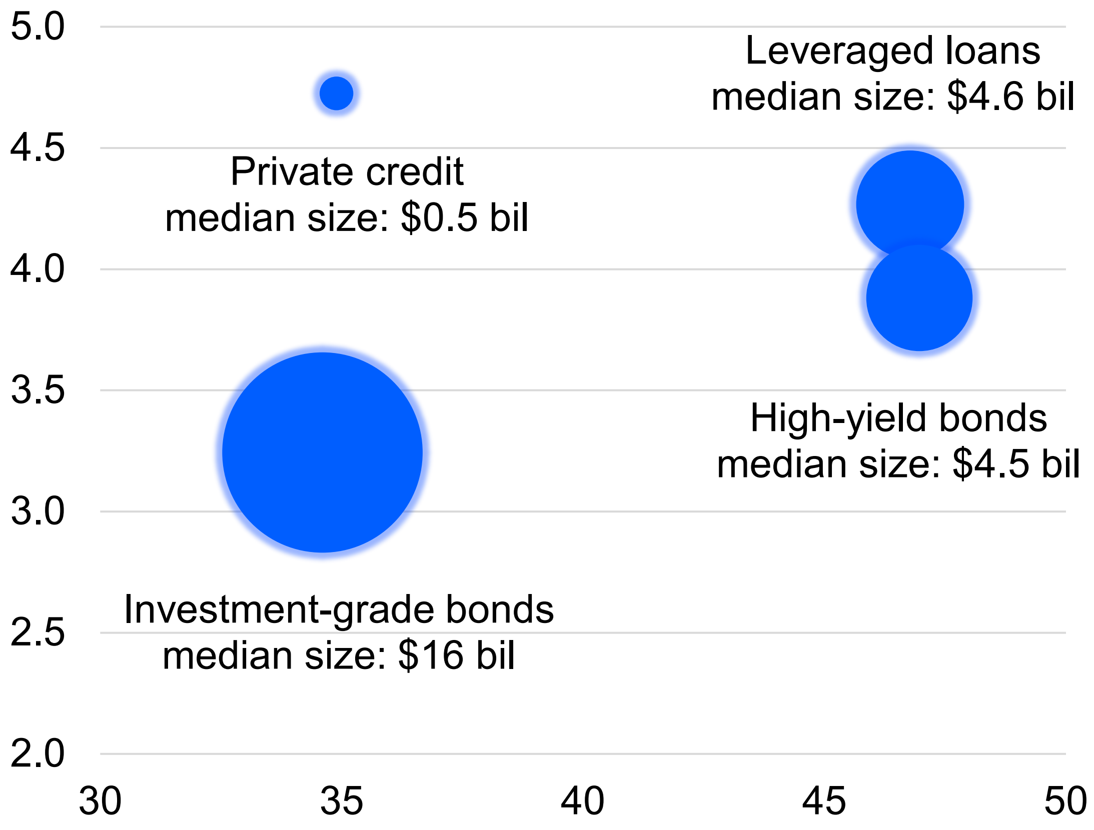
Sources: IMF, Federal Reserve, Moody's Analytics

Private Credit's Borrower-Friendly Structure Means Higher Returns & Risks

U.S. borrower reasons to prefer private over bank loan



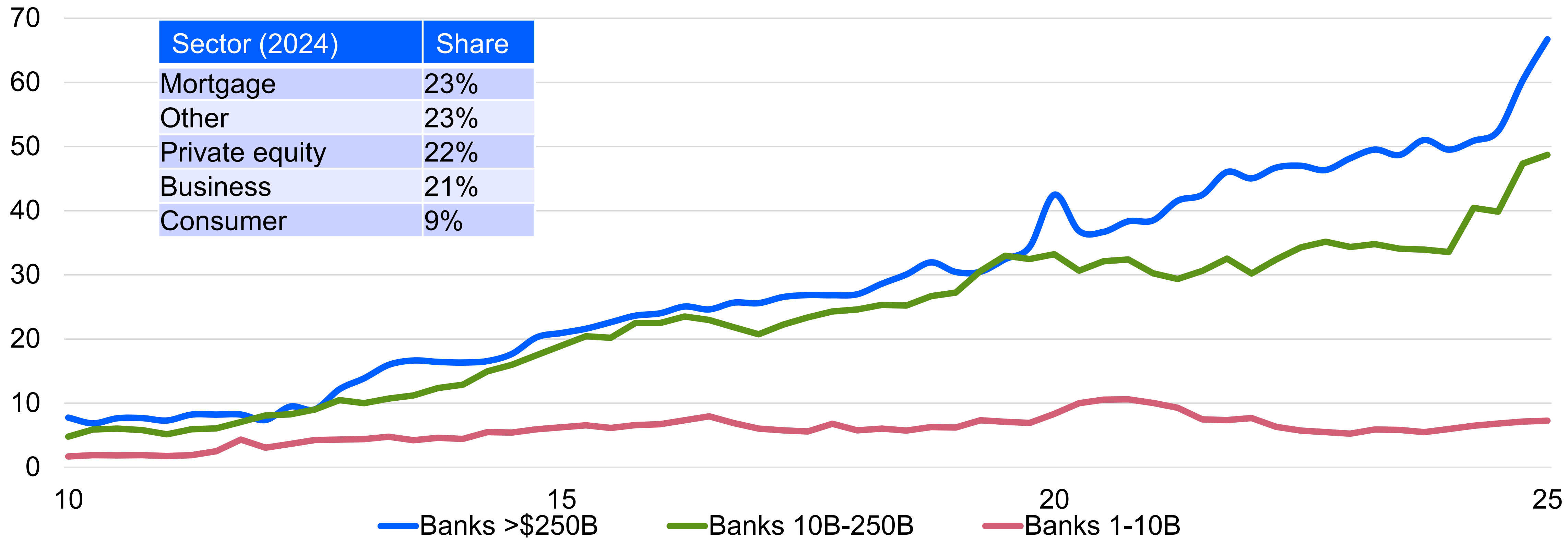
X-axis: Debt-to-asset ratio, %; Y-axis: Debt-to-EBITDA ratio



