Ebook

The convergence of public and private credit

What it means for infrastructure, standardization, and the future of lending

Finley

Introduction

A new era for credit markets

The traditional divide between public and private credit is collapsing.

For decades, public credit markets dominated long-term debt issuance, with syndicated loans and bonds enjoying deep liquidity, standardized reporting, and visible pricing. Private credit, by contrast, operated in bespoke, illiquid niches — bilateral loans between a lender and a borrower, often held to maturity and rarely traded.

These clear distinctions no longer hold. The U.S. private credit market has scaled rapidly, reaching $1.3–1.6 trillion in assets by the end of 2024, according to UBS, with global private debt AUM exceeding $2 trillion. The asset class now rivals the high-yield bond and broadly syndicated loan (BSL) markets in size, and in many cases, is outcompeting them in terms of deal velocity, execution certainty, and flexibility.

As a result, public credit practices — like external ratings and risk analysis, secondary trading, and investment benchmarking — may be migrating into private deals. Simultaneously, private lenders are adopting infrastructure and behaviors once confined to public markets.

This convergence is not a passing trend. It reflects a broader structural realignment in capital markets. The consequences will be significant: how deals are originated, how risks are priced, how defaults are managed, and how lenders report to regulators and LPs will all shift.

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How we got here

The rise of private credit post-2008

Private credit owes its ascent in large part to the global financial crisis. As regulatory reforms constrained banks' ability to hold riskier assets and pushed them to hold capital, many stepped back from middle-market and sub-investment-grade lending. Direct lenders stepped in. From 2009 to 2024, private credit assets in the U.S. grew more than fivefold.

Investors, meanwhile, were desperate for yield. With public markets offering low interest rates, pensions, insurers, and endowments poured capital into illiquid private credit funds, chasing the illiquidity premium. That capital in turn funded growth in leveraged buyouts, sponsor-backed loans, and fund-level financing structures.

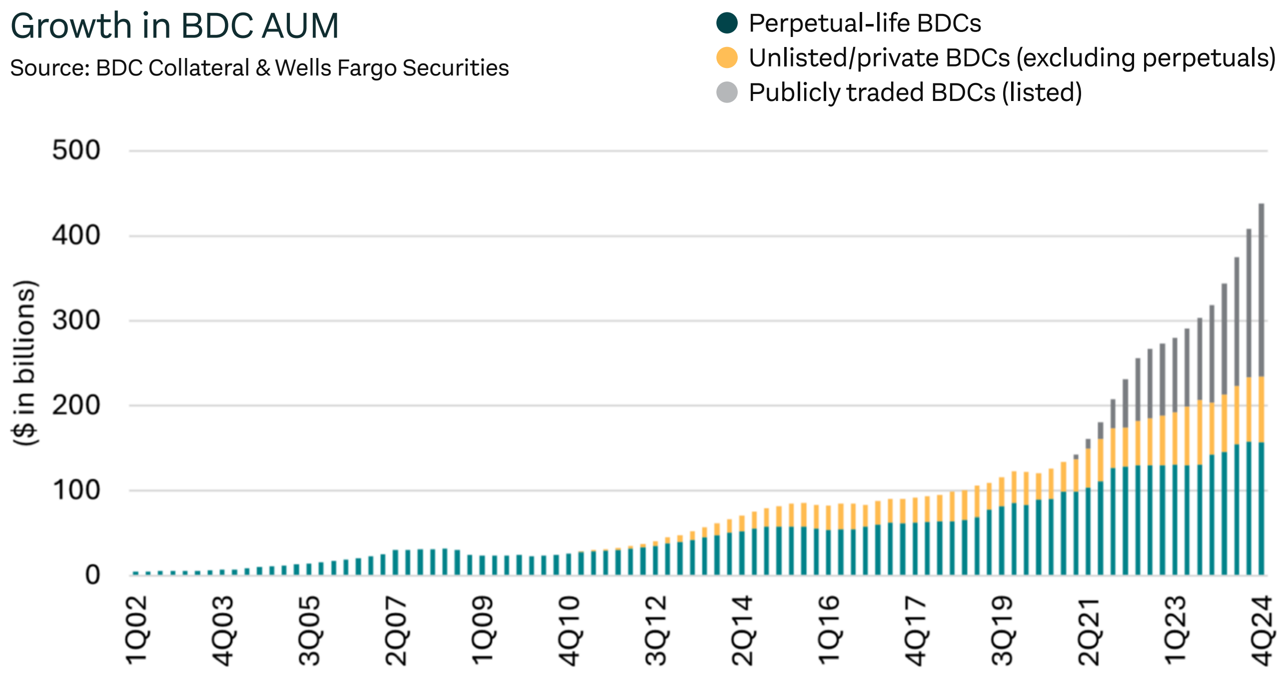
Public market stagnation and the rise of semi-liquid alternatives

