

# Measuring Counterparty Exposures to Private Credit

By Ted Berg and Jung Hoon Lee

Private credit has expanded significantly over the past decade, forging important interconnections with traditional financial institutions.

Counterparty exposures generally originate through two primary channels: (1) entities that extend debt financing to private credit funds and (2) private fund limited partners that provide equity capital and commit to future capital contributions. This brief outlines methodologies for identifying private credit funds and offers estimates of the magnitude of counterparty exposures. Based on observed data, we estimate the size of the two exposure channels to range from \$410 to \$540 billion for those entities that extend debt financing and \$300 billion for the capital commitments of limited partners.

Private credit funds play a vital role in credit intermediation, particularly for small and midsize companies unable to access bank loans and public credit markets like those for bonds and broadly syndicated loans. Private credit funds, which originate loans and hold them to maturity, work closely with borrowers to monitor credit quality and aim to provide funding flexibility during periods of market stress, which helps mitigate bankruptcy risk.

While many private credit funds operate with little or no leverage, a subset uses debt financing to meet working capital needs and enhance investment returns. This financing is sourced from regulated banks and nonbank financial institutions. Quantifying the size of these counterparty exposures is important because of the potential for spillover into the banking system and broader financial markets if leveraged private credit funds default on their obligations. Such defaults could transmit stress

to lenders and amplify systemic risk during times of market distress.

Recent cracks have emerged in the broader corporate credit market, including broadly syndicated loans and asset-backed securities, during a period when credit spreads are near historical lows. In September 2025, First Brands Group and Tricolor were reportedly tied to alleged fraudulent activities, and both filed for bankruptcy. Several of the largest banks and institutional investors, including some business development companies (BDCs), were creditors to First Brands Group.<sup>1</sup> More recently in February 2026, a selloff in software loans amid the threat of artificial intelligence disrupting business models has adversely impacted the broadly syndicated loan and private credit markets. While these losses may ultimately be isolated incidents, they raise broader concerns about loan credit quality including within private credit portfolios where policymakers have less transparency.

## What is Private Credit?

Private credit is traditionally defined as nonbank lending to small and midsize businesses that are rated below investment grade. Also, this analysis considers lending to real estate development projects, infrastructure projects, and structured credit products. Private credit is a subset of the larger corporate credit market alongside broadly syndicated loans, bank commercial and industrial (C&I) loans, and corporate bonds. U.S. private credit lenders primarily consist of private funds and BDCs, both of which represent investment vehicles that originate private loans. Private funds are typically marketed to institutional and accredited investors while BDCs are investment funds that are marketed to institutional, accredited and retail investors and have public U.S. Securities and Exchange Commission (SEC) reporting requirements.

The private credit market has grown substantially over the past decade. In fact, when the SEC adopted Form PF for private fund reporting in 2011, private credit was not included as a distinct investment strategy category on the form. According to Preqin, assets under management (AUM) for domestic private credit funds have more than tripled in the last decade, representing a 14% compounded annual growth rate. As of year-end 2024, the U.S. private credit market, including BDCs, exceeds \$1.6 trillion.<sup>2</sup> This amount is larger than traditional domestic corporate credit markets for broadly syndicated loans and high-yield corporate bonds.

Private credit fund strategies vary, some use leverage while many others use minimal or no borrowed capital. This conservative stance helps manage risk and maintain flexibility in volatile markets. For those funds that actively employ debt financing, their funding is typically from regulated entities, such as banks and nonbank financial institutions. Loans to private credit funds are often significantly overcollateralized to account for the riskiness in the underlying portfolio loans which serve as collateral.

## Identifying Private Credit Funds

Identifying private credit funds in regulatory data is challenging.<sup>3</sup> Traditionally, identifying private funds

relies on a combination of commercial databases (Pitchbook and Preqin) and keyword searches within confidential regulatory filings like Form PF and Y-14.<sup>4</sup> To expand this identification methodology, we manually examined public pension fund filings, specifically annual comprehensive financial reports. Within these reports, some pension plans disclosed their individual private fund investments along with strategy classifications. We identified fund names explicitly categorized as private credit and cross-referenced them against Form PF and Y-14 for matches. We also analyzed insurer statutory filings, which offered a more structured data source.<sup>5</sup> Finally, we used commercial databases to identify BDCs.

Our analysis revealed that pension and insurer filings capture some large private credit funds that are notably absent from commercial databases. These prominent funds with well-established market reputations are less likely to list themselves in commercial databases typically used by consultants and institutional investors for fund discovery and due diligence.