Sources: Univ. of Chicago, IMF, Moody's Analytics

Growing Banking Exposures to Private Assets

Bank lending to non-depository financial institutions, % of tier 1 capital

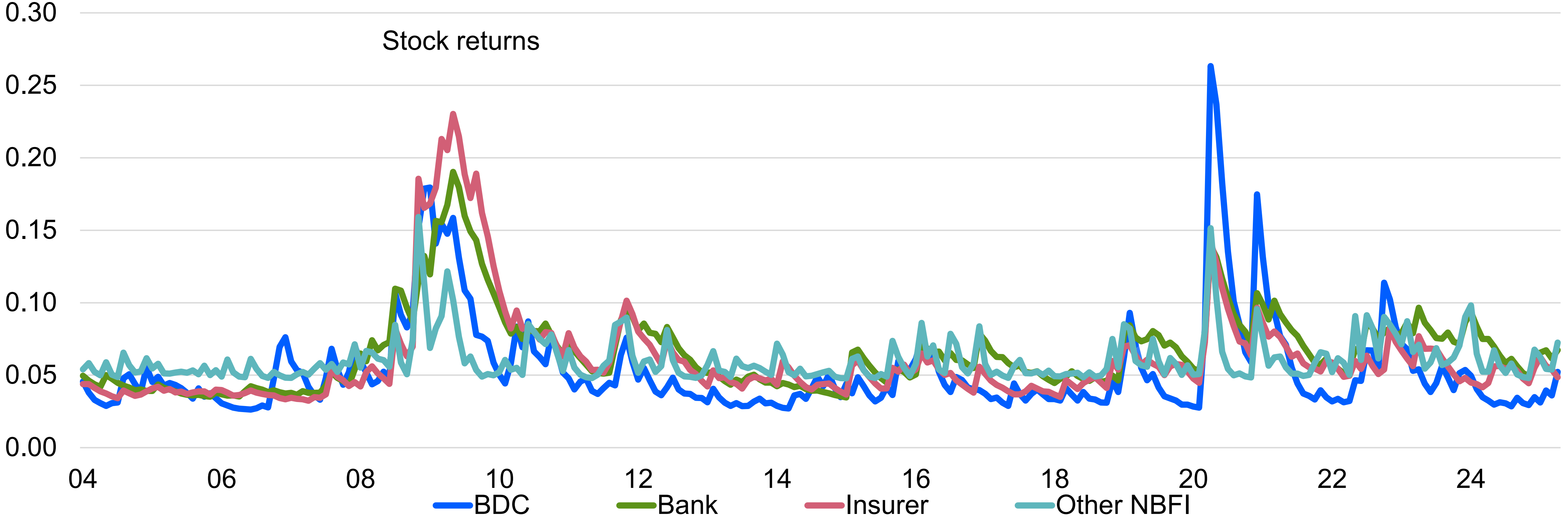


Sector (2024)	Share
Mortgage	23%
Other	23%
Private equity	22%
Business	21%
Consumer	9%

