

## Private Credit: The Good, the Bad, and the Ugly

By now, you've likely heard the term *private credit*. It has recently attracted significant attention, particularly in the wake of high-profile bankruptcies involving companies with sizable private credit exposure, including First Brands Group<sup>1</sup> and Renovo Home Partners.<sup>2</sup> Some of these failures have raised questions about potential investor fraud.

These bankruptcies—described by some as cockroaches or canaries in the coal mine<sup>3</sup>—raise a bigger question: are these isolated failures, or could they be early warning signs of the next financial crisis? The short answer: no one knows for sure—at least for now.

One thing is clear: there is no consensus on the state of private credit, or the risks it poses to investors. Now is a good time to explain—clearly and without jargon—what private credit is, where the risks lie, and what investors can do to protect their interests.

### What Is Private Credit?

By design, private credit plays in the shadows. The term refers to lending that occurs outside the traditional banking system. Private credit lenders are typically private equity firms and alternative

asset managers—including major players like Blue Owl, Blackstone, Apollo, and KKR—who extend loans to a variety of businesses.<sup>4</sup>

Private credit lenders are not subject to the same regulatory regime as traditional banks, which includes strict capital, liquidity, and stress-testing requirements imposed under the Dodd-Frank Act.<sup>5</sup> This allows them to structure loans with greater flexibility than most banks can offer. They originate a range of business loans, holding most in private credit funds or managed accounts and, in some cases, securitizing them through structured vehicles such as asset-backed securities. The investors who provide the capital for these loans—such as U.S. defined benefit pension funds—generally classify private credit investments as part of their “alternative assets” allocation.<sup>6</sup>

In the early 2000s, private credit lenders managed roughly \$200 billion.<sup>7</sup> After the 2008 financial crisis, as traditional banks pulled back from riskier lending due to stricter capital requirements, private credit began to expand. Today, private credit lenders manage an estimated \$2 to \$3 trillion, though the industry is so opaque that its true size is difficult to

<sup>1</sup> *First Brands bankruptcy sparks sharp outflow from US loan funds*, Reuters (Oct. 22, 2025).

<sup>2</sup> *BlackRock Faces 100% Loss on Private Loan, Adding to Credit Market Pain*, Bloomberg (Nov. 10, 2025).

<sup>3</sup> *JP Morgan boss says more 'cockroaches' will emerge after private credit sector failures*, The Guardian (Oct. 14, 2025); *Credit: canaries in the coal mine, or a healthy reality check?*, New York Life (Oct. 22, 2025).

<sup>4</sup> *What is private credit? Does it pose financial stability risks?*, Brookings (Feb. 2, 2024).

<sup>5</sup> *Dodd-Frank Act Regulations: Understanding Compliance Requirements and Impact*, LeapXpert (Nov. 13, 2024).

<sup>6</sup> *U.S. pension giants exposed to risky assets: Fitch*, Pension Policy International (Nov. 5, 2025).

<sup>7</sup> *The Private Credit Trillion-Dollar Transformation*, National Australia Bank Limited (Apr. 11, 2025).

determine.<sup>8</sup> Over the past 15 years, U.S. defined benefit pension funds have doubled their allocations to alternative assets, which include private credit investments, reaching 34% last year.<sup>9</sup>

Let's explore what this shift means for private credit investors.

## The Good

**Greater Access to Capital:** Private credit expands access to financing for businesses that may be underserved by traditional banks due to regulatory constraints or risk limits. Private credit lenders can deploy capital quickly, which is particularly valuable in time-sensitive situations such as acquisitions, growth initiatives, or refinancing. They can also customize loan terms to match a borrower's cash flows, growth plans, and capital structure, which is often difficult for traditional banks.

**Flexibility:** Private credit lenders may be more willing to amend loan terms, provide additional liquidity, or work collaboratively on operational solutions rather than forcing an immediate default or liquidation. This approach can help preserve a business's value, sustain operations, and protect jobs.

**Attractive Returns:** Private credit can deliver strong, risk-adjusted returns over the long term. Investors earn income from interest and fees on loans held in private credit funds, managed accounts, or asset-backed securities, and may

also capture upside if the underlying companies perform well. Returns are typically higher than traditional fixed-income investments because private credit serves borrowers with limited bank access and often includes covenants or collateral that help mitigate risk. This combination of yield, downside protection, and growth potential makes private credit an attractive addition to a diversified portfolio.

## The Bad

While private credit can expand access to funding, offer flexibility to borrowers, and deliver attractive returns, its rapid growth also poses significant risks for borrowers, investors, and the broader financial system.