In total, we identified over 2,000 private credit funds that submitted Form PF filings for year-end 2024. Similarly, we identified 551 private credit funds and 147 BDC borrowers in Y-14. However, conflicting classifications between regulatory sources and commercial databases created ambiguity regarding the appropriate categorization of some private credit funds. In other cases, different regulatory sources contained conflicting information.<sup>6</sup> Finally, some entities identified as private credit funds appear to invest in multiple asset classes, creating further classification challenges.

## Counterparty Exposures

Private credit funds create counterparty exposures through two primary channels: (1) entities that extend debt financing to private credit funds and (2) private fund limited partners that provide equity capital and commit to future capital contributions. Our analysis focuses predominantly on lending exposures given the unique lending data available in Form PF and Y-14.<sup>7</sup>

**Figure 1. Studies of the Private Credit Counterparty Exposure**

Reference	Committed (\$ billions)	Drawn (\$ billions)	Period	Notes
Moody's	525	N/A	2023	Global survey of 32 banks
Call reports	400	264	2024	Business credit intermediaries
Temple/Penn State researchers	372	N/A	2023	Includes BDCs
Federal Reserve FSR	200	N/A	2021	Excludes BDCs
Federal Reserve study	95	56	2024	Includes BDCs

Source: SEC Form PF, Y-14, Moody's, Temple University/the Pennsylvania State University, Federal Reserve.

## Lender Counterparty Exposures

Various studies have addressed counterparty lending exposures to private credit, with estimates varying from under \$100 billion to over \$500 billion (see **Figure 1**).<sup>8</sup>

This brief relies on two confidential regulatory data sources, SEC Form PF and Federal Reserve Y-14, to evaluate this exposure channel. Form PF captures borrowings by private credit funds from banks and nonbanks, including foreign lenders. In contrast, Y-14 data reflects lending by only the largest banks subject to Federal Reserve stress testing. Despite capturing the largest U.S. banks, foreign banks are less represented. Additionally, Y-14 includes borrowings by both private funds and BDCs while Form PF only captures private funds (BDCs are not covered under Form PF). The OFR's access to both datasets enables a more holistic and unique window into private credit.<sup>9</sup>

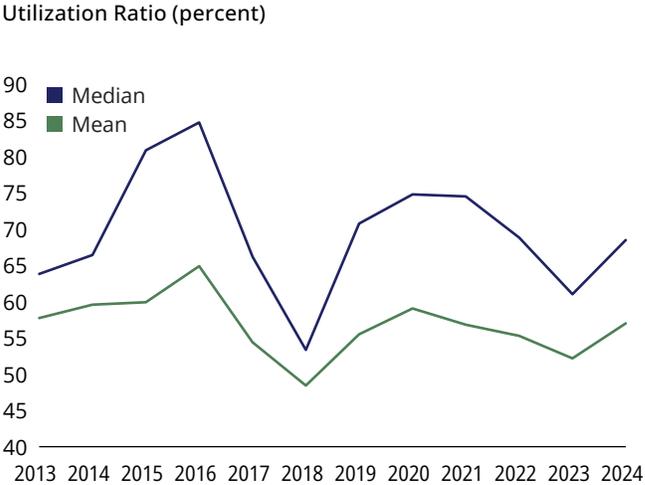
Form PF requires private funds to report three critical financial metrics: gross assets, net assets, and borrowings. For funds that we identified as private credit strategies, reported borrowings totaled approximately \$215 billion as of year-end 2024.<sup>10</sup> However, our analysis reveals potential underreporting of borrowings because, oftentimes, the difference between gross and net assets substantially exceeds reported borrowings.

When adjusting for these discrepancies, private credit fund borrowing could be as high as \$345 billion. This figure should be interpreted with caution, however, as the difference between gross and net assets may include non-interest-bearing liabilities.<sup>11</sup> Nevertheless,

our analysis of fund-level data indicates that reported borrowings by some private credit funds may underestimate leverage.

Y-14 data provides an alternative perspective. As of year-end 2024, the Y-14 participating banks report committed exposures to private credit obligors of \$123 billion, including \$30 billion to BDCs. These exposures are a small share of the aggregate Tier 1 capital of over \$1.6 trillion held by these same banks. Of the amount committed, \$74 billion, including \$16 billion to BDCs, was utilized, representing less than 5% of total C&I loans outstanding across the commercial banks in this sample. Historically, the utilization ratio has fluctuated between 50% and 65% (see **Figure 2**).

**Figure 2: Utilization Ratio on Bank Loans to Private Credit Funds and BDCs**



Note: Data as of year-end 2024. Drawn amounts divided by commitment amounts.

Sources: FR Y-14, Authors' analysis.

