UNIVERSITY OF TURKU
Turku School of Economics

The emergence and growth of private credit as a financing option in corporate finance

The perspective of Finnish finance professionals

International Business
Master's thesis

Author:
Mikke Käkelä

Supervisors:
D.Sc. Niina Nummela
D.Sc. Anna Karhu

13.8.2024
Turku

Master's thesis

Subject: International Business
Author: Mikke Käkelä
Title: The emergence and growth of private credit as a financing option in corporate finance: The perspective of Finnish finance professionals
Supervisors: D.Sc. Niina Nummela, D.Sc. Anna Karhu
Number of pages: 66 pages + appendices 5 pages
Date: 13.8.2024

This thesis provides an insightful look into private credit, which has emerged as an alternative financing option in corporate finance over the past few decades. Private credit is a broad term for a market that consists of non-bank lenders offering financing options to mainly non-listed companies, hence the term "private credit". The emergence of private credit was heavily influenced by the 2008 financial crisis, which was caused by overly lenient lending of banks, especially in subprime mortgages. These events triggered a global banking and financial crisis, which caused major changes in the ways banks can operate and take risks.

The changes in banking practices caused a deficit of available loan capital in the markets, especially for companies that fell under the new, stricter regulations of banks. Investment companies began to find ways to invest in the riskier companies that were unable to get funding from banks in search of higher profits. The private credit market is still a relatively new and developing market that offers intriguing opportunities for future prospects. Companies that are willing to invest in private credit deals must accept the higher-than-average risk of the companies that they are lending to, but in return will be rewarded with higher returns for their investments.

For the empirical part of this thesis, a qualitative study was conducted by utilising expert interviews as the data collection method. The subjects interviewed for the study are Finnish professionals in corporate finance and have multiple years of relevant experience. The experts were selected from private credit and banking backgrounds to gain insight of the views from different perspectives. The study was conducted to find out the views of industry professionals on what they saw to be the defining characteristics and uses of private credit, how the experts viewed the emergence and growth of private credit as a whole and what they saw to be the advantages and disadvantages of private credit. The research also aimed to find out what the professionals saw to be the reasons behind the rapid growth of private credit as a financing option and how will the private credit market continue to grow in the future.

As the phenomenon is relatively new and developing it was interesting to compare the views of the experts with existing literature to see how well real-life experience corresponds with current literature on the topic. The data analysis of the study was conducted as a thematic analysis based on the research question and sub-questions in relation to the existing literature. In the study the trends of private credit were evaluated both from a local perspective, as well as on the global scale. The emergence and growth of private credit is a global phenomenon, and the large-scale trends are applicable on a global scale, but it was also interesting to see how the changes apply to the local market in Finland.

In the study it was found that the Finnish finance professionals saw plenty of potential in private credit and considered it to have an overall positive effect in the corporate finance market, as it allows companies to gain access to capital easier. As the riskier investments move away from banks to private credit investors, it should also make the global financial industry safer, by reducing the risk of future banking crises caused by extravagant risk taking. The experts saw plenty of potential for future growth of private credit as banking regulations continue to become stricter, thus opening more opportunities for private credit investments.

Key words: Private Credit, Corporate Finance, Banking, Lending, Alternative Investments.

Pro gradu -tutkielma

Oppiaine: Kansainvälinen liiketoiminta
Tekijä: Mikke Käkelä
Otsikko: The emergence and growth of private credit as a financing option in corporate finance: The perspective of Finnish finance professionals
Ohjaajat: KTT Niina Nummela, KTT Anna Karhu
Sivumäärä: 66 sivua + liitteet 5 sivua
Päivämäärä: 13.8.2024

Tämä Pro gradu -tutkielma käsittelee yksityisen lainarahan kasvua yritysrahoituksen vaihtoehtoisena rahoitusmuotona. Private credit, vapaasti suomennettuna yksityinen lainaaminen viittaa pankkien ulkopuolisten toimijoiden tarjoamaan lainarahaan yrityksille. Yleensä kohdeyhtiöt ovat tavallista korkeariskisempiä, listaamattomia yrityksiä, jotka tarvitsevat ulkopuolista lainapääomaa toimintaansa. Private credit markkina alkoi kasvaa huomattavasti vuoden 2008 finanssikriisin jälkeen, kun pankkien lainaamiskäytäntöjä alettiin valvoa ja tiukentaa huomattavasti. Finanssikriisi oli niin merkittävä, että pankeille asetettiin säännöksiä, jotka rajoittavat niiden lainaus- ja sijoituskäytäntöjä, jotta pankit eivät voisi ottaa yhtä paljon riskejä kuin aikaisemmin.

Pankkialan muutokset johtivat siihen, että yrityksille oli tarjolla aiempaa vähemmän rahoitusmahdollisuuksia. Sijoitusyhtiöt huomasivat mahdollisuuden sijoittaa korkeamman riskin yrityksiin, jotka eivät voineet enää saada pankkilainaa. Private credit markkina on vielä suhteellisen uusi ja kehittyvä markkina, joka tarjoaa paljon mielenkiintoisia mahdollisuuksia. Korkeamman riskin yritysten rahoittamisen siirtyminen pois pankkien vastuulta yksityisille toimijoille tarkoittaa myös sitä, että rahoitusmarkkinasta tulee yleisesti turvallisempi kaikille, kun pankkien riskinotto pienenee.

Tutkielman empiirinen osuus koostuu kvalitatiivisesta tutkimuksesta, jossa hyödynnettiin asiantuntijahaastatteluita datan keruu metodina. Tutkimuksen haastateltavat ovat suomalaisia rahoitusalan ammattilaisia, joilla on usean vuoden kokemus alalta. Asiantuntijat valittiin sekä private credit -, että pankkialalta, jotta tutkimukseen saatiin kattavasti eri näkökulmia alan muutoksiin. Tutkimuksessa pyrittiin selvittämään miten asiantuntijat ymmärtävät private creditin määritelmät ja käyttötarkoitukset, mitä he näkivät merkittävinä tekijöinä private credit markkinan kasvuun ja mitä hyötyjä ja haittoja he kokevat private creditistä olevan. Sen lisäksi tutkimuksessa pyrittiin selittämään asiantuntijoiden näkemyksiä siihen, mitkä tekijät ovat vaikuttaneet private credit markkinan voimakkaaseen kasvuun ja millaisiksi he kokevat markkinan kasvumahdollisuudet tulevaisuudessa.

Tutkimuksesta tekee erityisen mielenkiintoisen aiheen ajankohtaisuus ja uutuus. Asiantuntijoiden näkemyksien vertaaminen kirjallisuuteen tarjoaa mielenkiintoisen katsauksen siihen, miten kokemukset alalta korreloivat aiheeseen liittyvän kirjallisuuden kanssa. Tutkimuksen analyysi suoritettiin temaattisena analyysina, missä teemat perustuivat tutkielman tutkimuskysymykseen ja osakysymyksiin. Tutkielmassa private credit markkinan muutoksia tarkistellaan sekä globaalilla, että paikallisella tasolla. Private credit markkinan kasvu on globaali ilmiö, mutta tutkimuksen kannalta oli myös erityisen mielenkiintoista saada näkemyksiä siihen, miten sen vaikutukset näkyvät Suomessa.

Tutkimustuloksissa oli huomattavaa, että asiantuntijat näkivät private credit markkinassa paljon potentiaalia ja he kokivat sen kasvun olevan yleisesti positiivinen asia. Erityisen positiivisena pidettiin sitä, että private creditin yleistyminen tarjoaa yhä useammalle yritykselle mahdollisuuden saada lainarahoitusta. Korkeariskisten lainatuotteiden siirtyminen pois pankeilta luo turvaa pankkialalle ja vakauttaa koko globaalia finanssialaa. Asiantuntijat myös uskoivat private credit markkinan jatkavan kasvua pankkisääntelyn tiukentuessa jatkuvasti.

Avainsanat: Private Credit, Yksityisrahoitus, Yritysrahoitus, Pankkiala, Lainaaminen, Vaihtoehtoiset sijoitukset.

TABLE OF CONTENTS

1 Introduction 8

1.1 Overview of the topic 8

1.2 The emergence of private credit 10

1.3 Purpose and structure of the study 11

2 Literature review 14

2.1 Defining key concepts 14

2.2 Uses of private credit 19

2.3 Advantages and disadvantages of private credit 21

2.3.1 Borrowers 21

2.3.2 Lenders 22

3 The growth of private credit 24

3.1 Regulations 24

3.1.1 Dodd-Frank Act 24

3.1.2 Basel frameworks 25

3.2 Current market drivers 27

3.2.1 The impact of the Silicon Valley Bank crisis 30

3.2.2 Requirements for Corporate Social Responsibility 31

4 Research design 33

4.1 Research strategy 33

4.2 Data collection 34

4.3 Data analysis 36

4.4 Evaluation of the study 37

4.5 Ethics of the study 39

5 Findings 41

5.1 Characteristics and uses of private credit 41

5.2 Advantages and disadvantages of private lending 45

5.3 Factors affecting the emergence and growth of private credit 47

5.4 The future of private credit 48

6 Discussion 52

7 Conclusions **54**

7.1 Limitations and suggestions for future research **56**

8 Summary **58**

References **59**

Appendices **67**

Appendix 1 Interview questions **67**

Appendix 2 Interview consent form **69**

Appendix 3 Data Management Plan **70**

LIST OF FIGURES

Figure 1 The growth and projected development of the global corporate finance market 9

Figure 2 Lending gap caused by 2008 financial crisis 11

Figure 3 Risk-return profiles of private debt classes 16

Figure 4 Decline of bank loans in the US 25

Figure 5 The number of regulations in relation to loans 26

Figure 6 Growth of private credit 28

Figure 7 Interest rates 29

Figure 8 New deals on the decline 30

LIST OF TABLES

Table 1 Credit rating scale 15

Table 2 The advantages and disadvantages of private credit 23

Table 3 Operationalization table 35

Table 4 Interviews 36

1 Introduction

This thesis is an insight into the emergence of growth of private credit in corporate finance, which has been one of the most notable trends in global finance over the past few decades. (Mounguia & Dubar 2024) The phenomenon is global and affects the major economies of the world, whoch makes it a highly interesting topic to research from the perspective of international business. The Müllner et. al. (2023) study notes how international business and finance studies are rarely combined, but this thesis aims to fill that gap to some extent.

1.1 Overview of the topic

Corporate finance is one of the key segments of the global financial industry. (Hayes 2024) The global corporate finance market is an over $300bn/year industry by revenue and continues to grow on a yearly basis. (Statista – Corporate Finance 2024) This development is visualized below, in Figure 1, which also includes an estimation on the future growth. Corporate finance is divided into two main segments: debt and equity (Graham et. al. 2020, 10). This thesis focuses on the debt side of corporate finance. It is very common that companies have a need or desire to use loan capital for a variety of different reasons. Examples of such reasons can be mergers and acquisitions (M&A), research and development or simply any situations where a company runs into unexpected trouble and need additional cash for working capital. (Paplikar 2023)

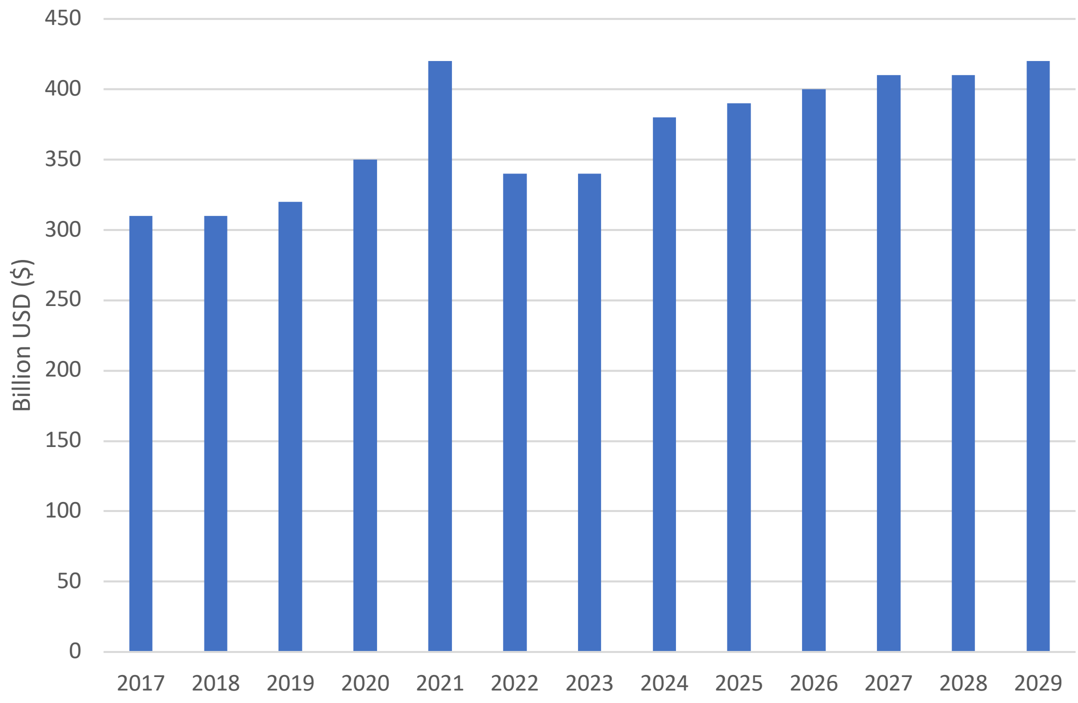

Figure 1 The growth and projected development of the global corporate finance market (Statista – Corporate Finance 2024)

For a business to be successful, it has to have its finances in order. Managing the balance sheet and understanding the possibilities of loan leverage can be key factors that constitute to the success of a company. (Jordan et. al. 2004, 521-528) When it comes to choosing a form of financing, companies have a difficult choice to make, regarding their needs and capabilities. (Parker, 2022) Choices vary depending on factors such as the format of the company, whether they are public or private, the size of the funding needed as well as many other variables regarding the specifics of the deal. (Nyamita et. al. 2014, 190) The most common option for financing is the traditional bank loan, and even those come in different forms, depending on the terms and conditions desired by both parties. For public companies another popular option is the establishment of corporate bonds, which are then sold to investors. (Napoletano & Curry 2021) For a long time, the only available options for corporate debt financing have mainly been different kinds of loans negotiated with a bank, or multiple banks, or public debt in forms of bonds. (Nguyen & Wald 2022, 240) However, since the early 2000s, and especially after the 2008 economic crisis, banks have had to comply to stricter guidelines and regulations regarding their lending activities, and thus companies have had less options to choose from in terms of bank loans. (Nesbitt 2019, 219-220)

The answer to the lack of supply of bank loans has been the emergence of private lending. Non-bank companies have found their way to corporate loans to fill the void left by banks, especially in the riskier, high yield loans. This newfound market has become a very lucrative business over the years for many investors. (Nesbitt 2019, 9-10) What makes private credit such an interesting topic to study then? The reasons are plenty. Firstly, the phenomenon is fairly recent and a clear trend that continues to evolve and grow. (Nesbitt 2023, 10) Private credit, or corporate lending from non-banking sources, has gained prominence as a flexible and customized means of securing capital for corporations. Unlike traditional financing methods private lending is a more flexible solution and provides companies with options and structures that can be tailored to suit their unique needs and circumstances. (Keenan 2022)