**Limited Transparency:** Private credit transactions are negotiated privately and often remain opaque until bankruptcies or large writedowns occur. Unlike public markets, the industry lacks standardized disclosure requirements, has limited pricing transparency, and is subject to only modest regulatory oversight. This opacity can obscure a borrower's true financial condition or valuation, thus delaying problem recognition and allowing operational or financial issues to build until they culminate in sudden, disruptive failures.

**Systemic and Contagion Risk:** The expansion of private credit raises concerns about risk concentration and potential contagion. Many private credit lenders hold overlapping exposures to the same industries or sponsor-backed

<sup>8</sup> *Id.*; *Private credit - primed for growth as LBOs revive, ABF opportunities accelerate*, Moody's (Jan. 21, 2025); *Understanding Private Credit's Rapid Growth*, Morgan Stanley (Oct. 3, 2025).

<sup>9</sup> *U.S. pension giants exposed to risky assets: Fitch*, Pension Policy International (Nov. 5, 2025).



companies, often financed with leverage. Because these risks sit largely outside the traditional banking system, they can be harder to monitor and manage. In a broad downturn, this could trigger correlated defaults, abrupt lending pullbacks, and spillover effects across the financial system and economy.

Limited transparency and concentration in private credit can amplify vulnerabilities, creating the potential for abrupt failures that result in investor losses. Recent market events have shown that these risks can materialize.

## The Ugly

A cockroach emerged in September 2025 with the Chapter 11 bankruptcy of First Brands Group, an Ohio-based auto-parts supplier with over \$10 billion in liabilities.<sup>10</sup> While most of its debt was owed to traditional banks, First Brands also relied on off-balance-sheet receivables and inventory financing, some of which were funded by investors through specialized funds and structured vehicles. These arrangements—in some cases involving the same assets pledged multiple times—obscured the company's true credit risk and highlighted the limited transparency in private credit, raising concerns about diligence and investor visibility across the industry.

Shortly after, a potential canary appeared on November 3, 2025, when Renovo Home Partners filed for Chapter 7 liquidation. Renovo, a private-equity-backed roll-up of regional home improvement firms, had a roughly \$150 million

private credit loan led by BlackRock TCP Capital carried at par shortly before the collapse.<sup>11</sup> The liquidation left BlackRock's investors directly exposed to substantial losses, illustrating how quickly private credit positions can deteriorate.

First Brands and Renovo—whether cockroach, canary, or neither—demonstrate how quickly private credit loans can unravel. These events also underscore valuation risk: credits marked at par by sophisticated investors, then quickly written off, raise serious questions about valuation governance, due diligence, and investor visibility into true risk.

Things can get even uglier if defaults in private credit spread and spill over into traditional banking and the broader economy. Private equity sponsors and private credit lenders often share financing with major banks, and many public pension funds invest in private credit, meaning cascading defaults could ultimately affect retirees and other investors.

## Protecting Your Interests as an Investor

Investors can—and should—take practical and legal steps to protect their interests, particularly given the market's complexity, risk concentration, and limited transparency.

**Stay Informed:** Investors should demand thorough due diligence and regular disclosures. They need to understand the loan portfolios, borrower debt levels, covenants, collateral, valuation methods, and whether interest is being

<sup>10</sup> *Parts-Maker First Brands Files Ch. 11 With Over \$10B In Debt*, Law360 (Sept. 29, 2025).

<sup>11</sup> *BlackRock Faces 100% Loss on Private Loan, Adding to Credit Market Pain*, Bloomberg (Nov. 10, 2025).

paid in cash or added to the loan balance. Consulting financial professionals and monitoring valuation reports can help spot early signs of trouble.

**Know Your Contracts:** Investors should carefully review and actively monitor their contractual rights. Limited partnership agreements, credit agreements, and side letters often contain critical provisions on governing redemption rights, valuation disputes, and other key protections. Investors should seek guidance from qualified legal and compliance professionals to understand these provisions, as well as available remedies, key-person clauses, removal rights, fiduciary duties, and any other relevant safeguards.

**Enforce Your Rights:** Investors should be prepared for adverse events. If misconduct, misstatements, or breaches of duty occur, they should consider taking legal action and seek independent legal advice to preserve their claims and ensure that they act within legally required time limits.

Taken together, these actions—rigorous diligence, active engagement, and readiness to enforce legal remedies—can greatly enhance private credit investors’ ability to safeguard their interests in this opaque and rapidly evolving market.

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Labaton Keller Sucharow’s lawyers are available to address any questions you may have regarding these developments. Please contact the Labaton Keller Sucharow lawyer with whom you usually work or the contacts below.



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