Actual BDC borrowings are much larger than the estimated amounts from Y-14 data noted above for at least two reasons. First, it's challenging to capture the entirety of bank lending to BDCs due to the diversity of BDC-obligator names in Y-14 data. Specifically, many BDCs use special purpose vehicles (SPVs) to borrow from banks. A given BDC may have several SPVs with each one dedicated to a specific bank lender. The methodology we described earlier for identifying private credit obligors in Y-14 data omits borrowings via SPVs. Second, BDCs also borrow from nonbank lenders. For example, many BDCs issue both bonds and notes payable to nonbank institutional investors. These borrowings, as well as those from banks, are captured in BDCs' SEC 10-Q and 10-K filings. Based on these filings, we estimate aggregate BDC borrowing from both banks and nonbanks of approximately \$195 billion as of year-end 2024.

To arrive at a comprehensive estimate of total lending to the U.S. private credit funds, we combine the lower and upper bounds of Form PF estimated borrowings (\$215-\$345 billion) with BDC borrowings from 10-Q and 10-K filings (\$195 billion). These estimates are additive because BDCs are not covered under Form PF. This results in an overall estimate of bank and nonbank lending exposures to private credit of approximately \$410 to \$540 billion.

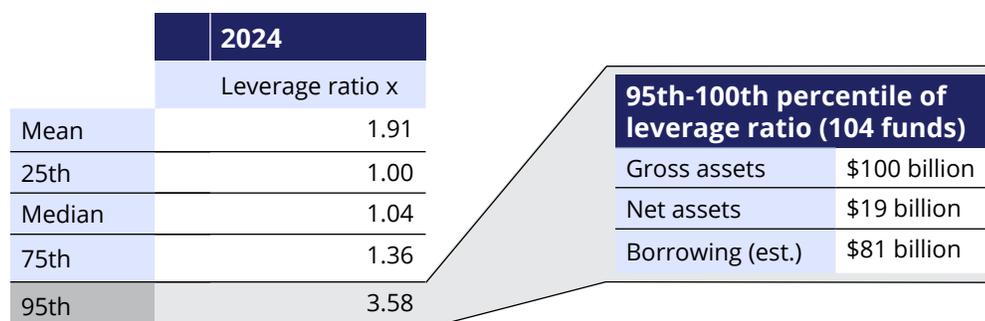
We next analyze leverage specifically among private funds using Form PF data. Unlike the aggregate

borrowing estimates above, this analysis excludes BDCs, which are not covered under Form PF reporting requirements. Our analysis reveals that most private credit funds employ minimal leverage. The median leverage ratio (gross assets divided by net assets) across our sample is approximately 1.0, which effectively indicates no leverage.<sup>12</sup> A comprehensive leverage analysis would ideally account for specific investment strategies, such as direct lending, mezzanine, and distressed debt, as leverage varies considerably across strategies. However, such granular classification was not feasible for this study. While larger funds generally employ more leverage than their smaller counterparts, the median leverage ratio across size cohorts appears modest.

Nevertheless, our analysis identified notable private fund outliers. The leverage ratio at the 95th percentile exceeds 3.5 (see **Figure 3**), with the right tail (95th percentile and higher) representing \$81 billion in borrowing, or approximately 23% of estimated private credit fund borrowing in Form PF. Most of the funds in this cohort are relatively small, though, three rank among the largest funds by gross assets. Despite these outliers, our assessment suggests that leverage risk overall appears limited.

We next analyze the creditor composition of private funds using Form PF data. U.S. financial institutions provide approximately 80% of all lending to private credit funds (see **Figure 4a**). This concentration highlights the interconnectedness between traditional

**Figure 3: Private Funds - Private Credit Fund Leverage**

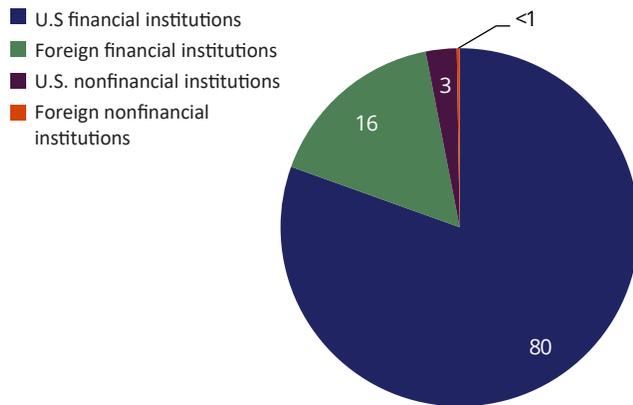


Note: Based on 2024 filings, Form PF Questions 8 and 9. Leverage ratio is gross assets divided by net assets; a leverage ratio of one reflects equivalence between gross and net assets (i.e., no leverage). Gross assets, net assets, and borrowing for the 95th-100th percentile cohort represent sums across all funds in this cohort.