Sources: FDIC, Moody's Analytics

BDC Volatility Shocks More Prominent in COVID-19 Than GFC

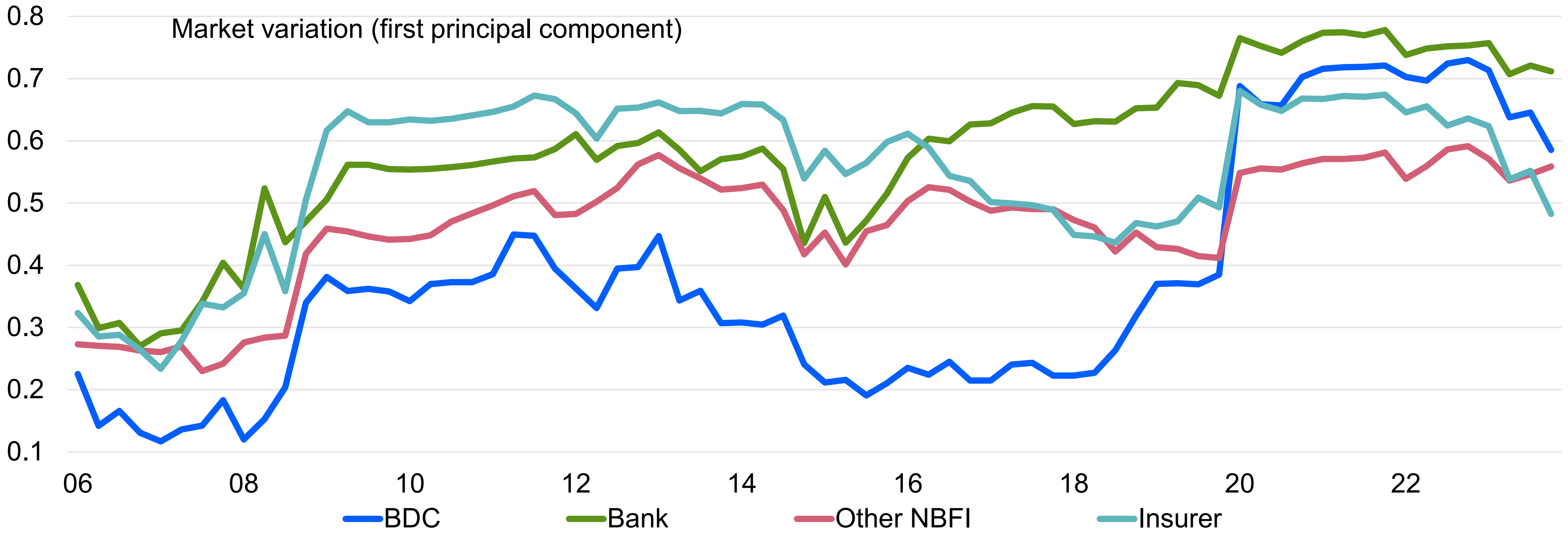
Sector-specific variance in stock returns, based on GARCH (1,1)



Source: Moody’s Analytics

BDCs Increasingly Linked to Market Risks

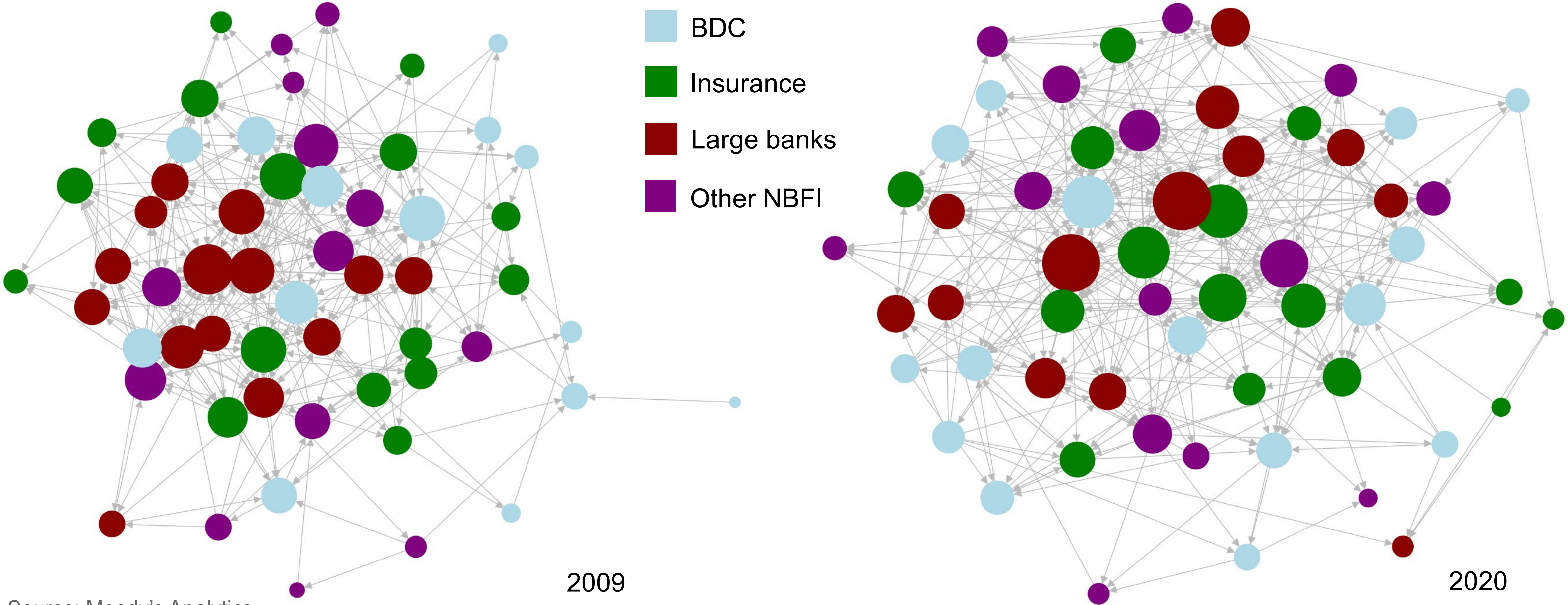
Avg share of company stock return variance in each sector explained by market variation



Source: Moody's Analytics

Banks Have Become Less Dominant Players Since the GFC

Granger networks of 60 financial institutions, size of node=degree of forcing connections



Source: Moody's Analytics

Transparency and Measurement

Stark Differences in Credit Risk Exist Across US borrowers

Loan-financed, smaller companies have much higher credit risk relative to larger bond issuers

Data source: Moody's EDF-X.