While private credit surged, the structure of public credit markets calcified. Issuers faced more complex and rigid processes. Rating agencies, syndication desks, and legal advisors added cost and delay. By contrast, private lenders could offer certainty of execution in weeks.

At the same time, the success of private markets began to strain the traditional GP-LP model.

Growth in BDC AUM

Source: BDC Collateral & Wells Fargo Securities



Investors wanted more liquidity and transparency. That demand birthed the next evolution: non-traded BDCs, interval funds, and evergreen vehicles. These semi-liquid structures now serve as the bridge between public and private credit, with BDCs managing over $430 billion in AUM as of late 2024.

Five major drivers of convergence

The convergence of public and private credit is being driven by market pressure, investor demand, and operational necessity. As private credit matures into a scaled asset class, it's absorbing key features of public markets. From transparency to tradability, these five forces are accelerating the shift.

1. Private scale requires public discipline

Scale brings scrutiny. As private credit AUM swelled, so did calls for increased oversight. The IMF, in its 2024 Global Financial Stability Report, highlighted the systemic risk posed by the opacity of private debt markets. In response, some private funds began preemptively adopting public-style governance: quarterly GAAP financials, ILPA-style reporting, third-party NAV verification, and voluntary NRSRO ratings.

2. Liquidity transformation through securitization and secondaries

Private assets are becoming more tradable. CLOs backed by middle-market loans are being issued and rated. NAV facilities and subscription lines are being bundled into Collateralized Fund Obligations (CFOs). Secondaries funds, like Lexington Partners' $22.7B raise in 2024, are creating a robust exit market for private credit positions. These instruments mirror public markets — CUSIPs, ratings, servicers, and trustee structures included.

The result: private assets that behave like public ones, and platforms that must manage them accordingly.

3. Fund finance becomes a proving ground

The convergence is perhaps most visible in fund finance. Banks are discovering they can lend to funds, often against stable collateral, with more attractive economics and lower risk than lending to operating companies. These deals are increasingly syndicated, securitized, and rated, mimicking public securitization mechanics. But the legal infrastructure is still bespoke.

Banks and private lenders are forming joint ventures to underwrite and distribute these loans. This is public-private convergence in action: regulated institutions sourcing deals, private funds providing capital, and capital markets syndicating exposure.

4. Benchmarking and shared performance expectations

The rise of the Cliffwater Direct Lending Index (CDLI) was a turning point. Institutional investors began comparing private fund IRRs to benchmarked public indices. Suddenly, private managers had to defend their returns not in absolute terms, but relative to BB bond spreads or leveraged loan indices. This brought tighter underwriting, more frequent reporting, and greater transparency.

Private loans used by insurers now often carry private letter ratings, with over 80% being from Egan-Jones, KBRA, or DBRS.

5. Standardization of documentation and workout practices

Where the rubber meets the road is in workouts. As public and private lenders increasingly share borrower exposure, the lack of a unified restructuring protocol creates risk. Who controls the restructuring? Which covenants take precedence? What happens when valuations differ?

Without clear agreements, losses mount. Market participants are pushing toward LSTA-style documentation and shared servicing protocols. Legal standardization will be one of the final and most important frontiers of convergence.

By the numbers

Private debt AUM (global):
$2.1T+
as of Q4 2024

BDC AUM:
$430B+

Lexington Partners 2024 secondaries fund:
$22.7B

% of insurer-used private loans carrying ratings:
80%

Implications for credit infrastructure

As public and private credit converge, legacy systems — and mindsets — fall short. The next era of credit demands infrastructure that can handle scale, speed, and complexity. Whether it's surfacing risk in real time, integrating across asset classes, or enforcing standardized legal terms, credit managers will need to upgrade how they operate, or risk falling behind.