Sources: SEC Form PF, Authors' analysis.

## Figures 4a and 4b: Private Funds - Private Credit Lending Counterparties

Lending to Private Credit by Creditor Location in 2024 (percent)



Note: Data as of year-end 2024. Sample includes approximately 850 private funds excluding middle market CLOs.

Sources: SEC Form PF questions 12 and 43, Authors' analysis.

domestic financial institutions and the private credit ecosystem.

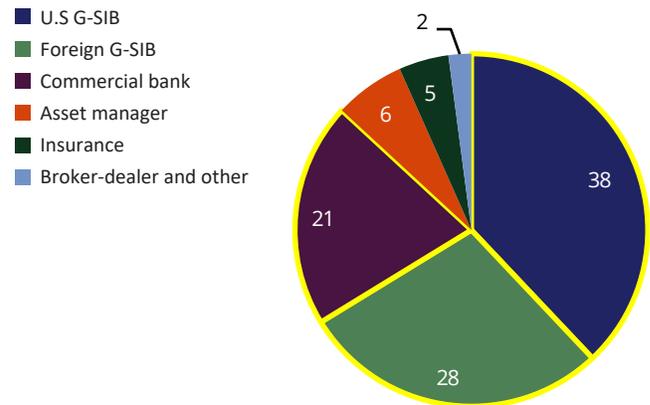
A subset of private funds provides more detailed counterparty information in their Form PF filings that include specific creditor identities and amounts borrowed from each. Analysis of this more granular dataset reveals that global systemically important banks (G-SIBs) and other banking institutions (see **Figure 4b**) constitute the predominant funding sources for private credit funds.

### Investor Counterparty Exposures

Limited partners (LPs) in private funds represent a second counterparty exposure channel. The primary investors in private credit funds include pension funds, other investment funds, and insurance companies (see **Figure 5a**).<sup>13</sup> Even when private credit funds have no leverage or maintain conservative leverage profiles, risk may be amplified through these LP relationships in at least two distinct ways.

First, investment losses in private credit portfolios flow directly to LPs, some of which operate with leverage themselves. During market downturns,

Lending to Private Credit by Creditor Type in 2024 (percent)



Note: Data as of year-end 2024. Above reflects only Qualifying Hedge Funds (QHF) identified as private credit funds; there are 109 QHFs in this sample. Most private credit funds are not QHFs and, thus, do not submit counterparty information. Counterparty subtypes are not reported in Form PF; these were categorized by OFR staff.

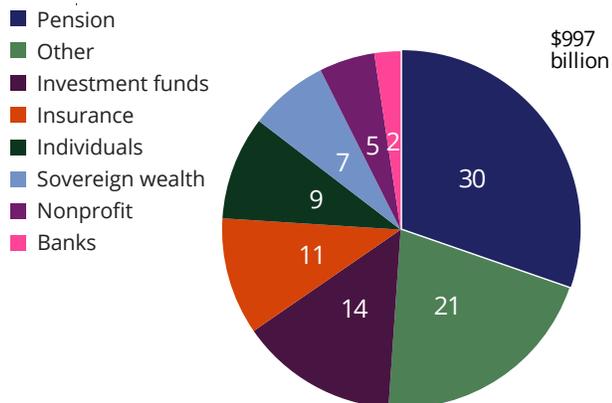
Sources: SEC Form PF question 47, Authors' analysis.

leveraged LPs facing losses might be forced to liquidate unrelated assets to meet their own obligations, potentially triggering broader financial contagion. While a secondary market exists for trading LP interests in private funds, such transactions would likely occur at substantial discounts to fund net asset values during periods of market stress.

Second, the capital call structure inherent in private fund arrangements creates contingent liquidity obligations for LPs. Under standard contractual agreements, LPs commit capital at a fund's inception, but this capital is incrementally drawn down by the general partner during the fund's life cycle. Our analysis estimates uncalled capital commitments owed to private credit funds at approximately \$300 billion, with pension funds accounting for roughly \$100 billion of these commitments (see **Figure 5b**). While capital calls present minimal challenges during normal market conditions, they could become significant liquidity stressors during protracted market downturns, potentially forcing LPs to sell more liquid assets, such as publicly traded stocks and bonds, to fulfill their contractual obligations.<sup>14</sup> During the 2007-08 financial crisis, for example, private fund

## Figures 5a and 5b: Private Funds - Private Credit Investor Counterparties

Private Credit Net Assets by Investor in 2024 (percent)



Note: Data as of year-end 2024. Percent is based on net assets.