1.2 The emergence of private credit

Private credit, also known as private debt, private lending or non-bank lending has seen significant developments over the years. The 2008 financial crisis marked a turning point for private credit as increased regulation and scrutiny of banks prompted a shift toward private lending as an alternative source of financing. (Nesbitt 2019, 9) The crisis was caused by overly relaxed lending policies and cheap debt, which in turn caused excessive mortgage lending to customers who were unable to pay back their loans. (Duignan 2023) This then led to a housing market crash and eventually led to the collapse of large investment banks Bear Stearns and Lehman Brothers. (Singh 2023) The crisis exposed vulnerabilities in traditional banking systems and prompted regulatory changes that led to stricter lending standards and a more risk-averse approach among banks. (IMF 2018, 55) As a result, many businesses found it increasingly challenging to access financing through traditional bank loans. Private lending institutions, such as private equity firms, credit funds, and non-bank lenders, stepped in to fill this lending gap. (Boocker & Wessel 2024) Their flexibility in structuring loans, willingness to assume higher risks, and ability to provide tailored financing solutions met the needs of businesses in an evolving financial landscape. (Boocker & Wessel 2024) The 2008 financial crisis, in many ways, was a catalyst for the emergence of private lending as an alternative and complementary source of capital for corporations. (Nesbitt 2019, 219-220)

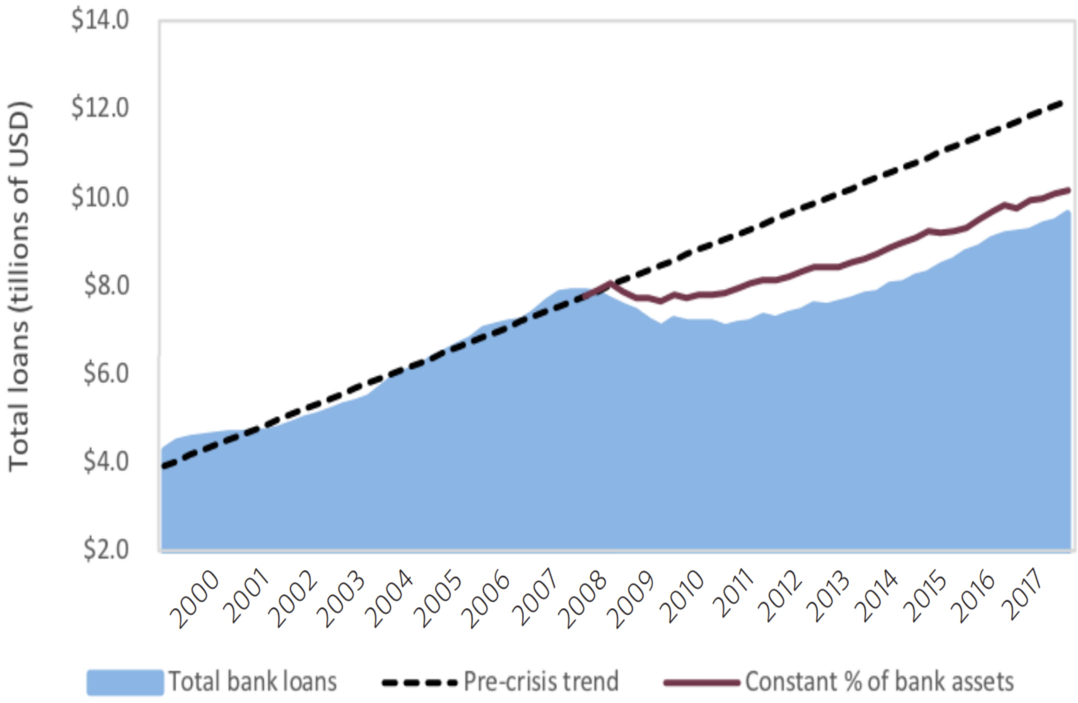

Figure 2 Lending gap caused by 2008 financial crisis (Hogan 2019)

Banks are still seen as the standard option for financing as they are the key institutions of the financial world. (Kagan 2024) However, as regulations have gotten stricter over time it has become harder for riskier companies to get access to bank-led financing, which has subsequently resulted in the growth of private lending as a source of corporate finance. (Boocker & Wessel 2024) The main difference between banks and private credit companies as financers is the source of money. Banks operate on money that is lent to them, aka deposits. (Boocker & Wessel 2024) This means that banks don't really have their own capital, which makes their speculative losses very detrimental to their operations, which is what triggered the 2008 economic crisis. (Strahan 2012) Private credit companies on the other hand operate on their own capital, or investor capital from funds, (Keenan 2022) which makes them a better option for riskier investments. Some argue that private credit can thus also help lower the market risk of future financial crises. (Wigglesworth 2024)

1.3 Purpose and structure of the study

Puck & Filatotchev (2020, 670) argue in their study that international business studies and finance studies rarely overlap but could greatly benefit from doing so. Therefore, this thesis aims to fill that gap in existing literature and help bridge the gap between the two fields of study. The research question this thesis aims to answer is “What are the key factors contributing to the emergence and growth of private credit as a financing option for businesses?”

The research question is divided into four sub-questions which are:

- What are the characteristics and uses of private credit?
- What are the advantages and disadvantages of private credit compared to traditional bank loans?
- How have regulations and other circumstances affected the growth of private credit in the financial industry?
- What is the future of private credit?

The empirical segment of this study reflects on the emergence and growth of private credit from the perspective of Finnish and Nordic actors in the field of banking and private credit. The research was conducted using the expert interviews method, by interviewing Finnish finance professionals to get their first-hand experiences and professional insights on the emergence and growth of private credit. The expert interviews offer views on both a local and global scale. The rapid growth in popularity that has been the recent trend for private credit is a global phenomenon and affect major economies around the world. The experts provide their insights on the effects of the phenomenon on a global scale, while also discussing their views on how the changes in the market apply and affect Finland on a local scale.

The thesis is divided into four main parts: the introduction, literary review, empirical study and conclusions. The introduction provides the first insight into the topic and explains the contents and purpose of the thesis. The second part, the literary review, provides broader and deeper information and sets the framework for the empirical study. The purpose of third part, the empirical study is to provide new information related to the topic, and thus contribute to academic research and existing literature. In the final part, the conclusions, the findings of the thesis are presented and analysed, and the contents of the thesis are put together to create a concise and conclusive entity.

In conclusion, this thesis aims to provide valuable insights into the world of private lending by offering a deeper understanding of its role in corporate finance and its implications for the global economy. Through a combination of literature review and empirical study, the aim is to raise awareness of the significance of private lending in the global financial world and to try discover new and/or significant factors that have amounted to the emergence and growth of the phenomenon. As private credit is still a relatively new and growing area of finance, this thesis has an opportunity to act as a good, condensed source of valuable information for those interested in the topic.

2 Literature review

The purpose of this chapter is to explain some of the basics of the topic. The chapter consists of three main parts. In the first part the different types of private credit are presented and given a brief explanation. In the second part the most common uses for private credit are showcased, and the third part is a comparison of the advantages and disadvantages of private credit, from the perspectives of both the lender and borrower.

2.1 Defining key concepts

Private lending is characterized by several distinctive features. First, it involves non-bank entities, such as private investors, private equity firms, and non-traditional financial institutions, providing loans or capital to borrowers. (Boocker & Wessel 2024) Second, private lending is often highly flexible, with terms and conditions that can be customized to meet the specific needs of the borrower, making it a versatile financing option. (Hidalgo 2024) Private lenders also tend to have a higher risk tolerance, making private lending more accessible for start-ups and companies with less established credit histories. (Maloney 2024) In addition, private lending arrangements can be more private and confidential, with less public disclosure and reporting requirements compared to traditional bank loans, offering a level of discretion that some borrowers find advantageous. (Gunter et. al. 2021)

Private credit is seen as a form of alternative investments. The majority of private credit falls under the high yield market, as they often include investments into riskier companies, and thus require higher payments to be an attractive investment. If the companies in need of financing fall under the requirements for a bank loan, they will receive their financing under better conditions from banks. (Suhonen 2024, 73) Private credit is called private credit as it is mainly concentrated in lending practices to companies that are unlisted and thus “private”, and it is contrary to public debt such as bonds. (Fernand 2022)

High yield loans refer to loans that have a credit rating below Investment Grade. (Baker et. al. 2019, 69) Investment Grade loans scale from AAA to BBB and are considered to be suitable and safe investments for banks and other investors. Anything below investment grade is considered Speculative Grade, or high yield. The credit rating of a loan deal is usually a defining factor on the pricing of a deal. The worse the credit rating, the more expensive the loan is for the borrower. (Welch 2009, 151) In poorly rated deals there often additional costs such as Original Issue Discount (OID), commitment fees, facility fees, utilization fees and cancellation fees. (Berg et. al. 2016, 1365) Private credit investors aim to find suitable investments in this category to reach attractive profits on high yields, while managing an increased risk. (Nesbitt 2019, 153-162) Presented below in Table 1 is the Standard and Poor's (S&P) credit rating scale, which helps understand the different classifications and definitions for credit instruments. In the table investment grade ratings and their definitions are highlighted in green, and the below investment grade ratings are highlighted in red.

Table 1 Credit rating scale (S&P Global 2024)

Rating	Definition
AAA	Investment Grade: Extremely strong capacity to meet financial commitments
AA	Investment Grade: Very strong capacity to meet financial commitments
A	Investment Grade: Strong capacity to meet financial commitments, but somewhat susceptible to economic conditions and changes in circumstances
BBB	Investment Grade: Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
BB	Speculative Grade: Less vulnerable in the near-term, but faces ongoing uncertainties to adverse business, financial and economic conditions
B	Speculative Grade: More vulnerable to adverse business, financial and economic conditions, but currently has the capacity to meet financial commitments
CCC	Speculative Grade: Currently vulnerable and dependent on favourable business, financial and economic conditions to meet financial commitments
CC	Speculative Grade: Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty
C	Speculative Grade: Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations
D	Speculative Grade: Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed

Private lending consists of various different forms that cater to the unique financial needs of borrowers. One prominent form is private equity, where investors take ownership stakes in companies, often providing expertise and capital for expansion. Private debt, a distinct category, involves non-bank lenders offering loans to businesses, often with flexible terms and customized structures. Mezzanine loans, also known as hybrid loans, combine elements of debt and equity, are often used to fund growth and acquisitions. Additionally, private lending can also encompass real estate financing, where individuals or firms provide loans for property purchases or development projects, creating diverse options for borrowers seeking alternative financial solutions. Presented below in Figure 3 is a visual representation of the risk profiles of the different loan instruments, which should help readers perception of the topic.

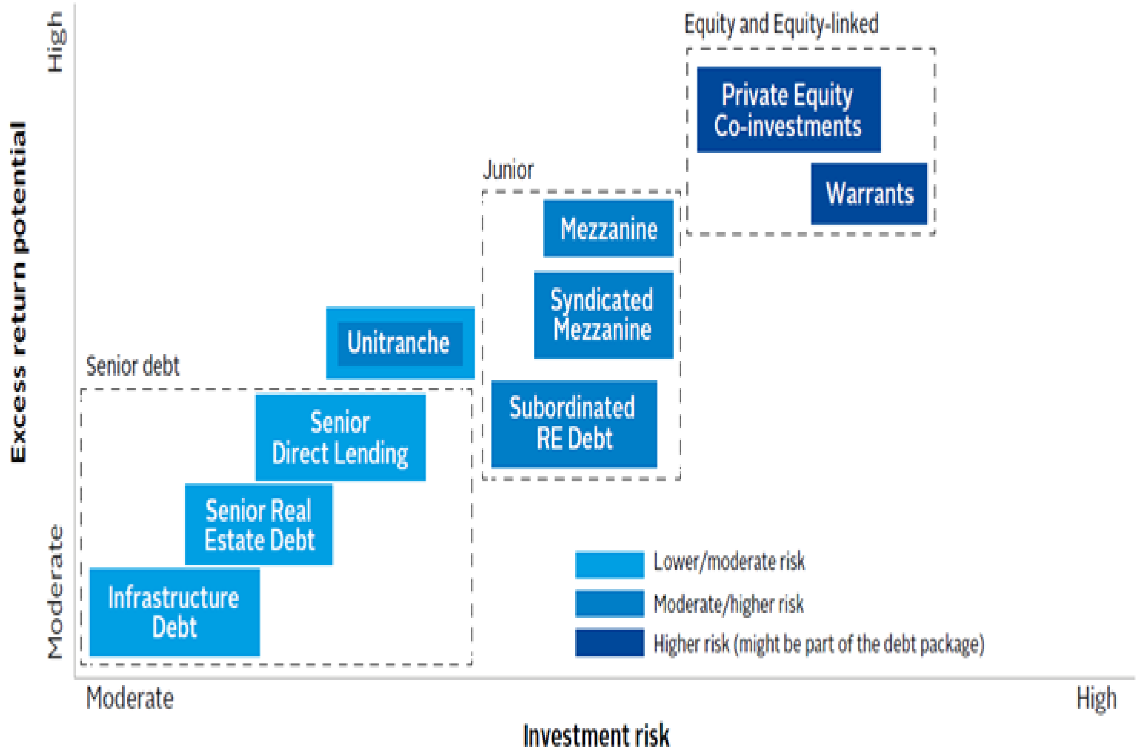

Figure 3 Risk-return profiles of private debt classes (Sinclair 2017)

Bilateral loans are loans in which only two parties are involved, often regarded also as direct lending. Direct lending is quite simply what the name suggests, one company directly lending money to another. Direct lending is a prominent facet of corporate private lending, where non-bank lending institutions, private equity firms, or credit funds provide loans directly to businesses. (Boocker & Wessel 2024) Direct lending has gained traction in the corporate finance landscape, particularly for middle-market companies and multinational corporations seeking tailored financing solutions. (Keenan 2022) This method allows borrowers to work closely with lenders to customize loan agreements to meet their unique financial needs, making it a valuable and dynamic component of corporate private lending. (Gunter et. al. 2021) Most commonly bilateral loans are between a bank and a company, as that has been the only available option in the past and thus has been set as the industry standard, but recently bilateral private loans have emerged also. For private companies to find bilateral loans appealing, their yield must be considerably higher than for example banks. (Nesbitt 2019, 9)

Syndicated loans are the largest and most common form of lending used in the corporate finance markets (Ivashina 2009). Syndicated loans are loans in which multiple investors buy a share of a larger loan. These loan deals are usually organized by banks who act as the agents, and then the investors can be either private companies or other banks. Even though syndicated loans are still considered traditionally bank-led activities, there is an increasing amount of attention from non-bank lenders to syndicated loans. (Aldasoro et. al. 2022, 16) Due to the aforementioned reasons there seems to be a split opinion on whether syndicated loans are private lending or not, but as a great amount of the investors in syndicated loans are private, and due to the importance of them for the world of corporate finance it's important to include them in this thesis. (Bae et. al. 2018)

Syndicated loans are attractive to both investors and the companies in need of capital. For investors it means getting a share of a good high yield investment, with only a fraction of the risk associated compared to being the sole debtor. (Keil & Müller 2020, 1270) For companies seeking financing syndicated loans allow access to larger sums of money and the attractive terms also attract more investors. (Segal 2023) Syndicated loans can be compared to bonds, which are essentially a publicly traded version of a syndicated loan. Naturally, the two should not be compared as complete equals, as there are defining differences in terms and conditions, but for a simple explanation their forms are similar. (Altunbaş et. al. 2010, 437)

The Aldasoro et. al. 2022 article argues that non-bank lenders are an important player in the syndicated loan market, which would make it a key area of private credit. Some sources see syndicated loans as a hybrid between private and public debt (Dennis &

Mullineaux 2000, 404) and some sources argue that syndicated loans are not a part of private credit due to the characteristics of the instrument, which include multiple partners, and thus claim that syndicated loans are public debt. (Lynam & Bly 2023, 2) As can be seen, syndicated loans are a complicated instrument to evaluate in regard to the concept of private lending, as they do provide a great way for private companies to participate in corporate loans, but it is debatable how well this reflects on the concept of private lending. It is considerable that non-bank companies have had an increasing amount of participation is such loans, instead of them being simply a collection of banks. This means that an influx of private capital has entered the market via syndicated loans, and thus they should be considered within the perimeters of private lending. (Chen et. al. 2023, 1) Perhaps the most suitable definition for syndicated loans is presented in the Dennis & Mullineaux 2000 article as a hybrid between private and public debt.