What’s the Risk in Private Credit?

There’s no standard market measure of default risk in private credit, but we can infer trends

Distressed exchanges as a share of all credit events have materially increased over the past 25 years.

When distressed exchanges are stripped out, the current credit environment looks much more benign.

* 2025 YTD annualized

Data source: Moody’s Ratings.

When is a Default Not a Default? PIK Your Poison

Example: Modivcare

Modivcare's PD quadrupled before it began to PIK. Following PIK, the value of its loan fell from 83 to 55.

Bankruptcy

Signs of emerging distress started as early as June 2023, more than two years before its bankruptcy filing.

Bankruptcy

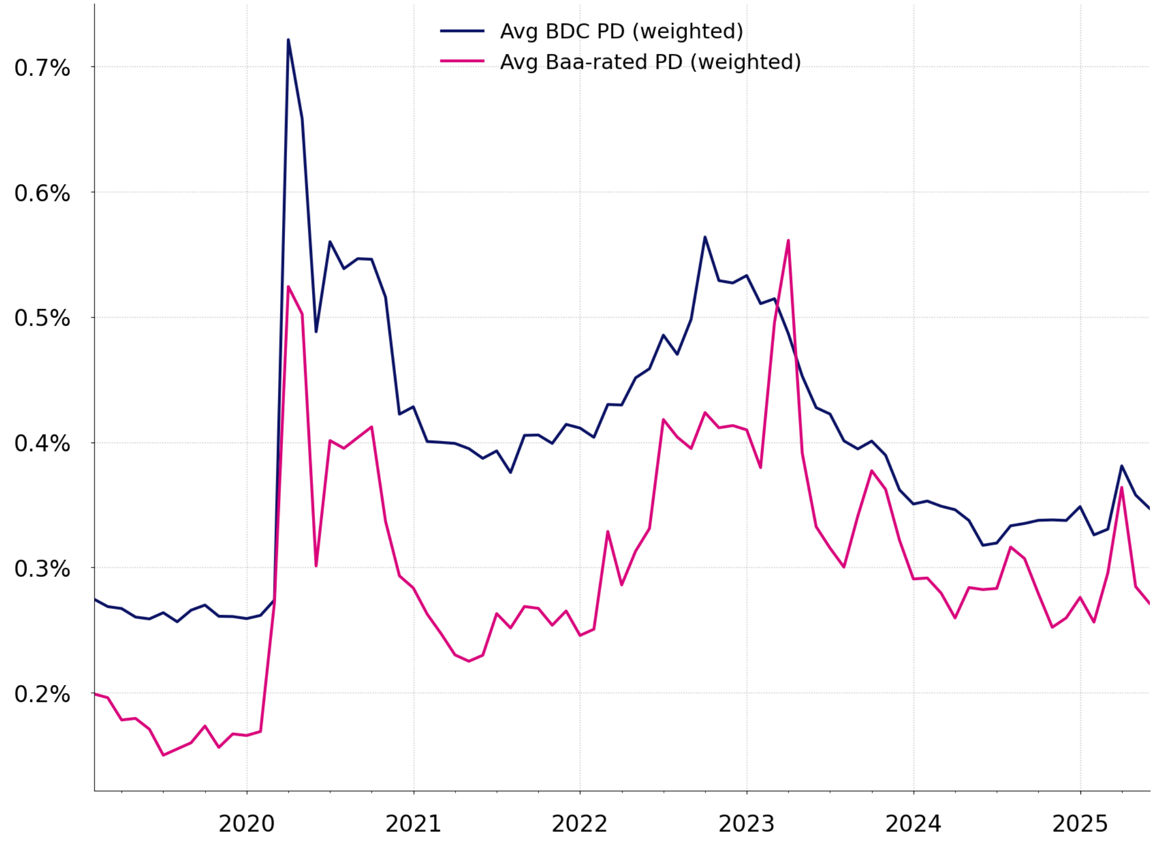
June 2023 PD exceeds early warning trigger level

Data source: EDF-X, Markit.