Sources: SEC Form PF questions 9 and 16, Authors' analysis.

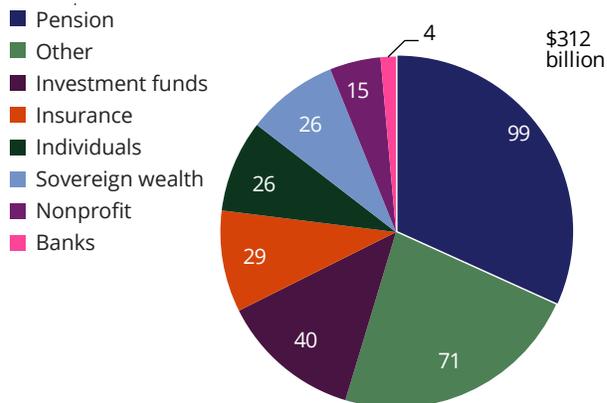
capital calls created severe liquidity strains for some very large private university endowments.<sup>15</sup>

One mitigating issue unique to private credit funds (as opposed to private equity) is that they pay regular periodic cash distributions to LPs. Thus, capital calls may be self-funding for LPs to the extent that sufficient cash distributions are received to cover capital calls. However, during a protracted market downturn, cash distributions would likely decline due to defaults on loans held in the underlying investment portfolios and a higher share of noncash payment-in-kind (PIK) distributions.<sup>16</sup>

### Bank Loan Characteristics

Y-14 filings that contain confidential regulatory data, including detail about individual loans to private funds and BDCs, are submitted by bank holding companies, savings and loan holding companies, and intermediate holding companies. These filings provide unique visibility into counterparty exposures not available through Form PF or other data sources. Regulators utilize Y-14 data for internal stress testing models and the Comprehensive Capital Analysis and Review (CCAR), which ensures these firms have sufficient capital to withstand severe economic stress.

Uncalled Capital by Investor in 2024 (\$ billions)



Note: Data as of year-end 2024. Uncalled capital is estimated as regulatory AUM, which includes uncalled capital, minus balance sheet assets.

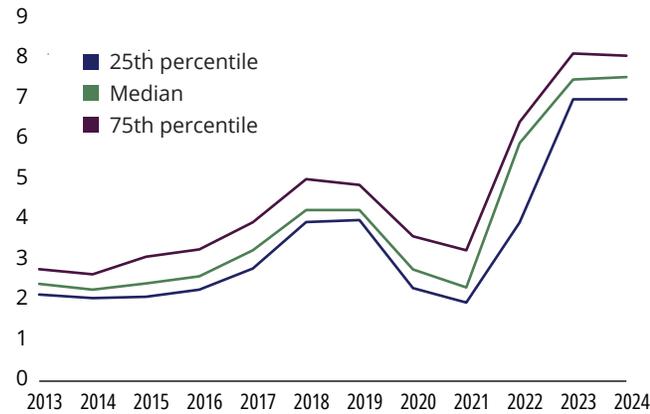
Sources: SEC Form PF questions 8, 14, and 16; Authors' analysis.

Our analysis of Y-14 data reveals that banks generally assess loans to private credit funds and BDCs as lower risk compared to other corporate and commercial real estate exposures. The appeal of these loans derives from their senior secured status and historically low default rates. Further, these loans have longer maturities, which mitigate maturity transformation risk for private credit managers. Since banks constitute an important funding source, any disruption to banking relationships would create significant challenges for private credit funds and BDCs that rely on such financing for working capital or investment activities.

Loans to private credit funds and BDCs exhibit several notable characteristics. First, our sample reveals that the vast majority (86%) of these loans are secured by first or second liens, providing banks with collateral protection in the event of default. Second, the portfolio composition is split between term loans and revolving credit facilities, with 41% structured as five-year term loans and the remainder consisting primarily of revolving credit arrangements that offer borrowers greater flexibility. Third, just over half (52%) of these loans are syndicated, as the risk is distributed across multiple financial institutions. Fourth, importantly, only 21% of the loans meet the regulatory classification criteria for “leveraged loans.”

## Figures 6a and 6b: Interest Rates and Spreads on Bank Loans to Private Credit Funds and BDCs

Interest Rate (percent)



Note: Data as of year-end 2024. Current interest rates charged on loans.

Sources: FR Y-14, Authors' analysis.