Mezzanine debt sits in between debt and equity finance, forming a unique category of corporate financing, often also known as junior debt. (Willis & Clark 1989, 77) Unlike traditional bank loans, mezzanine debt is subordinated in the capital structure, meaning it has a lower priority for repayment. (Mäntysaari 2010, 284) This subordination adds a layer of risk to mezzanine lending. However, what sets mezzanine debt apart is its hybrid nature, which combines elements of debt and equity. Mezzanine debt is a broad term that encompasses many different kinds of solutions between debt and equity financing, which are negotiated for each individual case. (Vasilescu 2010, 65) While private debt encompasses various lending arrangements, mezzanine debt's distinctive feature is the potential for lenders to convert their investment into equity if specific conditions are met. This flexibility makes mezzanine debt an attractive choice for businesses seeking a financing solution that blends features of both private debt and equity financing. (Hayes 2020) For investors mezzanine debt can be attractive because it can result in higher returns than traditional debt instruments while still staying at a lower risk level than direct stock investments. (Mäntysaari 2010, 283)

Credit investments are never without risk. There is always a possibility that the borrower is not able to pay back the loan. (Welch 2009, 143) Therefore, *collateral and covenants* are essential elements in corporate private lending arrangements. Collateral refers to assets or property pledged by the borrower to secure the loan. It provides the lender with a form of protection and a source of repayment in the event of default. The quality and value of collateral can significantly impact the terms and pricing of the loan. (Hunt 2023)

Covenants, on the other hand, are contractual agreements that outline specific conditions and restrictions that the borrower must adhere to during the term of the loan. These can include financial performance metrics, limitations on additional borrowing, and various operational requirements. Covenants serve to protect the interests of the lender and ensure that the borrower remains in good financial health throughout the loan's duration. Both collateral and covenants are critical components of private lending agreements, helping to manage risk and safeguard the interests of both parties. The use of collateral and covenants is a unique feature of private lending as bank loans don’t really utilize them anymore. (Gunter et. al. 2021)

2.2 Uses of private credit

Leveraged buyouts (LBO) are one of the most essential functions of private equity investing, but recently there has been an increased amount of involvement from private credit as well. A Leveraged Buyout is a situation in which a company is acquired using a significant amount of debt to finance the purchase. (Kenton 2024) The goal of an LBO is usually to take a public company private or to restructure a private company. LBOs are commonly carried out by private equity firms or by groups of investors, often in partnership with management teams. (Kaplan & Strömberg 2009, 121) The rapid rise of private credit in leveraged buyout has been fuelled by the same factors that has affected the growth of private credit as a whole. Due to difficulties of obtaining financing from banks or public credit, private credit has risen to provide up to 86% of loans for the leveraged buyout market in the US as of 2023. (Zidle & Bock 2023) Private credit has emerged as a worthy and credible financing option for LBOs, as larger and larger deals have been financed with private credit (Lewis et. al. 2023)

Perhaps one of the most famous examples of an LBO is the acquisition of Twitter conducted by Elon Musk in 2022. Twitter, now known as X, is one of the largest social media platforms, and it used to be listed on the New York Stock Exchange (NYSE). (Jin & Ough 2022) Musk conducted a full stock takeover and privatization of Twitter by using loan leverage from external investors, making his purchase a leveraged buyout. In this instance however, the majority of the debt used for Musk’s leverage was from multiple banks, although some private credit was utilized also. (Jia et. al. 2023, 145) If proven successful, similar large-scale LBOs could be seen more frequently in the future utilizing private credit for leverage.

Growth financing is highly important for any business that strives to be successful. Often to achieve growth it's important to have access to financing, as usually companies aren't making enough money to fund growth projects on cash flow alone. (Rahaman 2011, 709) Private credit can be used to fund organic growth strategies, such as expanding production capacity, entering new markets, or investing in research and development. By offering competitive terms, faster execution, and greater flexibility compared to traditional financing sources, private credit enables companies to pursue growth opportunities while preserving ownership and control. (Nesbitt 2019, 179)

Real estate is a common field that needs plenty of external financing. This makes it very suitable for private credit companies to invest in. The real estate market is a large and lucrative market which provides investors with many different kinds of investing opportunities. (Nesbitt 2019, 181-184) Real estate deals usually fall into the category of a larger magnitude, which means that private credit can be a very suitable option for many companies. As stated before, finding large amounts of loan capital can be challenging and this has been one of the areas where private credit has been able to find market share. (Guichard et. al. 2020) Similar to real estate, *infrastructure* is also one area that can benefit from access to private credit. (Nesbitt 2019, 194-197)

As with any corporate financing, one of the uses of private credit can simply be *working capital* for a company. Companies might for example want to take a loan for working capital if they have come across sudden financial hardships and simply need more capital to maintain their operations. (Kagan 2020) Other alternatives can include structural financing, where the company wants to change their allocation of own capital to loan capital. Unlike traditional bank loans, private credit for working capital often offers faster access to capital with fewer restrictions, making it an attractive option for companies seeking to manage cash flow fluctuations, fund inventory purchases, or cover operating expenses. (Nesbitt 2019, 192) Private credit providers offer various working capital financing solutions, including asset-based lending, receivables financing, and inventory financing, which can be structured to accommodate the unique requirements of different industries and business models. By leveraging private credit for working capital, businesses can improve their financial flexibility, seize growth opportunities, and navigate challenging economic environments more effectively. (Akang 2024, 9)

2.3 Advantages and disadvantages of private credit

Private credit, bank loans and public debt differ in several key aspects. The purpose of this chapter is to evaluate the advantages and disadvantages of private credit from the perspectives of the lender and the borrower. The advantages and disadvantages presented in the paragraphs aim to generalize and represent the points of focus in a broad manner, as eventually all contracts can be very different from each other regardless of the form of financing. However, these paragraphs should still relatively accurately represent the overall situation for private credit lenders and borrowers. The differences are explained in dedicated paragraphs, as well as a condensed visual representation in Table 1.

2.3.1 Borrowers

Private lending offers several advantages that make it an attractive financing option. For example, it can provide borrowers greater flexibility for loan structuring by allowing borrowers to negotiate customized terms and conditions that suit their specific needs with their lenders or agents. (Keenan 2022) Private credit investors often have a higher risk tolerance than banks, making private lending more accessible for businesses that are considered to be riskier investments, for example due to their financial situation or the industry they operate in. The lending process is also typically faster in private credit deals, which enables borrowers to access funds more quickly compared to traditional bank loans. Additionally, private lending can be a more discreet and confidential financing option, as it may not involve the same level of public disclosure or reporting as traditional bank financing. Lastly, private lenders may be more willing to work with businesses that banks might consider too risky, expanding the range of potential borrowers and financing opportunities. (Gunter et. al. 2021)

Unsurprisingly, private lending also comes with its set of disadvantages. Some of the factors that are an advantage to the lender might be a disadvantage to the borrower, and vice versa. For example, the higher interest rates in private credit deals cause a substantial strain for the borrowers to manage the interest payments. Private lenders may also require more substantial covenants for the borrowers to fulfil, or a form of collateral such as equity stake as security, which can be a burden for borrowers. (Shams Billah 2023) Private credit agreements may also have less regulatory oversight, potentially exposing borrowers to a higher degree of lender risk. Additionally, the terms and conditions in private lending are often individually negotiated, which can cause excess work for the borrowers, as they have the ultimate responsibility be aware of the terms they are agreeing to. The less standardized nature of private credit deals can sometimes also lead to lessened legal protection or otherwise highly unfavourable terms that the borrower may not be able to fulfil, making it essential for borrowers to conduct thorough due diligence and carefully review the terms of the loan agreements. (Gunter et. al. 2021)

2.3.2 Lenders

Business is always a matter of supply and demand. Therefore, for a phenomenon like private credit to thrive, it has to be at least as appealing to the lenders as it is to the borrowers. The main advantage for lenders is the high-yield nature of the private credit deals, which ensures that investors receive a hefty premium for the capital they lend out. (Nesbitt 2019, 71) Another appealing factor for lenders is that investing in credit deals is also a good way for investors to diversify their portfolio and modify their risk profile, by adding a new asset-class into the portfolio. (Brod 2024) Credit investments are traditionally seen as more stable and less risky than traditional stocks and bonds, which can help reduce the volatility of an investment portfolio. Credit investments are also less prone to rapid changes in the market, compared to stocks for example. Credit investments in general also act as a great source of steady income, as they have regular interest payments, which can be seen as “dividends” for invested capital. Private credit deals also often include some form of risk management for the lender. Often this means that there is some form of collateral, or covenants included in the terms of the deal. (Nesbitt 2019, 79)

Private credit is not without disadvantages for the lenders either. Private credit deals are often considered to be illiquid, meaning there is no aftermarket to trade them in. Additionally, even if there is an aftermarket to trade the instruments, such as with syndicated loans, the contracts can be so unappealing to other investors that lenders might take a heavy loss when selling the instruments. (Cortes et. al. 2024, 54-57) Private lenders typically assume a higher level of risk by investing in below investment grade loan instruments, which results in a premium in the form of higher interest rates or fees. The price premium serves to compensate private lenders for the increased risk they take on when extending credit. The balance between risk and return can be challenging to find, as investing in too risky instruments can cause serious credit losses for the lenders.

Lenders need to acknowledge that the risk of default is serious in sub-investment grade instruments. (Gunter et. al. 2021)

Table 2 The advantages and disadvantages of private credit

	Lenders	Borrowers
Advantages	High yields Steady flow of income Portfolio diversification	Access to capital Flexible terms Faster processes
Disadvantages	High risk Illiquidity of instruments	Less protection from governing agencies Expensive capital

To summarize the contents of this chapter, as can be seen from Table 2, the advantages and disadvantages of private credit for both lenders and borrowers relate the to the flexibility to negotiate specific loan terms, as well as the pricing of the loans that depend on the financial situation and credit rating of the borrower. The purpose of chapter 2 was to introduce the principles of private credit instruments and the defining characteristics and uses. In the next chapter the growth of private credit is analysed based on the changes in the market. The next chapter presents the macroeconomic drivers that have led to the rapid growth in popularity on a global scale.

3 The growth of private credit

This chapter analyses the changes in the global financial markets that have affected or promoted the growth of private credit. The key factors presented in the chapter include the regulations implemented after the financial crisis, recent changes in major global interest rates and other major changes in the market environment, such as the effects of the Silicon Valley Bank crisis and the increasing demand for corporate social responsibility among companies.

3.1 Regulations

3.1.1 Dodd-Frank Act

One of the key reasons why private lending has grown in popularity after the 2008 financial crisis is the Dodd-Frank Act (Shams Billah 2023). Introduced in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly referred to as the Dodd-Frank Act, is a legislation enacted in the United States in response to the global financial crisis of 2008. (US Congress 2009) It was named after former U.S. Senator Christopher J. Dodd, and former U.S. Representative Barney Frank. (Hayes 2023) The Dodd-Frank Act has had a big impact on the U.S. financial industry and has significantly altered the landscape for finance regulations. The aim of the act is to prevent another financial crisis and protect consumers while increasing transparency and accountability in the financial markets. The Act introduced regulations and requirements for increased capital for banks, which have influenced their lending practices. As a result, some banks have become more cautious in their lending activities, particularly to borrowers with less established credit histories or those seeking riskier loans. The Act also aims to increase transparency, protect consumers, and strengthen the financial resilience of banks, which should lead to a safer, more stable, and sustainable banking industry. (Hayes 2023) Even though the Dodd-Frank Act is strictly a US legislation it affects markets outside the US too. (Kenadijan et al 2013, 317) Presented in the figure below (Figure 4) is a depiction of the decreasing participation of banks in leverages loans in the United States.

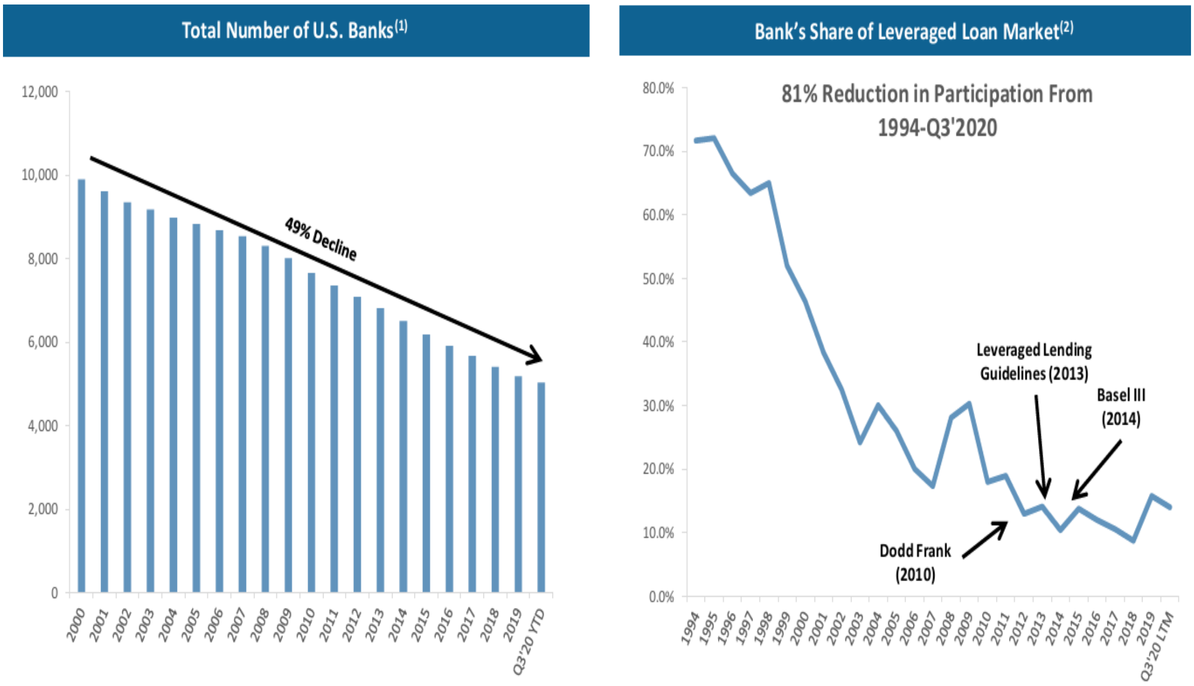

Figure 4 Decline of bank loans in the US (Leverett 2021)

3.1.2 Basel frameworks

The European counterpart to the Dodd-Frank act is the Basel framework, implemented by the Basel Committee on Banking Supervision (BCBS). The committee is supervised and overseen by the European Banking Authority (EBA). The Basel framework was originally introduced in 1988, but the latest implementation known as the "Basel III framework" was created in response to the 2008 banking crisis, much like the Dodd-Frank act. The Basel III framework was finalized in 2017. (EBA 2024) As the name suggests, The Basel III framework is a follow-up to the preceding Basel I and Basel II frameworks. There is already a Basel IV framework being constructed, which will be implemented by 2025. The aim of the Basel frameworks are to strengthen and stabilize and the banking sector by setting standards for capital adequacy, risk management, and regulatory supervision. (Daugherty 2023)

While the Dodd-Frank Act and Basel III frameworks are inherently similar in many ways, there are also some notable differences. Both sets of regulation set higher capital requirements and address the risk-taking abilities of banks. Basel III also requires banks to have a "rainy day" fund as a buffer for capital conservation. (Paskelian & Bell 2013, 17) Basel III regulations also utilize the input from credit rating agencies, whereas the Dodd-Frank Act implements new regulations for the credit agencies themselves and the financial regulations set in the Dodd-Frank Act are not based on input from credit agencies. This is likely due to the alleged collaboration between credit rating agencies and banks that enabled the financial crisis to develop unnoticed. (Paskelian & Bell 2013, 18)

The protective measures of the Dodd-Frank Act and the Basel frameworks are generally seen as a positive. However, the counter argument for many is the negative effects it has for access to capital for many companies that would be considered riskier investments, such as small and medium-sized enterprises (SME). The increased regulations can be seen as having an effect that slows economic growth due to companies not being able to access financing that they need to grow their operations. (Akang 2024, 9) Figure 5 shows the correlation between an increasing number of regulation implemented, and the decreasing levels of loans as a percentage of banks assets.