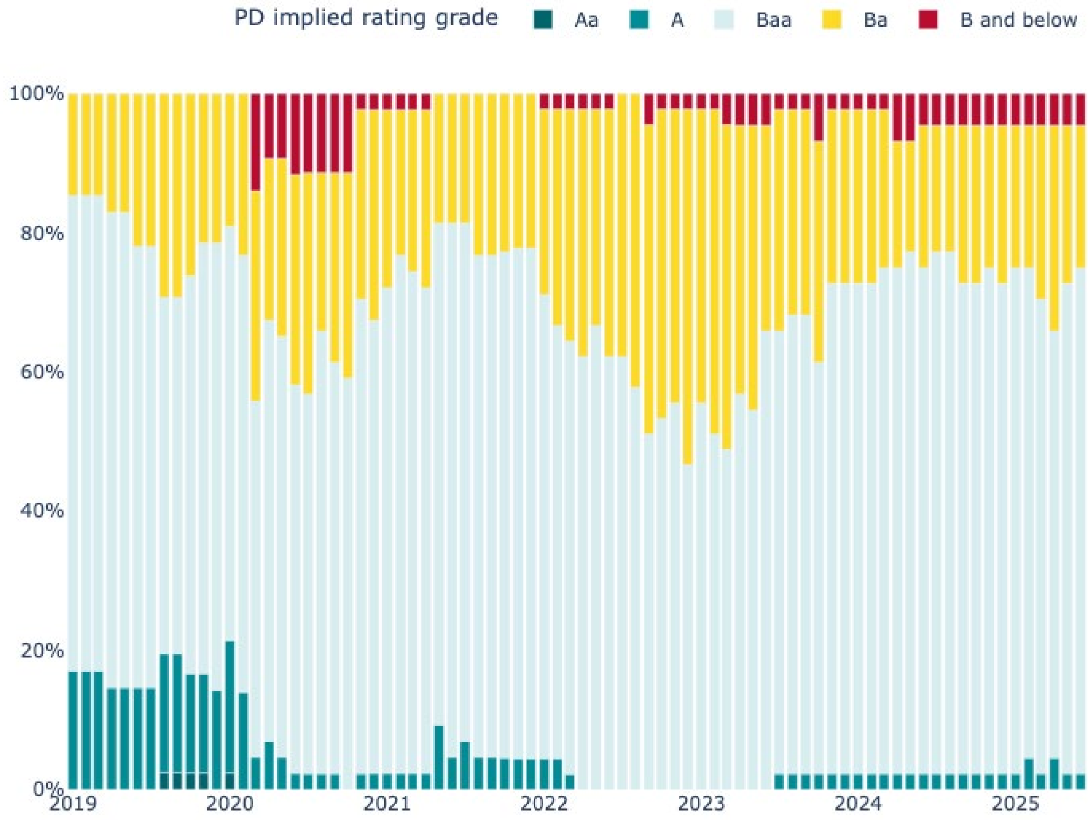
BDCs have Generally Performed in Line with Expectations

Average PDs and PD-implied ratings for BDCs compare favorably to Baa corporates

Weighted average PD for 47 public BDCs vs. average PD for Baa-rated public companies.



