Private Credit Strengthens Small Businesses Across America

Small and medium-sized businesses depend on two main sources of outside funding: credit and equity. Private credit, like private equity, helps strengthen and scale businesses of all sizes. But instead of owning part of a company, as private equity funds do, private credit loans provide an alternative to traditional bank lending and can be tailored to the specific needs of the borrower.

Private credit has experienced remarkable growth in the U.S., soaring from less than $400 billion in assets under management in 2012 to $1 trillion by 2021. Approximately $500 billion has been invested in more than 3,600 businesses across America.

Benefits of Private Credit

Private credit benefits small and medium sized businesses, workers, investors, and communities:

- **Small and medium-sized businesses** are able to get the support they need in order to stay in business and thrive. They specifically benefit from individually tailored loan structures that banks are unable to extend and from loan providers that are committed to the success of the company.
- **Workers** benefit from stronger companies that have capital to invest in them.
- **Investors** gain from higher returns and less volatility than public markets.
- **Communities** benefit from stronger businesses and economic growth bolstered by private capital.

Companies of all sizes and sectors receive private credit loans, including manufacturing, healthcare, infrastructure, technology & IT, and more. Private credit:

- **Provides an alternative source of funding** for small businesses who do not qualify for loans from traditional banks or need capital beyond what banks are willing to provide.
- **Offers loan structures that are individually tailored to fit the businesses' needs,** which is especially important during periods of economic downturns or when other lenders pull back.
- **Champions success. Private credit investors care about the success of the companies.** When a company runs into trouble and has issues repaying its debt, a private credit firm will work with the company to come to a solution that keeps the company intact, while also providing a return to its investors.
- **Deploys capital countercyclically – and through hard times.** When economic downturns occur and traditional banks pull back their lending, private credit can continue extending credit to businesses.
- **Provides a safe and stable funding source.** The private credit industry, unlike traditional banks, is not susceptible to "run risks" that can lead to financial crises. Investors commit funds for extended periods and cannot rush to withdraw their investments at once.
- **Delivers quick access to funding.**

- **Provides access to experienced managers and investors.** These executives take a hands-on approach and offer ongoing business mentorship and expertise.

Impact of Private Credit on U.S. Economy

From major cities to rural towns, private credit supports businesses and stimulates economic growth across the nation:

- Private credit grew from under $400 billion in assets under management in 2012 to **$1 trillion** at the end of 2021.
- The economic contribution of private credit to the US economy in 2022 was an estimated **1.6 million jobs,** earning **$137 billion of wage and benefits** and generating **$224 billion of GDP.**
- The median company receiving private credit has approximately **150 employees.**
- Private credit primarily serves businesses with revenues **below $100 million.**
- Private credit accounted for approximately **30%** of the overall credit market in 2021.
- More than **3,600 businesses** in the U.S. are supported by private credit.
- Lending is expected to continue to grow, with the market projected to reach **$2.3 trillion** by 2027.

Source: EY & AIC Report: Economic contribution of private credit to the US economy in 2022 (2023)

Regulation of the Private Credit Industry

Private credit funds are well regulated by the U.S. Securities and Exchange Commission and are structured to prevent risk.

The Federal Reserve's Financial Stability Report published in May 2023 concluded that private credit was a safe and stable asset class. The report stated, "*the financial stability vulnerabilities posed by private credit funds appear limited. Most private credit funds use little leverage and have low redemption risks, making it unlikely that these funds would amplify market stress through asset sales*."

Additionally, two economists at the Federal Reserve Board of Governors just published a new paper that highlights how private equity firms help reduce credit risk. As *Institutional Investor* reported:

> *"New research shows that private equity firms can help reduce the credit risk of companies and pare the losses that lenders can expect to take. Private equity firms are able to do this by either reducing the volatility of sales and collateral backing loans — operational engineering — or by improving the financial situation of a distressed company... According to the researchers, the results suggest that the actions of private equity firms can 'substitute for bank monitoring in containing credit risk.' 'PE-backed loans appear to have lower credit risk relative to comparable non-PE-backed loans, at least when measured by expected losses,' the researchers wrote."*

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