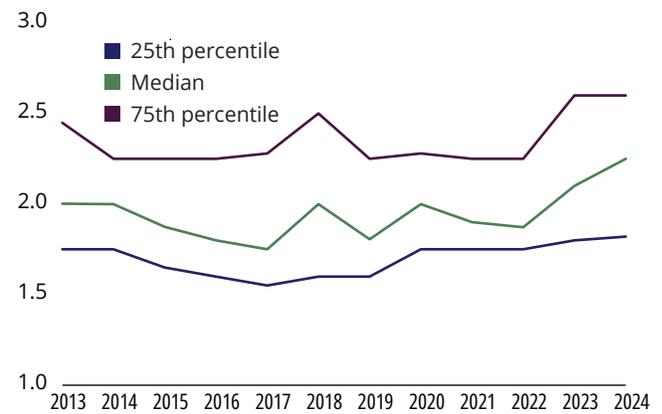
This suggests that banks generally maintain relatively conservative underwriting standards for private credit funds and BDCs despite the inherently leveraged nature of these borrowers' investment portfolios. Finally, these are floating-rate loans, which minimize banks' exposure to interest rate risk.

According to Y-14 data, since 2013, the median interest rate for loans to private credit funds and BDCs has fluctuated between 2.0% and 7.5%, primarily reflecting changes in the underlying benchmark rates (see **Figure 6a**). Notably, the median interest rate spread above the benchmark rates has remained relatively stable ranging from 1.8% to 2.3% (see **Figure 6b**).<sup>17</sup>

Among the Y-14 variables, the credit risk metrics provide the most valuable insights. Banks' internal risk assessments of loans to private credit funds and BDCs reveal notably favorable credit metrics.

On an equal-weight basis, the 12-month forward default probability (DP) average is 1.3%, significantly lower than non-private credit loan categories (see **Figure 7a**). The underlying collateral is frequently comprised of pools of individual corporate loans across various industries, and this diversification may explain why private credit loans display lower DPs compared to other bank loans. However, during the

Spread (percent)



Note: Data as of year-end 2024. Charged rate minus base rate (reference rate).

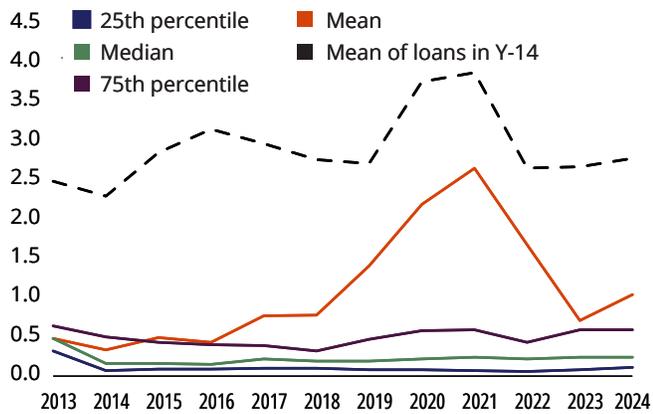
Sources: FR Y-14, Authors' analysis.

COVID-19 pandemic, DPs escalated significantly. Y-14 also includes banks' estimates of loss given default (LGD). LGDs for loans to private credit funds and BDCs have averaged 32%, with a gradual improvement over the sample period (see **Figure 7b**).

When weighted by loan value, the average DP and LGD appear more favorable compared to equal-weight averages. For example, in 2021 the value-weighted DP and LGD averages were 1.2% and 21%, respectively, considerably lower than the equal-weight averages shown in the charts below. This suggests that larger loans carry lower risk profiles.

## Figures 7a and 7b: Default Probabilities and Loss Given Default for Bank Loans to Private Credit Funds and BDCs

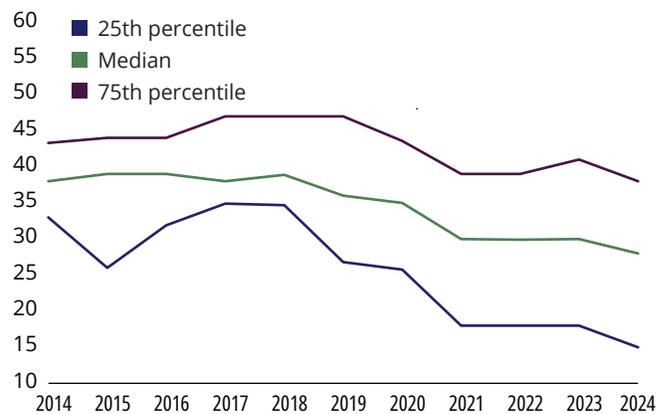
Default Probability (percent)



Note: Data as of year-end 2024. Includes only non-zero default probability estimates. Mean series are equal-weighted

Sources: FR Y-14, Authors' analysis.

