SAFEKEEPING PRIVATE CREDIT

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What are Private Credits?

Private credit refers to loans made by non-bank institutions (such as private equity firms, asset managers, or specialized credit funds) to companies that typically do not have access to traditional bank financing or public debt markets. These borrowers are often small to mid-sized businesses, highly leveraged, or operating in niche sectors

Unlike public debt (like bonds), private credit is not traded on public markets. Instead, it is negotiated directly between lender and borrower, offering more flexibility in terms and structure.

Types of Private Credit

TYPES	WHAT IS IT	AVERAGE TRANSACTIONS PER FUND
1. Direct Lending	Loans made directly to mid-sized or private companies, often senior secured.	**15–30 deals**
2. Mezzanine Debt	Subordinated debt that sits between senior debt and equity.	**5–15 deals**
3. Distressed Debt	Buying debt of companies in financial distress, often at a discount.	**5–10 deals**
4. Special Situations	Opportunistic lending in complex or transitional scenarios (e.g., litigation, spin-offs, regulatory changes).	**5–12 deals**
5. Venture Debt	Loans to early-stage, high-growth companies (often backed by VCs).	**10–25 deals**

Types of Private Credit

TYPES	WHAT IS IT	AVERAGE TRANSACTIONS PER FUND
6. Consumer Loans	Are typically originated through platforms or funds that use automated underwriting and data-driven models, allowing for high transaction volumes per fund. These can include: • Personal loans • Buy-now-pay-later (BNPL) • Credit card receivables • Auto loans	**100–10,000+ loans**
7. Real Estate Debt	Private loans secured by commercial or residential real estate.	**10–20 deals**
8. Infrastructure Debt	Lending to infrastructure projects (e.g., energy, transport).	**3–8 deals**
9. Syndicated Loans	Are typically arranged by one or more lead lenders (arrangers) and then sold to a group of institutional investors or banks.	**10–50+ deals**

Private Credit Process

1. Origination

Borrower: A private or mid-market company seeks financing (e.g., for growth, acquisition, or refinancing).

Sponsor (optional): Often a private equity firm backing the borrower.

Originator: A private credit fund or direct lending platform identifies the opportunity and begins structuring the deal.

2. Underwriting & Due Diligence

The lender conducts **financial, legal, and operational due diligence**.

Risk is assessed, and loan terms are finalized (interest rate, covenants, collateral, etc.).

3. Funding & Closing

The loan is funded by the private credit fund or a syndicate of lenders.

Funds are transferred to the borrower upon closing.

4. Loan Servicing & Monitoring

The lender or a third-party servicer manages the loan post-closing.

Regular monitoring of financial performance, covenant compliance, and reporting

5. Amendments, Restructuring, or Exit

If the borrower underperforms, the loan may be restructured.

Exit options include:

- Full repayment at maturity
- Refinancing
- Sale of the loan
- Equity conversion (in mezzanine or distressed cases)

Servicers involved in Private Credit

Origination

•**Financial Advisors**: Help structure the deal and advise the borrower.
•**Legal Counsel**: Drafts term sheets and loan agreements.
•**Credit Rating Agencies** (optional): May assess creditworthiness

Underwriting & Due Diligence

•**Due Diligence Firms**: Provide financial, legal, tax, and ESG assessments.
•**Valuation Experts**: Assess collateral or enterprise value.
•**Insurance Providers**: May offer credit insurance or collateral protection.

Funding & Closing

•**Fund Administrators**: Manage capital calls and disbursements.
•**Custodian/Depositary Banks**: Hold and transfer funds securely.
•**Escrow Agents**: May hold funds temporarily during closing.

Loan Servicing & Monitoring

•**Loan Servicers**: Handle payments, interest calculations, and reporting.
•**Trustees** (if structured): Represent lender interests in syndicated deals.
•**Auditors**: Review borrower financials and fund performance.

Amendments, Restructuring or Exit

•**Restructuring Advisors**: Help renegotiate terms.
•**Legal Counsel**: Drafts amendments or enforcement actions.
•**Secondary Market Brokers**: Facilitate loan sales if needed.

Challenges in Private Credit from a Depositary perspective

Key Challenges	To consider
Investment Structures	• Types of debt: Syndicated, Bilateral, Consumer loans, Securitized loans, etc • Use of delegates (loan agent or platform)
Look through requirements	• Definition of control • Considering the SPVs and parallel vehicles • Definition of the investment objectives • Alignment with the IFMs
Ownership Verification	• Use of the risk-based approach (reliance and/or reperformance) • Consider the control at time of investment • Consider the ownership and existence check once a year (notices versus circularization letters)
Investment Documentation	• Agreeing with IFM/Delegates on the flow of information • Review of the loan documents (for example loan agreements, notices and security agreements)
Depositary Asset Register	• Completeness of the Depositary Asset register