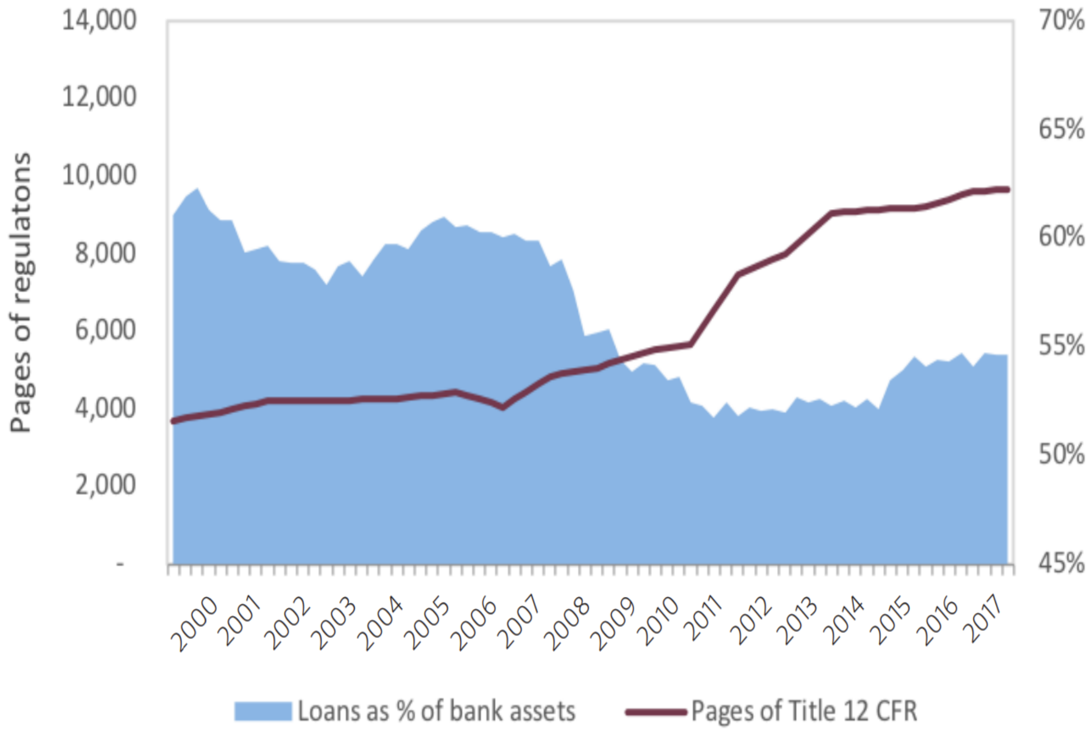

Figure 5 The number of regulations in relation to loans (Hogan 2019)

The implementation of the Dodd-Frank Act and the Basel III framework have been some of the most substantial changes in the banking industry and the global financial industry as a whole in the recent decades. They have generally been deemed to have been a successful and needed regulatory action to prevent future financial crises of a similar magnitude to the 2008 crisis in the future. However, it must be noted that these regulations are not without faults, and they have for example been blamed as one of the reasons behind slower economic growth. (Paskelian & Bell 2013, 20) The next chapter evaluates market drivers that have also affected the growth of private credit, such as the interest rates, the Silicon Valley Bank crisis and corporate social responsibility demands.

3.2 Current market drivers

As has been stated throughout the thesis, private lending has been a growing phenomenon for the past decade or so and there is plenty of data to back up this claim. (Mounguia & Dubar 2024) The past decade has been a favourable period for loan capital in general, as interest rates have been low for an extended time, and lenders have had plenty of interest in investing in corporate loans in search of profits. Presented below is a graph depicting the allocations to private lending over the years after the financial crisis. The data of the graph ends on 2022 year to date (YTD) data, and it is important to note that 2022 ended up being a record year for private lending. (Rovnick & Elisei 2023) It is important to note that the growth has not been solely in the private credit market, but the private credit market has grown on par with the rest of the corporate loans market. (Rovnick & Elisei 2023)

Private credit has grown significantly over the past few years and has shown increased participation in areas outside the US market, such as Europe and Asia. (Cortes et. al. 2024, 56) Figure 6 shows the near exponential growth of assets under management in private credit since 2008. The private lending market also mimics the overall situation of the global loan market. Factors such as interest rates and overall market optimism reflect on the supply and demand of private lending as with any market. (Boocker & Wessel 2024)

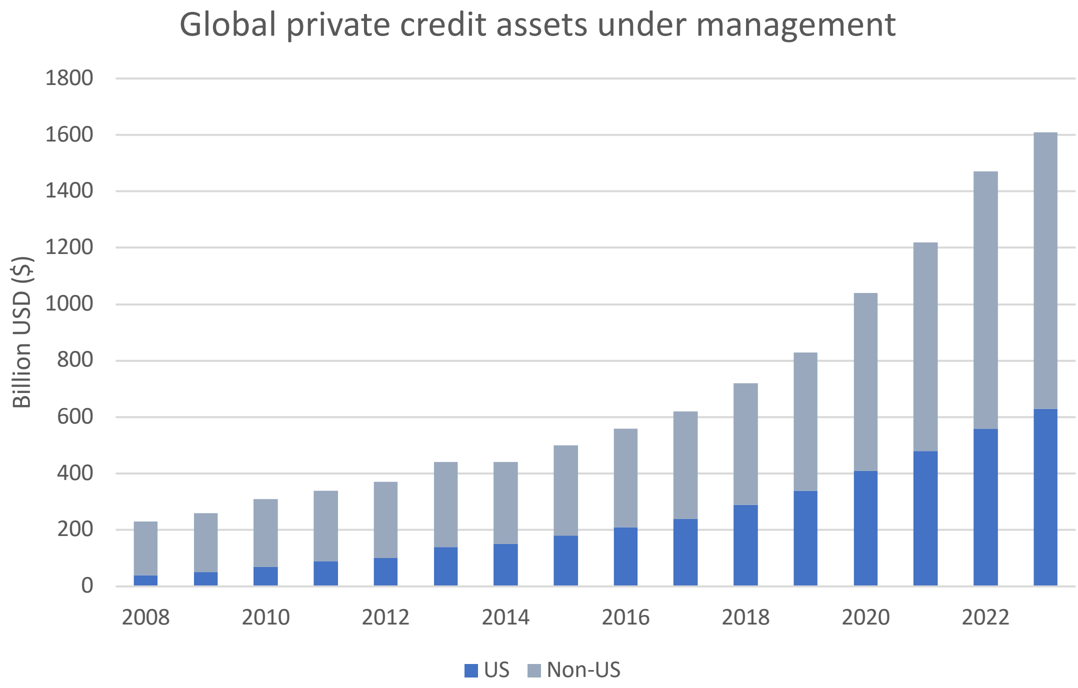

Figure 6 Growth of private credit (Guseva 2024)

The rising interest rates have resulted in a rapid decline of private loan deals in 2023. (Rovnick & Elisei 2023) The current situation is very challenging in the global loan market, as high interest rates driven by hikes set by the European Central Bank (ECB) and United States Federal Reserve (Fed) As can be seen in Figure 7, the change in interest environment has been rapid and quite radical. A steep increase in the cost of credit has discouraged many companies from seeking credit financing. (Rovnick & Elisei 2023) The current situation is a good indication of the risks associated with private lending, as increased interest rates can cause a lot of trouble to companies with significant amounts of loan capital. Private credit benefitted from the post-financial crisis environment of nearly zero interest rates, which lasted approximately for a decade after the crisis.

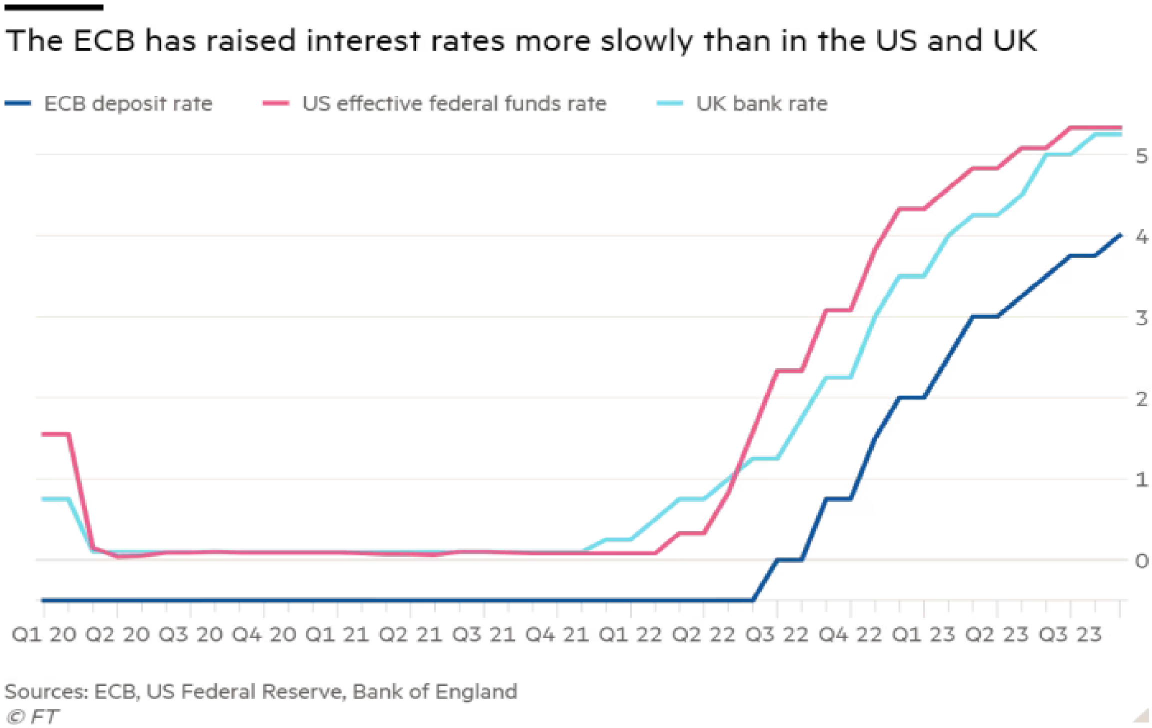

Figure 7 Interest rates (Arnold 2023)

The COVID-19 pandemic caused many companies to struggle to maintain their businesses, which resulted in governments trying to find ways to pump money into the economy to continue operations as per normal. During the pandemic central banks cut interest rates to zero, which was done to help companies loan money for their operations at for a cheap price. (Millstein & Wessel 2021) After the pandemic central banks started to hike their interest rates to cool down the economy and control inflation, which then in turn has made the loan environment very tricky for companies. The rise in interest rates has caused a clear stagnation to new loan deals and 2023 has been a significantly worse year for private lending in contrast to the record breaking 2022 (Rovnick & Elisei 2023). Lenders of course benefit from the rising interests and would likely want to dish out as many new loans as possible, but at the moment it seems the demand isn't there for them.

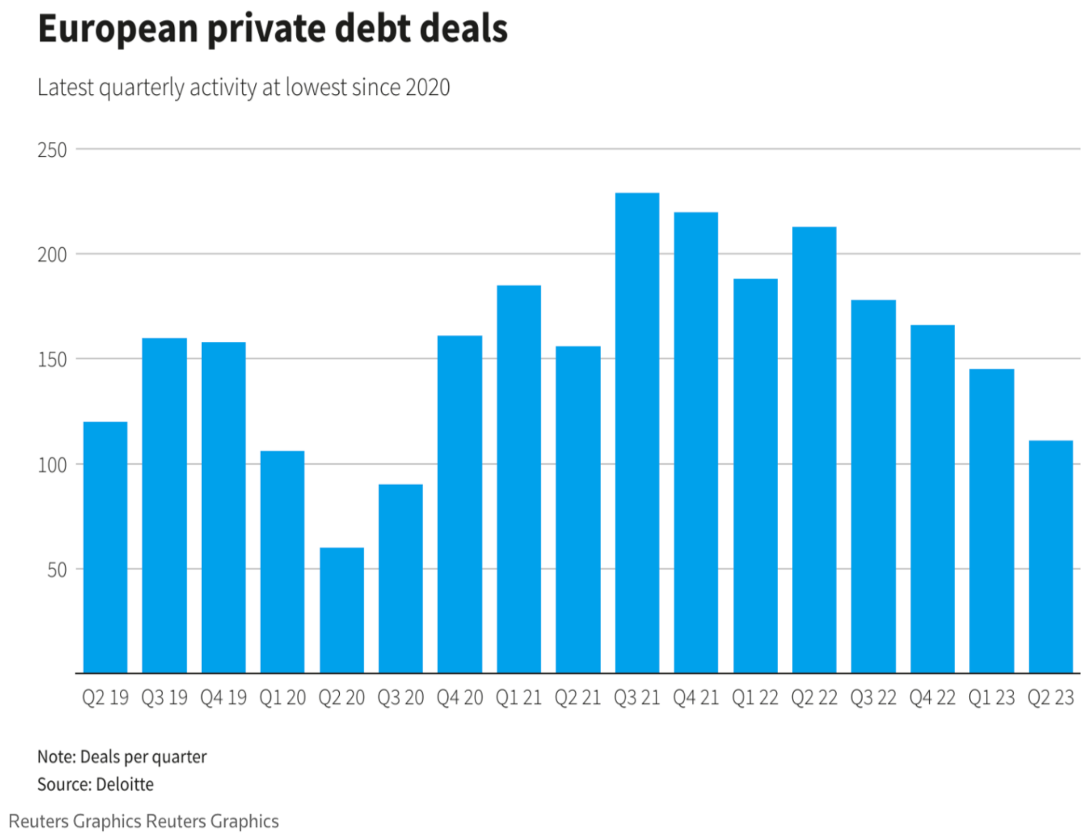

Figure 8 New deals on the decline (Rovnick & Elisei 2023)

3.2.1 The impact of the Silicon Valley Bank crisis

In March 2023 the Silicon Valley Bank provided the next big banking crisis after the 2008 financial crisis. The Silicon Valley Bank had invested much of its deposits in low yield bonds and decided to sell them at a loss to reach for higher profits. This sudden loss then led depositors to withdraw their deposits, which then led to the collapse of Silicon Valley bank. (Sorkin et. al. 2023) This exposed new weaknesses in the previous regulations, as the Silicon Valley bank operated in a category that was less affected by the Dodd-Frank act. (Chotiner 2023) The Dodd-Frank act was changed in 2018 under the Trump administration. The threshold for stricter regulations and scrutiny from banks was raised from $50bn to $250bn in deposits. After that change was implemented, the deposits of Silicon Valley bank quadrupled from $50bn to nearly $200bn before its eventual downfall. (Burns & Rock 2023) The Silicon Valley bank crisis once again showcased the vulnerability of the banking industry and promotes further use of private credit. Credit risk is a substantial factor for banks that operate mainly on capital that consists of deposits, or loans. When customers hear that a bank might be facing financial trouble, they tend to withdraw their deposits as quickly as possible for their own safety, which then leads to a domino-effect in which the bank suddenly has insufficient funds to operate. Fortunately, the Silicon Valley bank crisis didn't lead to a larger scale financial crisis like the 2008 Lehman Brothers collapse, but it serves as a good reminder of the fragile nature of banks.