Loss Given Default (percent)



Note: Data as of year-end 2024.

Sources: FR Y-14, Authors' analysis.

## Conclusion

The private credit industry has experienced substantial growth, motivating a comprehensive understanding of its interconnections with traditional financial institutions and implications for financial stability. Identifying private credit funds is challenging because the process is manual, resource intensive, and imperfect. Counterparty exposures to private credit originate through two primary channels—lending by banks and nonbanks to private credit entities and limited partner contingent capital call obligations. We estimate that total bank and nonbank lending to private credit entities, including BDCs, ranges from \$410 to 540 billion and capital call obligations total approximately \$300 billion as of year-end 2024.

While we cannot directly observe loan-to-value ratios in confidential regulatory data, our understanding is that lending exposures are often significantly overcollateralized to account for the riskiness of the underlying portfolio loans which serve as collateral. Moreover, our analysis of Y-14 data reveals that bank loans to private credit entities generally exhibit favorable risk characteristics compared to other

commercial lending. Further, our examination of Form PF data indicates that most private credit funds employ conservative leverage ratios.

Despite these mitigating factors, vulnerabilities within the private credit sector warrant continued monitoring given the sector's rapid growth and evolving interconnections with the broader financial system.

# Endnotes

- 1 Sami Vukelj, “Private Credit Loans to First Brands Group Marked Near Par Among BDCs in Q2,” *PitchBook*, October 2, 2025, <https://pitchbook.com/news/articles/private-credit-loans-to-first-brands-group-marked-near-par-among-bdc-in-q2>; Jefferies Financial Group Inc., “Jefferies Provides Update on Point Bonita Capital and First Brands Group,” news release, October 8, 2025, <https://www.businesswire.com/news/home/20251007627790/en/Jefferies-Provides-Update-on-Point-Bonita-Capital-and-First-Brands-Group>; Jacob Adelman, “U.S. Banks Missed Warning Signs on Tricolor. Now, Their Losses Are Adding Up,” *Barron's*, October 6, 2025; Eric Platt and Robert Smith, “US debt investors raise alarm over lending standings,” *Financial Times*, September 24, 2025, <https://www.ft.com/content/cdb5ad3e-1c11-48af-9852-00ccc147abfb>; Matt Wirtz and Sam Goldfarb, “The Credit Market is Humming—and That Has Wall Street On Edge,” *Wall Street Journal*, September 29, 2025, <https://www.wsj.com/finance/the-credit-market-is-humming-and-that-has-wall-street-on-edge-0721c324?msoclid=221622e6ce8a648032843489cf3365de>.
- 2 Preqin is used for private debt funds (\$1.217 trillion) and Pitchbook for BDCs (\$420 billion).
- 3 Regulatory datasets currently lack a comprehensive classification system for identifying private credit funds. While SEC Form PF collects data from investment advisers that manage private funds, which requires them to report asset allocation across 22 investment strategies (Section 1c, Question 20), “private credit” is not included as a distinct category. Additionally, some funds fail to respond to this question entirely. Although the SEC approved substantive amendments to Form PF in February 2024, including an expansion of strategy reporting categories to include private credit, these changes have not yet taken effect.
- 4 Keywords used in our analysis included alternative credit, asset-based, direct lend, illiquid credit, middle-market, private credit, private debt, private loan, private lend, mezzanine, senior debt, senior credit, senior loan, and venture debt.
- 5 Insurance companies must submit annual regulatory filings that include Schedule B/A, Part 1, where they report individual private fund investments and their corresponding strategies. Although “private credit” is not a designated reporting category in these filings, we observed that insurers frequently classify private credit fund holdings under the “private equity-mezzanine financing” category. We extracted fund names with this classification and compared them against our Form PF and Y-14 confidential regulatory datasets for matches.
- 6 Examples include the following: a) Fund is identified as a private credit strategy based on either insurance, pension filings, or both, but commercial databases and/or Form PF Section 4 indicate otherwise. b) Fund is identified in Preqin as a private credit strategy, but Pitchbook and/or Form PF Section 4 indicate otherwise. c) Fund name in Form PF contains keywords such as “private credit,” “direct lending,” or “mezzanine,” but the strategy reported in Form PF Section 4 indicates otherwise.
- 7 In addition to bank loans and shareholder equity capital, BDCs also issue bonds to finance their investments. Y-14 captures bank loans to BDCs.