Distribution of PD-implied ratings for 47 public BDCs, monthly

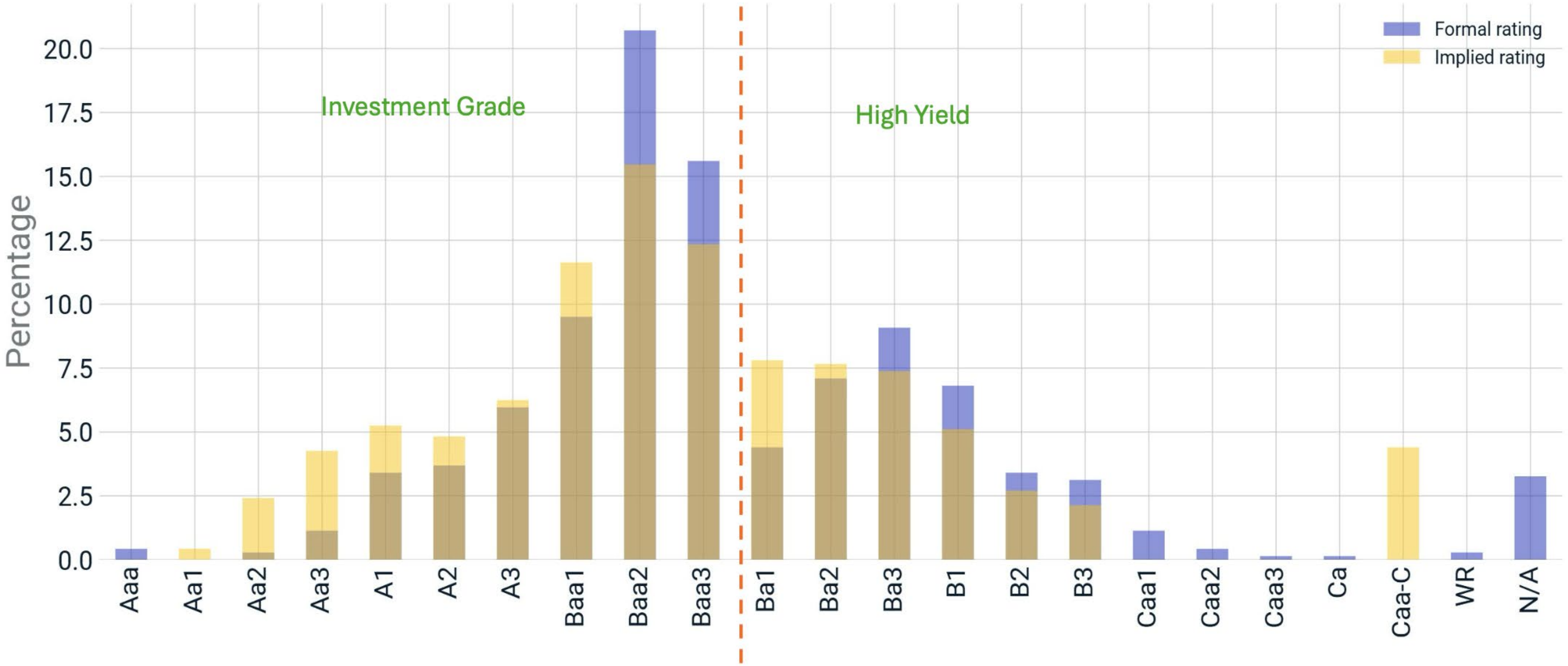


Data source: Moody's EDF-X. The average PDs represent the 12-month ahead expected probability of default.

Private Credit Market is Demanding More Transparency

EDF-X probability of default, converted to rating equivalent

- → PD-implied ratings map a borrower's EDF-X PD to Moody's Ratings' scale using a calibrated mapping table.
- → EDF-X risk measures were assessed in a proof-of-concept for an institution's actual portfolio exposures using their private data.
- → The histograms show the distributions of EDF-X PD-implied ratings compared to internal rating assessments for 657 private credit borrowers.

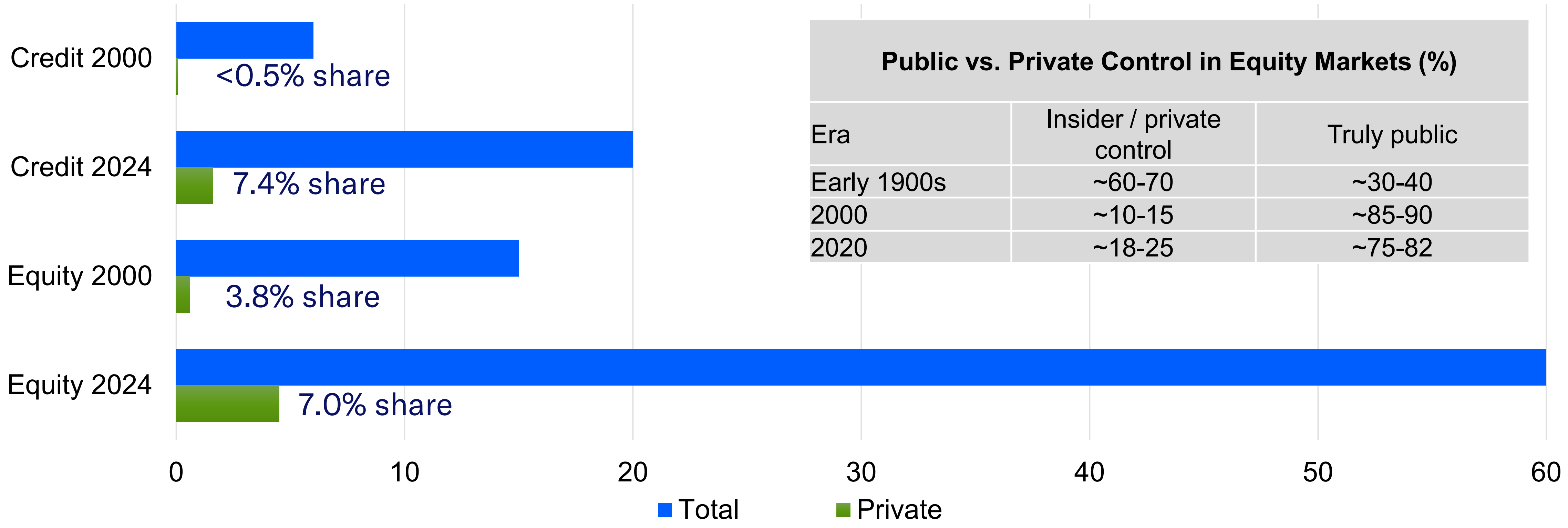


Data source: Moody's EDF-X.