1. Risk management must be real-time

Managing quarterly PDFs no longer cuts it. As private credit becomes more mainstream, regulators, CIOs, and LPs will demand the same data cadence as public markets. That means real-time covenant checks, borrower dashboards, and automated alerts.

Infrastructure must allow continuous ingestion of borrower data (ERP feeds, bank accounts), centralized monitoring, and system-wide analytics. Covenant breaches should be flagged proactively. Debt service coverage ratios should be updated weekly. This is already feasible, it's just not yet standard.

2. Technology must unify asset classes

Credit managers can no longer afford siloed systems for bonds, loans, and private assets. Portfolio analytics, servicing, and compliance must all live within a single platform. A true Credit Management System (CMS) should provide a consolidated view across public and private portfolios, with modules for origination, risk, and performance.

Finley believes the next generation of credit infrastructure must look more like universal bank software than an Excel dashboard. The system must be capable of ingesting, validating, and acting on data in real time.

3. Legal infrastructure must evolve

Technology is only part of the solution. The other is legal. Private credit agreements must be written with portability, liquidity, and resolution in mind. That means templates for syndicated private deals, pre-agreed protocols for workouts, and governance mechanisms for joint control with public lenders.

Without these, convergence breaks down when deals go bad.

Five predictions for the next five years

If current trends continue, the credit landscape could look very different within five years. While nothing is guaranteed, these shifts feel plausible given where capital, regulation, and technology are headed. These are not forecasts — but possibilities worth preparing for as the lines between public and private credit continue to blur.

1. More private loans may carry ratings

It's possible that NRSRO ratings will become more common, especially as LPs seek greater transparency and as more private deals head toward securitization. Ratings could start serving not just compliance needs but also enable pricing and trading.

2. Fund finance CLOs and interval funds could gain broader traction

We may see listed notes backed by NAV loans enter public markets. If that happens, it would mark a new phase in the democratization of private credit — though it would likely bring increased regulatory scrutiny along with it.

3. Syndicated private deals might start to resemble public transactions

As deal sizes grow and syndication becomes more routine, private market transactions could adopt public-style processes: bookrunners, offering memos, and even dedicated syndication platforms.

4. Standardization of workouts could become a priority

To reduce complexity and legal friction, lenders may coalesce around shared governance frameworks and restructuring protocols. This would help manage defaults more predictably — but getting there will require meaningful coordination.

5. Real-time borrower monitoring could become the norm

It's possible that quarterly reporting will no longer suffice. As systems improve and expectations rise, continuous surveillance of borrower performance and covenant compliance may become standard for both investors and regulators.

What credit institutions should do now

The future of credit is already taking shape and it won't wait for firms still running on outdated systems or fragmented teams. To stay competitive and credible in a converged market, institutions need to act now. These moves aren't incremental upgrades; they're foundational shifts that will define the next generation of credit management.

Upgrade your CMS

Consolidate data across public and private exposures. Enable automated monitoring and scalable servicing.

Automate compliance

Use tools to track covenants, update borrower dashboards, and prepare regulatory filings without manual intervention.

Get ratings-ready

Structure deals to accommodate public-style ratings. Work with agencies to establish repeatable protocols.

Standardize documentation

Move toward LSTA-style templates. Collaborate with counsel to future-proof legal agreements.

Build cross-functional teams

Train your staff in fund finance, securitization, and direct lending. Tomorrow's deals will require all three.

Convergence is the new baseline

The boundaries between public and private credit have blurred. In this new world, specialization remains critical, but so does interoperability. The institutions that thrive will be those who can move seamlessly across asset classes, deliver transparency at scale, and adapt their infrastructure to a new set of expectations. Convergence is the operating reality of the next decade.

Want to learn more?

Finley

Finley is the leading Syndicated Loan Solution for banks and credit funds, and also provides Credit Management software to corporate lenders and borrowers. By automating key credit workflows and ensuring credit agreement compliance, Finley streamlines corporate loans for all participants in the credit ecosystem.

Finley's software is used by customers such as Valley Bank, Ramp, and Trinity Capital to administer and optimize debt capital operations across asset-backed loans, fund finance, securities-based loans, and syndicated loans. The company is backed by venture capital investors like CRV, Bain Capital Ventures, Y Combinator, Haystack, and Nine Four Ventures.

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