- 8 Massih Fadl Abdel et al., “Bank Funding of Private Credit Grows Rapidly, in Step with Sector’s Capital-Raising,” Moody’s, October 15, 2024, <https://www.moodys.com/web/en/us/insights/ratings/bank-survey.html>; Young Soo Jang and Samuel Rosen, “Direct Lenders and Financial Stability,” Working Paper (February 2025), [https://www.mfaalts.org/wp-content/uploads/2025/07/Direct\\_Lenders\\_and\\_Financial\\_Stability\\_010825.pdf](https://www.mfaalts.org/wp-content/uploads/2025/07/Direct_Lenders_and_Financial_Stability_010825.pdf); Board of Governors of the Federal Reserve System, Financial Stability Report, May 2023, <https://www.federalreserve.gov/publications/files/financial-stability-report-20230508.pdf>; Berrospide, Jose et al., “Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications,” *FEDS Notes*, May 23, 2025, <https://doi.org/10.17016/2380-7172.3802>. Estimates vary significantly due to multiple methodological factors, primarily the inconsistent definitions of private credit across studies. Additional variables affecting these estimates include the treatment of foreign bank and nonbank lending, the distinction between committed versus utilized exposures, and whether borrowings by BDCs and foreign private credit funds are incorporated in the analysis.
- 9 Previous researchers have utilized SEC Form PF and Y-14 data separately, but no prior study has integrated both datasets. This combined analytical approach provides a more comprehensive view of the private credit ecosystem and its interconnections.
- 10 BDCs are not subject to Form PF reporting and are, thus, not reflected in this estimate.
- 11 Form PF reports do not include full balance sheets. Consequently, there is no mechanism to reconcile these discrepancies. Further, our industry discussions revealed that some advisors to private funds may report undrawn borrowings in gross assets.
- 12 The leverage definition for this analysis, which only focuses on private funds, excludes off-balance sheet exposures, such as derivatives. Private funds that utilize derivatives to amplify returns have higher levels of leverage than what is reflected by the simple gross-to-net assets ratio. In contrast to private funds, which do not have statutory leverage limits, BDCs are statutorily limited to a maximum debt-to-equity ratio of 2:1 (or 1.5 times asset coverage). Other forms of off-balance sheet leverage could include borrowings via special purpose vehicles (SPV borrowings may be either on or off-balance sheet depending on how these are structured).
- 13 The “other” category of investors includes foreign fund of funds, corporations, family offices, investment advisers, general partners, and employees, among numerous other examples.
- 14 LPs may default on capital calls for various reasons, but the penalties can be severe. Capital calls are governed by limited partnership agreements between a private credit fund, its general partner, and the LPs. These agreements specify default penalties for failure to honor capital calls. Such penalties can be extremely punitive, potentially including forfeiture of the defaulting LP’s entire prior capital contributions.
- 15 Laurence B. Siegel, “Will Spending and Capital Calls Eat Your Modern Portfolio?,” *Journal of Portfolio Management* 35, no. 1 (2008), <https://www.pm-research.com/content/ijpormgmt/35/1>; Peter Lattman et al., “Private Equity Draws the Cold Shoulder,” *The Wall Street Journal*, November 4, 2008, <https://www.wsj.com/articles/SB122575776824995245?mod=Searchresults&pos=11&page=1>; Julie Segal, “Lessons Learned: Colleges Lose Billions in Endowments,” *Institutional Investor*, November 4, 2009, <https://www.institutional-investor.com/article/2btg0x1bo1s50hv3fpmo/corner-office/lessons-learned-colleges-lose-billions-in-endowments>; Andrew Bary, “The Big Squeeze,” *Barron's*, June 29, 2009, <https://www.barrons.com/articles/SB124605595751363385>; Hugh MacArthur et al., “The Year Cash Became King Again in Private Equity,” Bain & Company, 2024, <https://www.bain.com/insights/year-cash-became-king-again-global-private-equity-report-2024/>; Bernard Bondon and Nathan Vardi, “Harvard: the Inside Story of Its Finance Meltdown,” *Forbes*, March 16, 2009, [https://www.forbes.com/forbes/2009/0316/080\\_harvard\\_finance\\_melt-down.html](https://www.forbes.com/forbes/2009/0316/080_harvard_finance_melt-down.html).
- 16 Payment-in-kind (PIK) refers to a financing arrangement where the underlying portfolio company borrower is allowed to make interest payments by issuing additional debt in lieu of cash.
- 17 Berrospide et al. (2025) document similar loan characteristics. <https://www.federalreserve.gov/econres/notes/feds-notes/bank-lending-to-private-credit-size-characteristics-and-financial-stability-implications-20250523.html>