Transformation and Evolving Risks

The Private Movement Has Made Inroads on Public Markets

Estimated U.S. outstanding amounts, $ tril



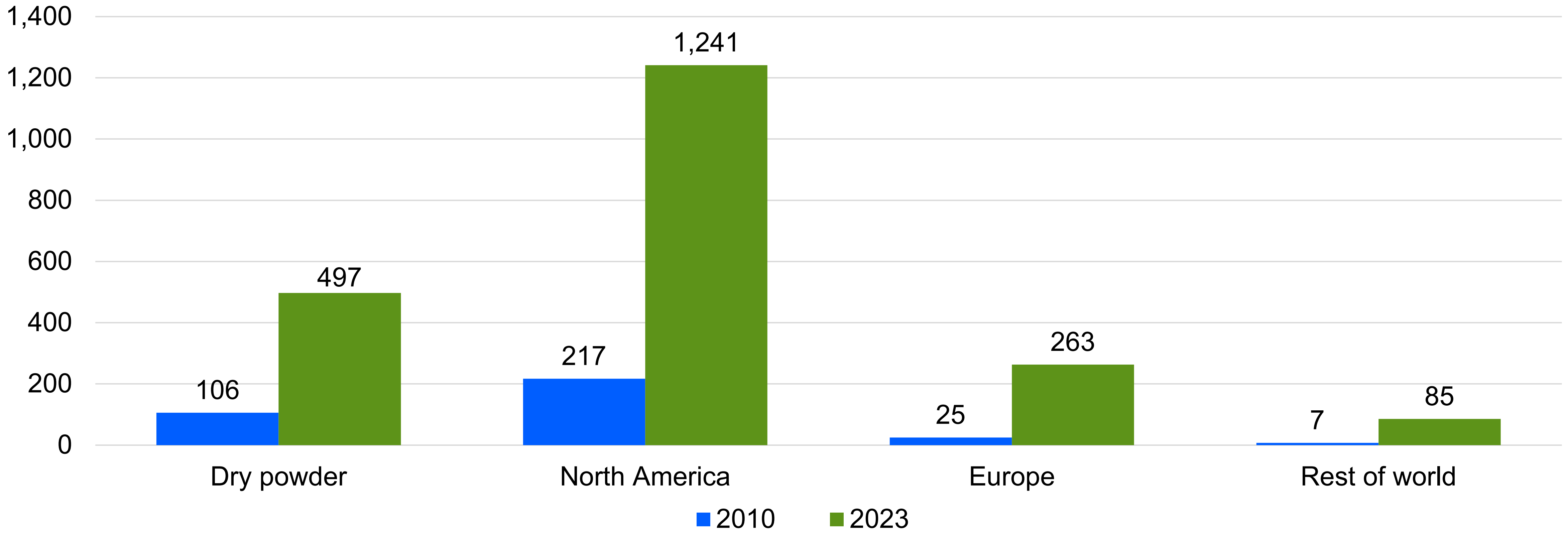
Public vs. Private Control in Equity Markets (%)

Era	Insider / private control	Truly public
Early 1900s	~60-70	~30-40
2000	~10-15	~85-90
2020	~18-25	~75-82

Sources: Federal Reserve, Moody’s Analytics

The Business Model Must Evolve to Continue Rapid Growth

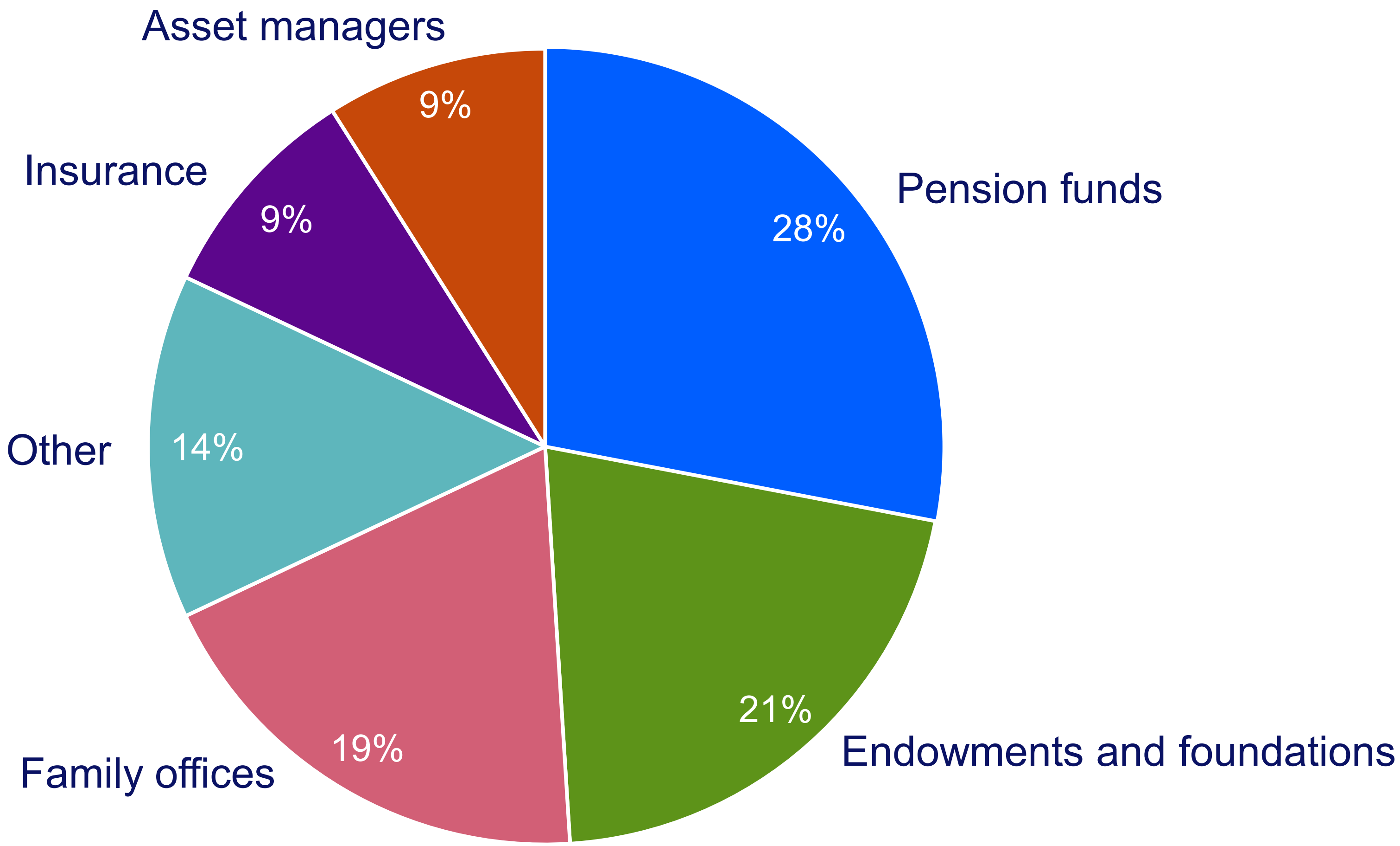
Funds managed by private credit outstanding, $ bil