3.2.2 Requirements for Corporate Social Responsibility

Corporate social responsibility, or CSR has been a growing trend over the past few decades. Legislators, investors and consumers have started to except companies to adhere to certain standards and to fulfil Environmental, Social and Governmental (ESG) guidelines. (Driessen 2021, 339-340) These factors can also affect the way companies have access to funding from banks or investors. Most lending processes nowadays include an ESG check, in which investors evaluate whether to company operates by standards that they want to invest in. The riskier the company is on the ESG scale, the less available investors there are, and thus the more expensive their loans terms will be. (Sindaco 2020)

CSR factors are heavily assessed in all investments nowadays, and corporate loans are no exception to the matter. Investors must obey certain policies set by governing bodies as well as satisfying their shareholders and partners by conducting their investment processes in a sustainable way. Therefore, it is vital for investing companies to thoroughly assess the company they are investing in and evaluate whether or not they want to participate. (Coelho et. al. 2023, 1535) In this regard the difference between private companies and banks is virtually non-existent as both have to follow similar guidelines for their operations. A private credit company might be able to set looser standards for themselves, but that would likely have a negative effect on their operations and influx of cash from investors. (Kraemer-Eis & Block 2022, 10-17) The increasing amount of emphasis on ESG factors is bound to be another key determining factor in corporate finance. In the future companies that are unable to comply by ESG standards will find it increasingly difficult to gain access to loan capital, or it may come at a significant cost. (Gillan et. al. 2021, 9)

Chapter 3 presented many explanatory factors for the growth of private credit in the past decade. This concludes the literary review of the thesis. The next part of the thesis consists of the empirical research that is based on the framework set by the literary review. The aim of the empirical research is to find out via expert interviews how industry professionals have seen the emergence and growth of private credit from their perspectives and to gain insight on their first-hand experiences with the themes discussed in the literature review. The empirical research follows a similar structure to the literary review, as the research is based on the themes presented in this part.

4 Research design

The purpose of this chapter is to outline the empirical research conducted for this thesis. In this chapter the research strategy, data collection and data analysis methods are presented. This chapter presents how the research was conducted and why the methods that were used were chosen.

4.1 Research strategy

The research strategy provides the backbone of the research, and it is important to choose the most suitable research methods for the specific research being condutced. (Eriksson & Kovalainen 2008, 28) The chosen research method for this thesis is qualitative research, conducted by interviewing professionals in the financial industry with relevant experience to the topic of the thesis. This method of research is referred to as expert interviews, and it is a popular research method due to the ability to produce good and accurate data. (Bogner et. al. 2009, 2) Qualitative research was deemed the most suitable option for this thesis as the research question is abstract and interpretive and aims to find answers to a phenomenon caused by a multitude of factors. (Eriksson & Kovalainen 2008, 5) Qualitative research has an emphasis on understanding and exploring the topic, which is the desired approach for this study. (Ghauri et. al. 2020, 130)

Eriksson & Kovalainen (2008, 30) note that one of the ways to evaluate the relevance of a study is the originality of the topic. As has been noted earlier in the thesis, the phenomenon is new and developing, and characterized as a change in the market. The research aims to understand the reasons behind these changes and explore the causes and drivers that have led to the current situation. Therefore, the research should comply with the criteria of originality in a satisfactory manner. Although traditionally business research is associated with quantitative research, qualitative research is also a common method for research in business and provides a good tool especially when there is a limited amount of previous research. (Eriksson & Kovalainen 2008, 5) As the topic of private credit is relatively new, this further promotes the use of qualitative research as the chosen research method. Qualitative research was also deemed to be the most suitable option for this thesis, as it allows for a smaller set of data compared to quantitative research. (Ghauri et. al. 2020, 98)

Interviewees were selected by their experience with private credit directly or corporate finance in general. The purpose of the interviews is to allow for the interviewees to contribute their own thoughts and beliefs into the research. The interviewees have amassed a significant amount of first-hand experience in the field of corporate finance and private credit and have seen the changes in the market environment over the years. The views of the professionals provide a good countermeasure in comparison with the literature presented in the first segment of the thesis.

4.2 Data collection

Most of the interviews were conducted online via Microsoft Teams video calls, recorded and transcribed. Myers (2009, 121) states that when interviewing subjects, the researcher should implement themself into the world of the interviewee and let them be in a natural state. To ensure a comfortable setting for the interviews and to maximize the output of the interviewees by refraining from any possible linguistic limitations, all the interviews were conducted in Finnish. Myers (2009, 121) argues that by providing a comfortable environment for the interviews, the interviewees will be more open to talk freely and thus provide the best possible data for the research. The interviews were then translated into English, to be analyzed for the thesis. Following the advice of Myers (2009) the interviews were set up to maximally accommodate the schedules and other needs of the interviewees. One interview was done in-person in a private conference room with no disruptions.

The interviews were conducted as semi-structured, with a set framework for questions (Appendix 1 & 2). The semi-structured interview is an interview model in which pre-determined questions are set, but follow-up questions are allowed, and the interviewed person can speak more freely than in a structured interview. (Eriksson & Kovalainen 2008) The data collected in the interview can be seen as a primary source of information, as it is information produced solely for the purpose of this thesis. (Ajayi 2017) The semi-structured interview was deemed the most suitable option for data collection for this thesis, as it allows for free-flowing discussion with open questions, while still maintaining a predetermined structure that the interview follows. The open questions allow the interviewees to contribute as much of their own thoughts as possible and it allows them to seek answers from their own points-of-view instead of simply trying to find absolutes or "correct" answers.

Table 3 Operationalization table

Research question	Sub-questions	Themes	Theoretical framework (Chapters)
What are the reasons behind the emergence and growth of private lending as a corporate financing option?	What are the characteristics and uses of private credit?	Characteristics and uses	2.1, 2.2
	What are the advantages and disadvantages of private credit	Conditions and availability	2.3
	How have regulations and other circumstances affected the growth of private credit in the financial industry?	Changes and market drivers	3.1, 3.2
	What is the future of private credit?	Changes and market drivers	3.1–3.4

The interviewees are presented in the table below (Table 4). When conducting research with expert interviews, the quality of the experts plays a significant role to the quality of the research. (Bogner et. al. 2009, 117) The interviewees were chosen based on their experience and expertise in the field of finance, as well as their knowledge of the topic of private credit. Two of the interviewees work in companies that act as investors in the private credit market and have years of first-hand experience with private credit investments. The other two interviewees have similar levels of experience in corporate finance, but from the banking industry. This setup creates a good basis for the empirical study, as the topic can be assessed from the two sides that are central to the phenomenon.

All the interviewees have multiple years of experience in the field of finance and can be considered reputable and reliable sources for first-hand experience on how they have perceived changes in the industry over the past years.

Table 4 Interviews

Representative of	Interviewee's title	Duration	Interview language	ID in thesis
Private credit	Head of Special Situations	1:02:57	Finnish	Interviewee #1
Bank	Market Area Head	0:53:46	Finnish	Interviewee #2
Bank	Director, Syndications and Corporate loans	0:52:52	Finnish	Interviewee #3
Private credit	Senior Portfolio Manager	0:45:33	Finnish	Interviewee #4

The personal information of the interviewees was anonymized for the thesis to further promote the comfort of the interviewees to speak freely during the interviews, without having to worry about possibly leaking company specific information. It was agreed that identifiable material would be used in the research to further promote the anonymity of the participants.

4.3 Data analysis

Data analysis is one of the most important, but also one of the most challenging parts of a research. (Nowell et. al. 2017, 1) In this thesis the data from the study is analysed using a thematic analysis, which means evaluating the data set and finding patterns and themes. Thematic analysis is a fitting choice for this thesis, as according to the Nowell et. al. 2017 article it provides a very good and highly adaptable form of data analysis, while being a fitting choice for researchers who are still early in their career. Thus, for a relatively unexperienced writer, thematic analysis is a natural choice for data analysis. The data from the interviews was analysed in the form of transcriptions, which were mostly composed by the Microsoft Teams automatic transcription tool, but later analysed and rectified by the writer. The interview data was analysed to find reoccurring themes to answer the themes based on the research question and sub-questions of the thesis. The formation of the themes is best explained in the operationalization table (Table 3).

When conducting a thematic analysis, the analysis consists of three main stages. The breakdown of text, the exploration of text and the integration of the exploration. (Attride-Stirling 2001, 390) When beginning the analysis, the first step is to reduce the amount of data by coding it into more manageable segments. (Attride-Stirling 2001, 390) In this research the gathered data was coded by topics and

The Attride-Stirling (2001, 391) article proposes a six-step guide into thematic analysis. The six steps included are:

1. Code material
2. Identify Themes
3. Construct Thematic Networks
4. Describe and Explore Thematic Networks
5. Summarize Thematic Networks
6. Interpret Patterns

Steps 1-3 fall under stage one, the breakdown. Steps 4-5 are stage two, exploration of text and step 6 is stage three, integration of exploration

The data analysis of this research was conducted along similar lines as the Attride-Stirling (2001) article suggests. The material obtained from the interviews was coded, thematically identified and constructed into networks, that from the framework for the findings chapter (Chapter 5). Next the themes were described and summarized into the findings chapter and patterns were interpreted.

4.4 Evaluation of the study

This chapter evaluates the trustworthiness of the study. The aim of the chapter is to evaluate the four criteria of trustworthiness in qualitative study, which are credibility, dependability, confirmability, and transferability (Shenton 2004, 63) Evaluating the trustworthiness of a qualitative study is an important part of the research process to provide transparency and to present arguments that the research can be considered as academically significant. (Shenton 2004, 73)

The *credibility* of a study relates to the internal validity of the research. It can be assessed by evaluating the familiarity with the subject and how well the research correlates to reality. (Shenton 2004, 64) In this instance the research should reflect reality quite accurately, as the empirical evidence is based on the experiences of experts in the field of private credit and they are presented from the opposite ends of the field. The researcher has some previous experience working with the topic and thus should be considered at least to some extent to be be a credible writer regarding the topic. The researcher has also gained further understanding to the topic while constructing the literature review and the empirical research of the thesis, which further promote credibility. (Eriksson & Kovalainen 2008, 294)

Dependability as a criterion of trustworthiness relates to how well the steps of the research are documented and how well they can be replicated. (Eriksson & Kovalainen 2008, 294) The role of the researcher is to provide the reader with as much information about the research process as possible to ensure trustworthiness. (Shenton 2004, 71) As the research is a qualitative research which utilizes the experiences of experts, it's important to note that the results may not be directly replicated under similar circumstances as individuals can have differing experiences and views. However, the findings of the research were very much in line with each other as well as the literary review, which is an encouraging sign of credibility for the research.

Confirmability of the research is the evaluation of objectivity in the research. (Shenton 2004, 72) Eriksson & Kovalainen 2008 also argue that the confirmability of research refers to the linking of findings to existing data. In that regard the findings of this thesis are relatively well confirmable. The interviewees perspectives can be linked to the literary review and there is very little separation between them. To ensure a level of objectivity with the research, the interview questions were checked with the supervisors of the thesis.

The *transferability* of the study means the linkage between this study and other existing studies (Eriksson & Kovalainen 2008, 294) whereas the Shenton 2004 article defines transferability as the application of the findings to other situations. The findings of this thesis should be transferrable to other studies within the field and other related topics where the subject of private credit is studied. However, the subject is very niche, and the study is related to a very specific area of the corporate finance market, so the transferability to other situations outside of that realm can be limited. It is also noteworthy that the study consisted of four individuals from four different agencies and results and transferability may vary depending on the individual or agency involved.

4.5 Ethics of the study

When conducting academic research, it’s also important to evaluate the ethical aspects of the process. This thesis has been composed in a way that allows the participants of the study to remain anonymous and the data gathered from these interviews has been processed following the General Data Protection Regulation (GDPR) set by the European Union. (GDPR, EU 679/2016) The participants of the study were contacted beforehand via email and presented with a consent form (Appendix 3) that they all filled, thus giving their consent to participate in this study and to have the data from the interviews collected and handled in the agreed upon manner. After the completion and submission of this thesis the data collected from the interviews will be terminated in accordance with the agreement. The participants were given the option to withdraw from the research within a reasonable timeframe before and after the interviews.

The findings of the study are presented in a way that doesn’t single out any characteristics that could be associated personally with any participant or bring out any information that could result in a participant of the study being recognized from their answers. Neither are any company related specifics discussed in the results section to further promote anonymity of the participants. The choice of anonymizing the study was made straight from the beginning, as the field of finance is competitive and secretive by nature and not anonymizing the results could have considerably hindered the possibilities to attract subjects for the research. Anonymization of the results was an easy to choice make, as it shouldn’t have a negative effect on the contents of the thesis and the way the results can be presented.

Another ethical aspect to consider is the transparency of the writing process and the aids used when writing the thesis. Artificial Intelligence (AI) was deemed to be an appropriate tool to use by the university as long as the use of AI is modest, transparent and declared in the thesis by the writer. (University of Turku 2024) For this thesis AI has been used as an aid when thinking of research questions, interview questions and occasionally as a translation tool and a writing aid to find synonyms or to help with sentence structures in some individual instances. AI has not been used as a source, nor has it been used to write any complete sentences, paragraphs or chapters. AI tools have also not been used to process any of the materials from the interviews, as that could be a violation of the GDPR guidelines. The AI tool that was used during the writing process is ChatGPT by Open AI. According to the university guidelines, using AI in this manner constitutes as using Augmented Intelligence instead of Artificial Intelligence.

5 Findings

This chapter presents the findings from the empirical data. The aim of the findings chapter is to answer the research question “What are the reasons behind the emergence and growth of private lending as a corporate financing option?”, as well as the sub-questions “What are the characteristics and uses of private credit?”, “What are the advantages and disadvantages of private credit”, “How have rules and regulations affected the emergence and growth of private credit?” and “What is the future of private credit?”. The chapter is divided by the themes presented in the operational table (table 3).

