Oct. 2023

Alternative Credit: Providing Capital to American Businesses

Alternative credit, also known as private credit, is an asset class that focuses on nonbank lending, including to small- and mid-sized companies that need capital.

Direct corporate lending	***Collateralized Loan Obligations***
Securitizations	***Syndications***

Post-Global Financial Crisis, private credit helped stabilize the economy by filling a significant gap in the U.S. credit market.

- Private credit funds are a crucial source of capital to small and mid-sized companies that would otherwise not have access to the capital they need to grow, fund research and development, and hire new employees.
- Alternative credit serves as a stabilizing force for the U.S. economy. It aids businesses in all market environments, while other financial institutions tend to withdraw financing during periods of stress—such as the onset of the COVID-19 pandemic or during the GFC.

Alternative credit reaches all sectors of the economy and corners of the country—every industry in all 50 states depends on private credit for growth of U.S. businesses when bank financing is not available.

Investors in alternative credit funds include public and private pensions, university endowments, and charitable foundations.

$1.5T
In funds supporting businesses globally.

$716B
In U.S. businesses in all sectors in all 50 states.

Private credit is a market stabilizer. Taxpayers are not on the hook.

- **Private credit providers are not subject to liquidity risk.** Credit funds receive capital from sophisticated investors who commit their capital to the funds for multi-year holding periods. The long-term holding periods prevent runs on a fund and provide stability.
- **Alternative credit funds are not implicitly or explicitly backstopped by the federal government.** Therefore, taxpayers are not liable in times of stress.
- **Private credit presents no risk of contagion to other funds or the economy.** If a private credit fund fails, the losses are borne by that specific fund's manager and investors and do not impact other funds or their investments. The failure is insulated from, and will not ripple across, the broader financial system.
- A 2020 Government Accountability Office report found that private funds' lending activities have not threatened financial stability.[2] Private credit default rates are generally limited due to the strong debt structure, documentation, and underwriting that are adequately protective of lenders.[3]

[1] "Understanding Private Credit," Goldman Sachs, 2022.
[2] "Financial Stability," Government Accountability Office, 2020.
[3] "The Role of Private Credit in U.S. Capital Markets," Proskauer, 2022