Sources: IMF, Moody's Analytics

Patient Long-term Capital Remains a Key Source of Private Credit Funding

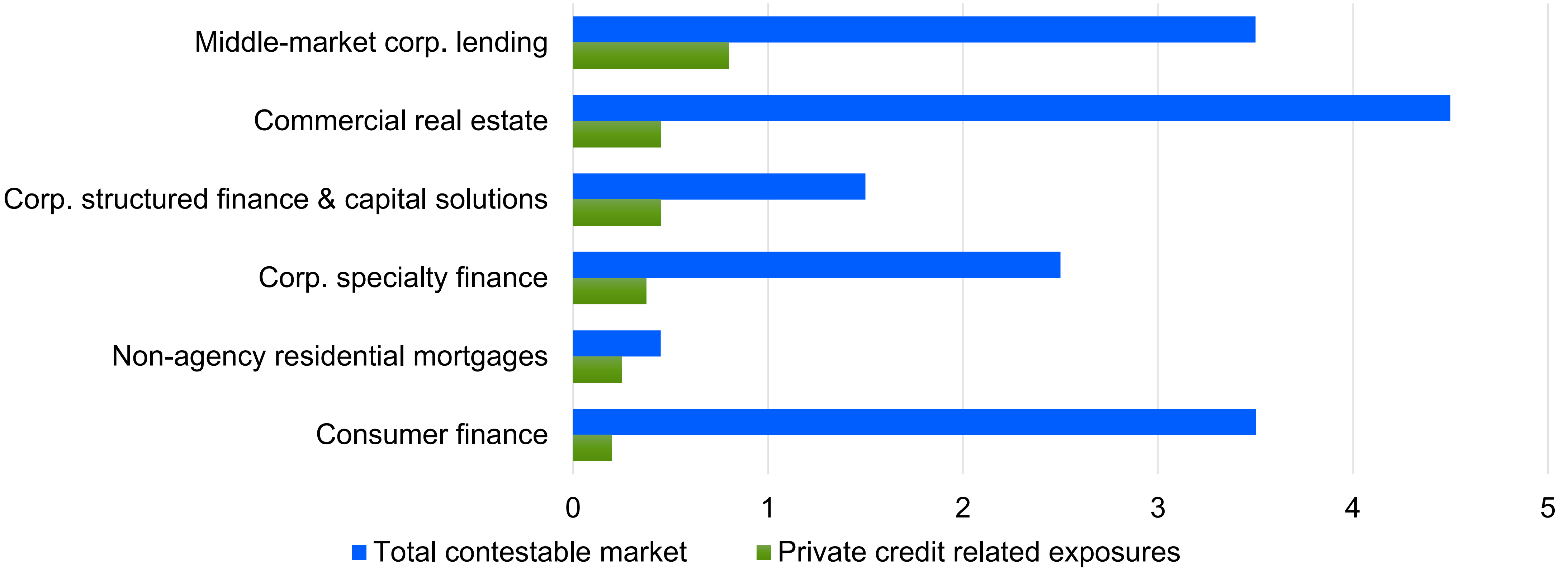
Investors in U.S. private credit funds, 2022, % of total



Sources: Brookings, IMF, Moody's Analytics

Private Credit Eyes Opportunities Across Corporate and Retail Debt Markets

Estimated U.S. outstanding amounts, $ tril



Sources: Moody's Ratings, Oliver Wyman, Federal Reserve, Moody's Analytics

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Thank you

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