5.1 Characteristics and uses of private credit

The first sub-question of the thesis is formatted as “What are the characteristics and uses of private credit?” which is supposed to introduce the topic and clarify the factors and perimeters of the subject. The characteristics of private credit caused some curiosity especially in the bank representatives, especially as to what exactly can be categorized as private credit. There was a noticeable difference in the level of knowledge on private credit in general between the participants, but it must be noted that the subject was still considered to be interesting and relevant by all. This further promotes the recency of the topic as well as the “emergence and growth” outlined in this thesis.

Although the sub-question might seem elementary to some readers, there is a good reasoning to include it in this research. The existing literature has some disparity on the definition of private credit as a concept, and there seems to be differences in the interpretation depending on the perspective of the lender and borrower. Therefore, it was interesting to see what industry professionals thought about the defining characteristics and the specific uses of private credit.

The significance of this sub-question lies in the variance on the defining factors of private credit in existing literature. It was a primary interest to find out what the professionals thought can be defined as private credit and is there a difference for the lenders, and the borrowers. Do lenders consider private credit for them to include only bilateral deals with non-listed companies? And does the rest of the market consider non-bank lenders participating in any corporate finance activities, such as syndicated loans, to be included in the realm of private credit?

In general, it was agreed by all the interviewees that the different causes why companies seek loan financing vary by case. The most common reasons for financing were named to be M&A deals, working capital and refinancing. Especially M&A deals were seen as an optimal fit for private credit as those deals are usually so substantially large that banks alone have difficulties in financing them.

Interviewee #1 also presented the clear definition of private lending being an alternative investment, which provides high yield profits to investment companies willing to partake in corporate loans. Such investors include PE companies, pension funds and other private institutions.

> *"Private credit is mostly used in equity investments. Private equity funds acquire companies, and they use credit to leverage those purchases. Usually, private equity companies are quite leveraged compared to listed companies".*
>
> *Interviewee #1*

The challenge for private lending continues to be the need for the investor to gain high yield profits, while also maintaining a sustainable amount of risk. Banks tend to take care of all low-yield low risk options as they are the most appealing investing option for them. All the interviewees agreed on the high-yield nature of private credit, stating that banks have a dominant market position in lower yield loans and private credit companies have a higher target for profits, resulting in the current situation. A clear unison between the interviewees was reached on the fact that banks have the ability to offer more appealing loans to companies that fit their criteria, and thus there is little to no direct competition between private credit companies and banks at least in the Finnish market where all interviewees operate.

> *"Private credit steps into the picture in situations when it becomes substantially harder to access financing from banks."*
>
> *Interviewee #3*

The different forms of private credit caused some discussion during the interviews. Participants shared slightly differentiating viewpoints on the significance of different kinds of loans in private credit, and there was no clear consensus on the relation of syndicated loans to private credit. All agreed that at least in the Finnish market it is fairly common for non-bank companies to participate in some syndicated loans as they offer an attractive yield. However, Interviewee #4 argued especially that non-bank lenders in syndicated loans is questionable in terms of relation to private credit, due to the format of syndicated loans.

"Opportunistically, it works in certain situations, and big investors such as pension companies likely accept it as a form of investing, but it's not the most natural from. Private credit and syndicated credit are more each other's options…. Syndicated loans usually have agents that assemble the loan package, and then sell it to investors. In my opinion an integral part of private credit is that it is originated directly with the debtor."

Interviewee #4

The interviewees were also asked about the different factors that affect a company's choice of financing. All agreed that companies need to consider multiple factors to determine to most suitable financing option for their situation. When asked about why a company might choose private credit over other available options the views of the interviewees were that in most instances companies simply choose the cheapest and thus most attractive option, but private credit could be able to provide more flexible loan terms or offer a solution that would involve collateral or covenants which could then create a better package than banks are able to offer.

"The banks offer a very standardized and narrow variety of options, so it could be an attractive option for companies that seek flexibility or growth financing. Typically, the smaller a company is, the more dependent it is on bank financing"

Interviewee #1

The other main reason was also named as simply requiring such a large amount of capital that banks are unable to provide, or the company having a credit rating unsuitable for banks.

"It is very much possible that where private credit has the upper hand, is having the ability to simply offer more credit, in which case a company would have to invest less of its own capital"

Interviewee #3

When asked about the uses of private credit in corporate finance all of the interviewees seemed to agree that the uses vary anywhere from mergers and acquisitions to working capital for companies. Based on the interviews the uses of private credit are not very much different to bank loans, but the emphasis can be more on substantially large projects that bank lending is not able to fund solely. The interviewees seemed to agree that although there are no set practices for what private credit is specifically used for, the uses tend to gravitate towards projects and situations where bank financing has not been available for one reason or another.

"It is especially a tool for companies that are too risky for banks to invest in. The other option could be that even if it was a bankable case, meaning that banks would be able to provide credit, the company could negotiate more attractive terms with a private credit company, such as a bullet loan instead of a payment plan, or a lighter collateral or covenants package."

Interviewee #3

From the viewpoint of interviewee #2, private lending is yet to reach magnitudes where it would be considered a significant threat to the banks' lending operations. Banks are still able to maintain a steady market share in corporate finance as they traditionally offer the best terms and conditions for corporate loans, which makes them the most appealing option for companies that fulfil their requirements.

"I think it's more likely that banks will find a way to change their operations if they genuinely feel threatened. They already have the customer base and infrastructure."

Interviewee #2

During the interviews it became obvious that even for the experts, there were some challenges in regard to defining private credit and what it consists of. For the sake of transparency, it must be noted that the title of the thesis and the approach for the topic has changed along the way, which may have added confusion among the interviewees. The research was originally intended to target multinational companies (MNCs) specifically. During the research process it became evident that narrowing the topic to MNCs would be very challenging, as private credit deals mainly involve companies of a slightly smaller scale, that are also generally non-listed.

Whether or not this had a substantial effect on the mindset of the interviewees, there was still a notably curious atmosphere in all the interviews regarding how this research defines private credit, which indicated that even for the experts there is no one clear definition for what constitutes as private credit. Especially the question on whether or not non-bank lenders participating in syndicated loans can be considered private credit investing seemed to divide the room.

5.2 Advantages and disadvantages of private lending

The advantage of private credit was found to be the flexibility of private credit companies when negotiating loan terms, as well as the fact that banking regulations don't limit their lending practices. Additionally, the liquidity and investor driven capital of private credit companies was seen as an advantage for both the investing purposes as well as on a societal level. The individualistic tendencies of private credit were seen as an advantage for flexibility and loan terms. Interviewees tried to consider the viewpoint of a CFO when considering financing options and gave their thoughts on factors that could make private credit appealing. It was also noted that private credit tends to be notably quicker when negotiating deals than banks.

> *"Private credit can be very flexible with the payment plan. The notable advantage of private credit is that the companies have a lot of allocated capital for that exact purpose, which means that they have the readiness and capacity to provide additional funding better than banks."*
>
> *Interviewee #4*

One of the key disadvantages of private credit was named to be the high-risk nature of the investments, and the subsequent price that companies have to pay for said risk. This was seen as the biggest disadvantage for both the lender and the borrower.

> *"If you have a private credit fund and you have a set goal for profits, which is likely higher than a regular bank loan, it means you have to take some of the riskier cases to reach that goal"*
>
> *Interviewee #3*

Other disadvantages were proposed to be the possible uncertainty and unpredictability of the lenders who are not under strict regulations like banks and may be new acquaintances to the companies seeking financing.

"If you have a deal with a pension company where you have an asset manager that you've been dealing with for a long time then it should be pretty predictable, but if you have an investment from a highly profit-seeking "vulture" fund from London or New York, they might suddenly become very unpredictable. If for example your company runs into some trouble their solution might be a very straight forward "Either you sell something, or we'll do it for you. We need our money back.""

Interviewee #3

Another disadvantage for private credit especially in the Nordic markets was seen to be the very heavily bank based format of the Nordics. The interviewees all agreed that in Northern Europe banks haven't had similar struggles as their US or Southern European counterparts, and thus even saw some of the bank regulations to be slightly unfair for the Nordic banks. Interviewees across the board agreed that private credit in the Nordics is still relatively small, as the banks have been reliable and continue to dominate the credit markets.

"Nordic banks have been strong before the financial crisis and continue to be strong to this day. The European banking industry is not homogenous and there are many different kinds of banks in the field, but in general the Nordic banks have been strong compared to their peers."

Interviewee #2

The notable findings for the advantages and disadvantages of private credit revolve around the specific terms of the loans and the situations in which the borrowers would be able to use the credit. Regardless of being encouraged to do so during the interviews, there was little or none abstract thought given on the broader scale of the advantages and disadvantages. Perhaps the most notable thought that arose from the interviews was how the growth of private credit is making the market safer overall for everyone by reducing credit risk from banks.

5.3 Factors affecting the emergence and growth of private credit

All interviewees agreed on the importance of the 2008 financial crisis and the resulting regulations as a turning point for the emergence of private credit. The bank representatives had slightly different views on how substantial the effect of the regulations has been on the lending practices of banks. Interviewee #2 saw some effect, but not such a considerable amount, whereas Interviewee #3 felt that the effect of regulation has been noticeable and significant in lending practices. The discussion revolved around the availability of bank loans whether or not there has been a substantial change in how companies can access loan capital from banks. Interviewee #3 saw that there have been notable changes in the ability of banks to provide loan capital and visualized that that will likely only become increasingly difficult in the future.

> *"The root cause is the financial crisis of 2008 and the subsequently increased banking regulations. It feels like the number of regulations keeps increasing year after year and the criteria for banks as loaners has become increasingly stricter. This has opened a slot for private credit in the financial industry."*
>
> *Interviewee #3*

Interviewee #2 said that not only have the requirements changed for banks, but also the borrowers. This balances out the strict regulations implemented for banks and enables banks to still participate in corporate finance at large.

> *"It would be a lot harder for banks to participate if the customers hadn't adapted along the way too. The changes haven't happened overnight and there has been plenty of time for borrowers to improve their key figures to qualify for a loan under the new regulations."*
>
> *Interviewee #2*

This then resulted in a lot of conversation about the effects of bank regulations on the global economy, and the effects of the emergence of private credit. The consensus seemed to be that although banking regulations are good because they make the financial industry safer for everyone, they also limit economic growth as access to capital becomes increasingly difficult. This is also why the emergence and growth of private credit was seen as a positive.

"Banks represent the general structure of the financial world, and they must be kept afloat to protect the economy. The best way to do so is to limit their risk taking. It's better for investors to take the risk directly. The downside is that it becomes increasingly difficult for new companies, struggling companies and SME companies to get financing. Especially in a country like Finland that can have a negative effect on our economy."

Interviewee #1

A point that stood out especially strongly in these interviews was the disparity in the market changes on a local and global level. Globally the increased regulations and the limiting of banking risk was seen to be very positive. However, all the experts viewed that in Finland, and in Northern Europe in general practices had been much more diligent than elsewhere and the new regulations affect the local market in a slightly unfair manner. The main concern revolved around the lack of opportunities for economic growth due to the small number of institutional investors outside of banks in the local market. As Finland is a member of the EU, the changes implemented in the Basel III framework apply to all Finnish banks. This is a great example of how changes on a global scale can affect local economies despite having little to no direct linkage to the source of the problem. Given that two of the interviewees represent banks, it would be logical for them to promote their own good work and to consider that they are being treated unfairly. However, it was notable that the representatives of private credit also shared the concern and there was no real difference in thought between the interviewees. All of them seemed to be mainly concerned about the lack of economic growth that has been the alarming trend in Finland ever since the financial crisis than.

5.4 The future of private credit

When asked about the effects of the Silicon Valley bank crisis and the possible future implications of the event, the interviewees shared common ground on their outlooks. The event was considered quite influential, but speculations of future regulations were kept to a minimum. Interviewee #1 stated that the US still has high interest to keep the market regulation to a minimum as the structre of their financial systems is highly dependent on easily accessible loan capital for companies. All interviewees agreed that it is most likely that the events will have some effect for the lending practices and looking back at previous measures it's reasonable to think that there will be further tightening to bank regulations.

"I think the bank regulators are actively thinking of ways to prevent such crisis from happening again, so my guess is that there is another expansion pack already in the works for the existing regulations."

Interviewee #3

For future speculation there was a varying degree of optimism for the growth of private credit. Interviewees 1, 3 and 4 saw plenty of growth potential for private credit in the future, whereas interviewee 2 thought that perhaps the market share of private credit will remain at similar levels. All interviewees were very careful with their speculations and stated that it is difficult to project future development and predict changes in the market.

"I believe that private credit will continue to grow. There will likely be more borrowers that find it to be the most suitable financing option, and there will also be more investors that want to invest in private credit, which will increase the supply. From the perspective of the banking industry, it can be considered a complimenting instrument."

Interviewee #3

When asked about factors that could affect corporate lending practices in the future, such as ESG, all interviewees shared similar thoughts. They all agreed that ESG checks are already a crucial part of all loan agreements, and they will continue to play a significant and likely increasing part in the future.

"We all concentrate more and more on ESG, but there are still changes that happen and will happen in the future. For example, the attitudes about investing in companies in the defense industry have changed quite a lot recently. But generally, in the big picture all investors are moving in the same direction with these"

Interviewee #4

Interviewee #1 noted that Nordic and European countries in general have been at the forefront of sustainability questions in investing. All interviewees made it clear that companies go through a checklist of ESG factors when considering a new investment, and if all boxes are not ticked, the investment will not be made. For companies that need financing, these ESG factors add an additional challenge to be able to qualify for a loan and might leave many companies without opportunities to get financing. However, this should only encourage companies to modify their operations in way that complies with modern ESG guidelines. It is good that private credit deals are equally interested in ESG factors as banks, to promote better and more sustainable business for all companies.

> *"Globally there is some variation. The Scandinavian and Anglo-Saxon countries have been the pioneers, but The US is following suit. There is currently legislation and regulation regarding ESG factors, similar to the banking regulations. Some of the sustainability work started out being voluntary, then it became mandatory and soon it will become the norm"*
>
> *Interviewee #1*

The emergence and growth of private credit was seen as an all-around positive thing. The bank representatives didn't see private credit as a direct competitor and welcomed the idea of an ever-growing private credit market. The growth of private credit was seen as an especially positive thing due to the positive effects it can have on economic growth, by allowing companies that would be unable to access bank loans to have a chance to acquire loan capital for their operations.

> *"It is a good thing that this kind of financing option exists, as it takes nothing away from us. In fact, quite the opposite as it can be very advantageous for the society."*
>
> *Interviewee #2*

As pointed out by the quote from Interviewee #2, and correlating with the findings from chapter 5.3, the growth of private credit is seen as a very positive thing all around. The banks don't really consider private credit to be a direct threat, at least not yet. Banks have their realm that they operate in, which is mandated by the regulations implemented. Anything outside of that is not a direct threat to banks, and they are more than happy to see private credit investments grow in the speculative grade instruments that the banks can no longer participate in.

Private credit investments have emerged to offer companies access to capital that the post-financial crisis regulations would otherwise prevent them from having. If companies in countries like Finland that are still lagging in getting involved with private credit can learn to be more adventurous and take the risk of seeking external financing to leverage their operations or growth opportunities, this could be a change that helps the entire economy.

Of course, the negative aspects of private credit should not be negated when discussing the possible future outlooks, as investing in below investment grade instruments always carries a substantial amount of risk that could become detrimental to investors. Similarly for companies seeking financing, private credit options can turn out to be too expensive if the company does not adequately calculate its ability to pay the premium required to get financing from private credit investors.

6 Discussion

The purpose of this chapter is to discuss the implications, limitations and ethics of the study. The implications of this study are evaluated from the theoretical and practical perspectives. After that, the limitations of the study are presented to provide transparency and honesty about the writing process. Finally, the ethics of the study chapter evaluates the ethical principles adapted to the writing process, also to promote transparency.

When considering the theoretical implications of this thesis it's important to evaluate the current literature regarding the topic as well as the contents of this thesis in relation to said previous literature. Although a considerable amount of literature exists on the topic of private credit, there are still plenty of opportunities for future additions as the topic continues to grow and develop. This thesis provides an overall summary of the basics of private credit and introduces an unfamiliar and fairly new topic to readers. The thesis provides a balance of views from both the private credit, and banking sides perspective, which creates an interesting mix of different points of view. The empirical study presented in this thesis contributes the thoughts and experiences of professionals in the industry of private credit and corporate finance, which should add to the existing literature in a positive way. Academic literature can always benefit from new sources of information and any study conducted can be used as a valuable source of information in some contexts. Therefore, this thesis contributes to the existing literature by providing new insights from the current perspectives of professionals working with private credit and corporate finance.

This thesis is an introduction and overview to the topic of private credit and its emergence and growth as a financing option. Therefore, it could act as a suitable tool for beginners or trainees entering the field of finance to find out the basics of private credit. This thesis could be used as a "manual" of some sorts in a work environment to familiarize employees to the topic and to gain a better understanding of the trends in the corporate finance market. As private credit is a new and growing industry, this thesis could be very beneficial for students, fresh graduates or young professionals who could be interested in working in the financial industry, or specifically with private credit. If private credit continues to grow at a similar pace that it has until now, there should be plenty of career opportunities opening up in the near future.

In a country like Finland, where economic growth is lacklustre and the economy is becoming alarmingly stagnant, companies should be encouraged to seek growth by utilizing external financing options. The number of institutional investors in Finland is small, and the corporate finance market is still highly bank driven, but private credit could become a viable option to help Finnish companies find new growth opportunities. There are likely many investors in surrounding countries and on a global level that could find attractive opportunities in Finnish companies. As private credit is a global phenomenon and cross-border deals are common practice, Finnish companies should be more adventurous when seeking financing options in the future as private credit becomes common practice.

On a global scale, understanding the emergence and growth of private credit will offer a multitude of opportunities in the future. As private credit continues to grow and spread to new areas, it will open up a vast amount of opportunities for potential lenders and borrowers. Understanding the opportunities that proper utilization of loan capital or leverage can offer companies will be highly beneficial for those that master it. The private credit market is much more challenging than traditional bank-driven corporate finance, due to the below investment grade ratings and challenging risk to return calculations needed to determine the attractiveness of an investment, but those who master this can find great career opportunities in this rapidly growing industry.

7 Conclusions

In conclusion, the subject of private credit is fascinating, relevant, and evolving. The emergence of non-bank lenders to the field of corporate finance has filled in a market gap left behind by stricter bank regulations in high risk, high yield corporate loans. The literature review and empirical research of this thesis have provided an overall introduction of the topic of private credit and found some explanatory factors for the emergence and growth of private credit in the past decades, as well as some projections for future outlooks.

Private credit is characterized as an alternative investment and consists of credit solutions for mainly unlisted companies from non-bank companies. The emergence and growth of private credit as a form of corporate finance culminates to the 2008 financial crisis, which caused governing bodies from the US and EU to set rules and regulations for banks, which hindered their abilities to participate in riskier loan investments. Companies such as private equity firms and pension fund companies have found appealing opportunities in the market from the absence of available bank capital in high yield loans.

For lenders, private credit offers a sufficient return for it to be considered an interesting asset class, while also providing stability and diversification to an investment portfolio. The additional appeal of loan investments is that in a bankruptcy situation, loaners are first in line to receive payments if possible. For borrowers, private credit is the crucial solution for the current problems with access to capital. It is vital for companies to access external financing to find ways to grow operations and find alternative ways to finance their operations apart from their own cash flow.

Private credit offers an attractive option to companies that could otherwise struggle to find financing due to their poor credit rating. As the findings of this study show, companies have many different reasons why they need financing, and the banking regulations implemented after the 2008 financial crisis have significantly hindered the ways for these companies to access external capital. Private credit can be vital for many companies to survive, thrive and grow in a challenging market. Therefore, the topic is very relevant not only from the perspective of finance studies, but also for international business. As private credit continues to grow and become more common, more companies will likely seek financing options from private credit.

Regardless of the locational bias of this thesis, especially in the empirical research, the global reach of the subject makes it extremely interesting. Especially considering that the interviews presented evidence that private credit is currently still evolving, and the market share is still relatively small in Northern Europe. Should the current trend continue, there could be a lot of interesting opportunities in the future in the field of private credit. As can already be seen, the private credit market is expanding and reaching new areas. The Finnish finance professionals interviewed for the thesis saw plenty of growth potential for private credit in local markets and overall in global corporate finance. This should foreshadow a promising future for the growth of private credit.

This thesis presents literary and empirical evidence that the emergence and growth of private credit has indeed been a real observable transformation in the global corporate finance market and has gained substantial traction after the 2008 global financial crisis. Based on the evidence presented in the thesis the emergence of private credit as a financing option can be seen as mainly a positive change in the market, as it has stepped in to fill the gap left by banking regulation, which prevents banks from participating in high-risk corporate lending. This in turn makes the global financial industry a safer environment for all. Although, as was seen with the Silicon Valley bank crisis, the industry is still susceptible to problems if the regulations are not strict enough.

Even though the thesis has some limitations, especially regarding the locality of the interviews of the empirical segment, it should still provide a good overview on the topic and the views of finance professionals, as all the field itself is considered very global and all interviewees conduct business on an international level. Therefore, the empirical evidence should not be considered to be restricted solely to the Finnish or Nordic market, even though it does provide the views of professionals from that geographical area.

A key factor that stood out from the empirical study was how all the interviewees presented optimistic views for private credit as a financing option. Although the interviewees all agreed on the high-risk profile of private credit investing, it was still seen as a relatively safe and attractive investment with plenty of growth potential. It was especially interesting to notice how private credit was seen as a positive phenomenon for the whole financial industry and corporate finance in general, as it provides companies with more access to capital and also alleviates stress from banks.

Based on the empirical evidence of the thesis, private credit will likely continue to grow and find new ways to further conquer the corporate finance market. All of the professionals interviewed for the research agreed that banking regulations are not likely to decrease in the future, and in turn are highly likely to further increase and tighten due to issues such as the Silicon Valley bank crisis. Therefore, this thesis provides a good preliminary insight into the world of private credit especially for those who are still unfamiliar with the subject and also acts as a good encouragement for further future studies. Articles about the growth of private credit are being written on a weekly, if not daily basis in multiple publications. Private credit is currently the new and exciting thing in the world of finance, and it seems to attract a great amount of interest from all directions.

Acknowledging and understanding private credit as a viable source of financing for companies will likely benefit future business leaders and finance professionals. The empirical study suggests that finance professionals strongly believe that the market is growing and will likely provide opportunities in the future. From the perspective of international business this can be especially useful for future leaders of companies, who can use their knowledge of the topic to find suitable financing options for their company. In addition, for finance students this can open a new career path in the world of finance that they may have previously been unaware of.

7.1 Limitations and suggestions for future research

The thesis faces some challenges in terms of defining and restricting certain areas and topics for the purposes of constructing a concise product. The definition of private lending was defined to mean corporate lending done by non-bank actors, which in itself is a relatively vague definition. In the thesis the most common lending practices are presented with short explanations following them, but they only provide a short overview. As the thesis is an introductory overview of the topic, it is most suitable for those with little previous experience or knowledge related to the topic of private credit. However, for those with more experience it will most likely provide little to no additional information.

There was an attempt to get viewpoints from private credit companies, banks, and customer companies, but unfortunately finding suitable customer companies turned out to be quite challenging. However, having representatives from both private credit companies and banks provides a good setting for alternating viewpoints and diversity within the answers, which is desirable for the thesis.

The interviewees noted that the market for private credit is still relatively small in Northern Europe, especially in the Nordic countries where banks have been reliable and stable. Regardless, the interviewees are all experts in the field of corporate finance and private credit and were able to present legitimate and insightful answers based on their expertise. However, for future research it would be beneficial to interview experts from multiple nationalities, especially from the US market, which is currently the dominant market for private credit, and the global financial world in general.

For future studies the contents of this thesis can be vastly broadened and deepened to gain better understanding of the topic and to provide more information to more senior professionals. Specific areas of private credit could be studied in further detail and especially the characteristics regarding the specific types of loans involved could be analyzed more in depth. Perhaps for future studies some use of mathematical modeling can also be advantageous or conducting a similar study with a much greater number of professionals for better saturation of the results.

8 Summary

Private credit has emerged as a viable financing option in corporate finance after the 2008 financial crisis. Due to the increased regulations that restrict the lending practices of banks, non-bank lenders have stepped in to offer credit solutions to companies that are unable to access bank financing, or otherwise seek to find more attractive terms, for example in flexibility.

Private credit has also benefitted from the low interest rates in the past decade, which have lured companies to seek financing to leverage their operations. Now that the interest rates have hiked up, there seems to be a shortage in demand compared to the previous years. Nevertheless, private credit is still seen as a growing asset class, as banking regulations are getting stricter and stricter, and events like the Silicon Valley Bank crisis show that there is a good reason behind it. Private credit can complement the shortage of supply in the corporate loans market left by banks that are affected by the regulations.

In the empirical study of this thesis, Finnish finance professionals shared their thoughts about the emergence and growth of private credit as a financing option. The interviewees shared positive outlooks on private credit as a concept and their views on the reasons behind the changes in the market were in line with the literary evidence presented earlier in the thesis.

The interviewees noted that emergence and growth of private credit is a positive phenomenon, because it enables more companies to access capital, and therefore improving economic growth. As it also helps banks deduct risky investments and disperses the risk to private investors, it should make the whole global economy into a safer environment, less prone to future disasters in the scale of the 2008 financial crisis. The experts also saw plenty of future potential for further growth for the private credit market, as banking regulations will only continue to tighten in the future.

References

Aldasoro, I., Doerr, S., & Zhou, H. (2022). Non-bank lenders in the syndicated loan market, BIS Quarterly Review. Bank for International Settlements. https://www.bis.org/publ/qtrpdf/r_qt2203c.pdf , retrieved 25.3.2024

Altunbaş, Y., Kara, A., & Marques-Ibanez, D. (2010). Large debt financing: syndicated loans versus corporate bonds. *The European Journal of Finance*, *16*(5), 437–458.

Arnold, M. (2023). ECB set to pause rate rises as focus shifts to shrinking balance sheet. Financial Times. https://www.ft.com/content/bd34c286-df61-47aa-8108-a0e7fef95da6 ,retrieved 6.11.2023

Attride-Stirling, J. (2001). Thematic networks: an analytic tool for qualitative research. *Qualitative Research : QR*, *1*(3), 385–405.

Bae, S.C., Chang, K. & Yi, HC. (2018). Corporate social responsibility, credit rating, and private debt contracting: new evidence from syndicated loan market. *Review of Quantitative Finance and Accounting* 50, 261–299

Baker, H.K., Filbeck, G. & Spieler, A.C. (2019). *Debt Markets and Investments*. Oxford University Press

Berg, T., Saunders, A., & Steffen, S. (2016). The Total Cost of Corporate Borrowing in the Loan Market: Don't Ignore the Fees. *The Journal of Finance (New York)*, *71*(3), 1357–1392.

Bogner, A., Littig, B., & Menz, W. (Wolfgang). (2009). *Interviewing Experts*. Basingstoke: Palgrave Macmillan.

Boocker, S. & Wessel, D. (2024). What is private credit? Does it pose financial stability risks? Brookings. https://www.brookings.edu/articles/what-is-private-credit-does-it-pose-financial-stability-risks/ , retrieved 28.3.2024

Brod, S. (2024). Private Credit As A Fixed Income Replacement. Forbes. https://www.forbes.com/sites/forbesfinancecouncil/2024/01/04/private-credit-as-a-fixed-income-replacement/?sh=dc85e7d5b675 , retrieved. 15.3.2024

Burns, R. & Rock, J. (2023). Silicon Valley Bank said it was too small to need regulation, now it's "too big to fail". The Guardian. https://www.theguardian.com/commentisfree/2023/mar/17/silicon-valley-bank-bailout-dodd-frank-regulation-opinion , retrieved 4.4.2024

Chen, M., Lee, S. J., Neuhann, D. & Saidi, F. (2023). Less Bank Regulation, More Non-Bank Lending. Finance and Economics Discussion Series. https://www.federalreserve.gov/econres/feds/files/2023026pap.pdf , retrieved 15.3.2024

Chotiner, I. (2023). The Regulatory Breakdown Behind The Collapse Of Silicon Valley Bank. The New Yorker. https://www.newyorker.com/news/q-and-a/the-regulatory-breakdown-behind-the-collapse-of-silicon-valley-bank , retrieved 4.4.2024

Coelho, R., Jayantilal, S., & Ferreira, J. J. (2023). The impact of social responsibility on corporate financial performance: A systematic literature review. *Corporate Social-Responsibility and Environmental Management*, *30*(4), 1535–1560.

Cohen, C., Ferreira, C., Natalucci, F., & Sugimoto, N. (2024). Fast-Growing $2 Trillion Private Credit Market Warrants Closer Watch. International Monetary Fund. https://www.imf.org/en/Blogs/Articles/2024/04/08/fast-growing-USD2-trillion-private-credit-market-warrants-closer-watch , retrieved 9.4.2024

Cortes, F., Diaby, M., Ferreira, C., Khanolkar, N., Kraus, H. S., Mosk, B. Novikova, N., Sugimoto, N. & Yakolev, D. (2024). Global Financial Stability Report, April 2024. International Monetary Fund. https://www.elibrary.imf.org/display/book/9798400257704/CH002.xml , retrieved 15.7.24

Daugherty, G. (2023). What Basel IV Means for U.S. Banks. Investopedia. https://www.investopedia.com/basel-iv-5218598 , retrieved 10.4.2024

Dennis, S. A., & Mullineaux, D. J. (2000). Syndicated Loans. *Journal of Financial Intermediation*, *9*(4), 404–426.s

Driessen, M. (2021). Sustainable Finance: An Overview of ESG in the Financial Markets. In *Sustainable Finance in Europe* (pp. 329–350). Cham: Springer International Publishing.

Duignan, B. (2023). financial crisis of 2007–08. Encyclopedia Britannica. https://www.britannica.com/money/financial-crisis-of-2007-2008 , retrieved 27.3.2024

EBA (2024). The Basel framework: the global regulatory standards for banks. EBA. https://www.eba.europa.eu/activities/basel-framework-global-regulatory-standards-banks , retrieved 29.1.2024

Eriksson, P., & Kovalainen, Anne. (2008). *Qualitative methods in business research*. Los Angeles, [Calif.] ; SAGE.

Fernand, L. (2022). What is private debt? Morningstar. https://www.morningstar.in/posts/69225/what-is-private-debt.aspx , retrieved 5.2.2024

GDPR, EU (2016). Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC. European Union. https://eur-lex.europa.eu/legal-content/FI/TXT/?uri=uriserv:OJ.L_.2016.119.01.0001.01.ENG&toc=OJ:L:2016:119:TOC , retrieved 19.7.2024

Ghauri, P., Grønhaug, K., & Strange, R. (2020). *Research Methods in Business Studies* (5th ed.). Cambridge: Cambridge University Press.

Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance (Amsterdam, Netherlands)*, *66*, 101889-.

Grant, A., Haider, Z., & Mieszala, J-C. (2022). How to build geopolitical resilience amid a fragmenting global order. McKinsey. https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/how-to-build-geopolitical-resilience-amid-a-fragmenting-global-order , retrieved 20.10.2023

Graham, J., Adam, C., & Gunasingham, B. (2020). *Corporate Finance*. Cengage, Australia

Gunter, E., Latour, A., & Maguire, J. (2021) Private Debt: A Lesser-Known Corner Of Finance Finds The Spotlight. S&P Global. https://www.spglobal.com/en/research-insights/featured/special-editorial/private-debt ,retrieved 15.10.2023

Guseva, N. (2024). As higher interest rates bite, here are 5 private market investment trends to expect in 2024. World Economic Forum. https://www.weforum.org/agenda/2024/03/as-private-market-investors-adapt-to-higher-interest-rates-here-are-5-financing-trends-to-expect-in-2024/ , retrieved 4.4.2024

Hayes, A. (2020). Mezzanine Debt: What It Is, How It Works, and Examples. Investopedia. https://www.investopedia.com/terms/m/mezzaninedebt.asp , retrieved 29.10.2023

Hayes, A. (2023). Dodd-Frank Act: What It Does, Major Components, And Criticism. Investopedia. https://www.investopedia.com/terms/d/dodd-frank-financial-regulatory-reform-bill.asp, retrieved 2.11.2023.

Hayes, A. (2024). Corporate Finance Definition and Activities. Investopedia. https://www.investopedia.com/terms/c/corporatefinance.asp , retrieved 3.3.2024

Hidalgo, K. (2024). Why Private Credit Is Booming And Banks Are Fighting Back. Bloomberg. https://www.bloomberg.com/news/articles/2024-02-20/what-is-private-credit-how-does-it-work-and-what-are-the-risks , retrieved 28.3.2024

Hogan, T. (2019). What Caused the Post-crisis Decline in Bank Lending? Baker Institute. https://www.bakerinstitute.org/research/post-crisis-decline-bank-lending , retrieved 7.4.2024

Hunt, M. (2023). What is business collateral? Bankrate. https://www.bankrate.com/loans/small-business/what-is-business-collateral/ , retrieved 6.11.2023

IMF (2018). *Regulatory Reform 10 Years After The Global Financial Crisis: Looking Back, Looking Forward. International Monetary Fund*. Global Financial Stability Report—A Decade after the Global Financial Crisis: Are We Safer? Washington, DC, October.

Jia, J., Pan, H., & Su, J. (2023). Analysis of Motivations, Process, and Implications of Elon Musk's Acquisition of Twitter. *BCP Business & Management*, *47*, 145-153.

Jin, H., & Ough, C. (2022). Explainer: How Elon Musk funded the $44 billion Twitter deal. Reuters. https://www.reuters.com/markets/us/how-will-elon-musk-pay-twitter-2022-10-07/ , retrieved 17.7.2024

Jordan, B. D., Ross, S. A., & Westerfield, R. W. (2003). *Fundamentals of corporate finance*. McGraw Hill.

Kagan, J. (2020). Working Capital Loan: Definition, Uses in Business, Types. Investopedia. https://www.investopedia.com/terms/w/workingcapitalloan.asp , retrieved 28.3.2024

Kagan, J. (2024). How Do Commercial Banks Work, and Why Do They Matter? Investopedia. https://www.investopedia.com/terms/c/commercialbank.asp , retrieved 7.4.2024

Kaplan, S. N., & Strömberg, P. (2009). Leveraged Buyouts and Private Equity." *Journal of Economic Perspectives*, 23 (1): 121-46**.**

Keenan, J (2022). Private Credit: Evolution and Opportunity in Direct Lending. BlackRock. https://www.blackrock.com/institutions/en-us/literature/investment-guide/private-credit-evolution-and-opportunity-in-direct-lending.pdf , retrieved 2.11.2023

Keil, J., & Müller, K. (2020). Bank Branching Deregulation and the Syndicated Loan Market. *Journal of Financial and Quantitative Analysis*, *55*(4), 1269–1303.

Kenadijan, P., Nazareth, A., Rosenberg, G. (2013) *The Cross-border Impact of the Dodd-Frank Act. A Practitioner's Guide to the Regulation of Investment Banking.* Sweet & Maxwell. UK

Kenton, W. (2024). Leveraged Buyout (LBO) Definition: How It Works, with Example. Investopedia. https://www.investopedia.com/terms/l/leveragedbuyout.asp , retrieved 5.4.2024

Kraemer-Eis, H., & Block, J. (2022). EIF Private Debt Survey 2021: ESG considerations in the lending strategy of private debt funds. EIF. https://www.eif.org/news_centre/publications/eif_working_paper_2022_80.pdf , retrieved 11.4.2024

Leverett, V. (2021). Private debt – Outlook for 2021. Russell Investments. https://russellinvestments.com/uk/blog/private-debt-outlook-2021, retrieved 2.11.2023

Lewis, B., Machera, C. & Patel, S. (2023). M&A, Professional Perspective – The Rise of Private Credit & Its Impact On Acquisition dynamics. Bloomberg Law. https://www.bloomberglaw.com/external/document/X8GKQD10000000/m-a-professional-perspective-the-rise-of-private-credit-its-impa , retrieved 9.4.2024

Lynam, A. & Bly, D. (2023). Private Debt: a primer. Blackrock. https://www.blackrock.com/institutions/en-us/literature/market-commentary/private-debt-primer-oct-2023.pdf , retrieved 7.4.2024

Maloney, D. (2024). Small businesses are turning to private credit – but overregulation threatens to cut off that lifeline. Fortune. https://fortune.com/2024/01/24/small-businesses-turning-private-credit-regulation-threat-finance-drew-maloney/ , retrieved 5.4.2024

Millstein, E., Wessel, D. (2021). What did the Fed do in response to the COVID-19 crisis? The Brookings Institution. https://www.brookings.edu/articles/fed-response-to-covid19/ , retrieved 4.11.2023

Morellec, E., Valta, P., & Zhdanov, A. (2015). Financing Investment: The Choice Between Bonds and Bank Loans. *Management Science*, *61*(11), 2580–2602

Moungiuia, M-L. & Dubar, J. (2024). Private Debt – An Expected But Uncertain "Golden Moment"? EY. https://www.ey.com/en_lu/private-debt/private-debt---an-expected-but-uncertain--golden-moment-- , retrieved 15.3.2024

Myers, M. D. (2009). *Qualitative research in business & management*. London: SAGE Publications Ltd.

Müllner, J., Filatotchev, I., & Lindner, T. (2023). Striking a balance? Finance perspectives on international business research. *Multinational Business Review*, *31*(3), 313–332. https://doi.org/10.1108/MBR-06-2023-0094

Mäntysaari, P. (2010*). Mezzanine. In: The Law of Corporate Finance: General Principles and EU Law*. Springer, Berlin, Heidelberg.

Napoletano, E. & Curry, B. (2021). Fixed-Income Basics: What Is A Bond? Forbes. https://www.forbes.com/advisor/investing/what-is-a-bond/ , retrieved 10.3.2024

Nesbitt, S. L. (2019). *Private debt : opportunities in corporate direct lending* (1st edition). Hoboken, New Jersey: Wiley.

Nesbitt, S. L. (2023). *Private debt : opportunities in corporate direct lending* (2nd edition). Hoboken, New Jersey: Wiley.

Nguyen, C., & Wald, J. K. (2022) Debt maturity and the choice between bank loans and public bonds. *Review of Quantitative Finance and Accounting*, *59*(1), 239–272.

Nyamita, M., Garbharran, H., & Dorasamy, N. (2014). Factors influencing debt financing decisions of corporations – theoretical and empirical literature review. *Problems and Perspectives in Management*, 12(4-1)

Paplikar, S. R. (2023). Why businesses need financing, and investors benefit. The Times of India. https://timesofindia.indiatimes.com/blogs/voices/why-businesses-need-financing-and-how-investors-benefit/ ,retrieved 4.11.2023

Parker, T. (2022). The Basics of Financing a Business. Investopedia. https://www.investopedia.com/articles/pf/13/business-financing-primer.asp , retrieved 23.1.2024

Paskelian, O. G., & Bell, S. (2013). The Tale of Two Regulations—Dodd-Frank Act and Basel III: A Review and Comparison of the Two Regulatory Frameworks. *Review of Futures Markets*, *21*(5), 7-29.

Puck, J., & Filatotchev, I. (2020). Finance and the multinational company: Building bridges between finance and global strategy research. *Global Strategy Journal*, *10*(4), 655-675.

Rahaman, M. M. (2011). Access to financing and firm growth. *Journal of Banking & Finance*, *35*(3), 709–723.

Rovnick, N., Elisei, C. (2023). European private loan market falters as corporate credit stress mounts. Reuters. https://www.reuters.com/business/finance/european-private-loan-market-falters-corporate-credit-stress-mounts-2023-09-07/ , retrieved 21.10.2023

Segal, T. (2023). Syndicated Loan: What It Is, How It Works, and Examples. Investopedia. https://www.investopedia.com/terms/s/syndicatedloan.asp , retrieved 31.1.2024

Shams Billah, M. (2023). Private Credit Loan Transactions. LexisNexis. https://www.lexisnexis.com/community/insights/legal/practical-guidance-journal/b/pa/posts/private-credit-loan-transactions ,retrieved 4.11.2023

Sindaco, M. (2020). The Evolution of ESG Factors in Credit Risk Assesment. S&P Global. https://www.spglobal.com/marketintelligence/en/news-insights/blog/the-evolution-of-esg-factors-in-credit-risk-assessment , retrieved 9.4.2024

Singh, M. (2023). The 2007-2008 Financial Crisis in Review. Investopedia. https://www.investopedia.com/articles/economics/09/financial-crisis-review.asp ,retrieved 27.10.2023

Sinclair, L (2017). The Rise of Private Debt. IHS Markit https://cdn.ihsmarkit.com/www/pdf/0322/IHSMarkit_PrivateDebtWhitePaper.pdf , retrieved 3.3.2024

Sorkin, A. R., Mattu, R. Werner, B., Kessler, S., de la Merced, M.J., Hirsch, L. & Livni, E. (2023). Why Did Silicon Valley Bank Collapse? New York Times. https://www.nytimes.com/2023/03/11/business/dealbook/silicon-valley-bank-collapse.html , retrieved 9.4.2024

Statista – Corporate Finance (2024). Corporate Finance – Worldwide. Statista. https://www.statista.com/outlook/fmo/corporate-finance/worldwide , retrieved 1.7.24

Strahan, P. (2012). Liquidity Risk and Credit in the Financial Crisis. FRBSF Economic Letter. https://www.frbsf.org/research-and-insights/publications/economic-letter/2012/05/liquidity-risk-credit-financial-crisis/ , retrieved 3.4.2024

Suhonen, A. (2024). Direct Lending Returns. *Financial Analysts Journal*, *80*(1), 57–83.

S&P Global (2024). Intro to credit ratings. S&P Global. https://www.spglobal.com/ratings/en/about/intro-to-credit-ratings ,retrieved 20.7.2024

University of Turku. (2024). Librarian's guide to Artificial Intelligence. University of Turku. https://utuguides.fi/artificialintelligence#s-lg-box-16135167 , retrieved 19.7.2024

US Congress. (2009). H.R.4173 – Dodd-Frank Wall Street Reform and Consumer Protection Act. US Congress. https://www.congress.gov/bill/111th-congress/house-bill/4173/text , retrieved 9.8.2024

Vasilescu, L. G. (2010). Financing Gap for SMES and the Mezzanine Capital. *Economic Research-Ekonomska Istraživanja*, Taylor & Francis Journals, vol. 23(3), pages 57-67, January.

Welch, I. (2009). *Corporate finance : an introduction*. New York: Prentice Hall.Wigglesworth, R. (2024). Is private credit a systemic risk? Financial Times. https://www.ft.com/content/bb2a1ea3-d629-407e-b405-d5f009fc08e6 , retrieved 27.3.2024

Willis, J. R., & Clark, D. A. (1989). AN INTRODUCTION TO MEZZANINE FINANCE AND PRIVATE EQUITY. *Journal of Applied Corporate Finance*, *2*(2), 77–86

Zidle, J. & Bock, J. (2023). Private Credit, Meet "Higher for Longer". Blackstone. https://www.blackstone.com/insights/article/private-credit-meet-higher-for-longer/ , retrieved 19.3.2023

Appendices

Appendix 1 Interview questions

General Questions

- Introduce yourself and tell us about your role and experience in the finance industry.
- What purposes do companies need financing for? What specifically is private debt used for? How does the choice of financing affect companies' operations?
- According to literature and online sources, the 2008 financial crisis has been the most significant catalyst for changes in the banking and finance industry in recent decades. Do you agree, or can you mention other particularly significant events?
- How have you observed the private debt market changing and evolving since 2008? What good and bad things have happened? Examples?
- What do you think are the main factors behind the growth of the private debt market in recent years (including or excluding factors related to the financial crisis)?
- What are the most popular forms of financing?
- (Why are syndicated loans particularly popular forms of financing?)

Influencing Factors

- What decisions do companies make when choosing and applying for financing?
- What factors do you think motivate companies to seek funding from private sources instead of traditional bank financing?
- How do you think private investors differ from traditional banks, especially in terms of flexibility and risk tolerance?
- From your perspective, what are the pros and cons of private financing for companies compared to traditional bank loans? (Literature mentions flexibility, availability, avoiding public disclosure.)
- How has the alternative finance market changed over the years? How have regulatory changes affected the alternative finance market, and what challenges or opportunities have arisen?
- In the United States, the Dodd-Frank initiative was enacted in response to the banking crisis, and in Europe, Basel 3. How have these initiatives shaped the global banking sector and financial activities? Can you name specific examples?

Impacts

- What is the division of tasks between private financiers and banks in the market today? How is the financing of companies distributed among different actors?

- What impact has the shift of financing from banks to private entities had on the financial markets? Is the corporate finance market and banking sector safer now?
- What risks and challenges have you observed regarding private financing, and how can they be mitigated? What are the risks for investors and borrowers? Is there market risk like with banks?
- What are the differences in pricing and risk premiums? How much risk does an investor take on when providing a loan?

Investor Perspective

- How has investors' willingness to participate in private financing changed over the years? What factors are driving these changes? Concrete examples?
- What types of companies typically invest in the private debt market?
- What are the key factors investors consider when evaluating private financing opportunities?
- How is the perspective of responsibility evaluated in the investment process?

International Perspective

- How much of a global phenomenon is this? Which regions and countries are the most significant factors? In which countries is banking regulation still lax?
- What globally operating companies benefit from financing from private actors instead of banks or public debt?
- Does regulation from the USA and the EU also have extensive effects elsewhere in the world?

Future Outlook

- How do you see the private debt market evolving in the future, and what trends or developments do you expect in the coming years?
- How have the collapses of Silicon Valley Bank and Signature Bank affected and will affect?
- Do you believe that private financing will continue to grow as a significant activity, and what impact could this have on the finance industry?
- Is there anything you could/would like to tell about the topic that I haven't asked about?

Appendix 2 Interview consent form

Interview consent form

Interview consent: Master's Thesis

Consent to take part in research

Researcher: Mikke Käkelä

Participant: ___________________________

I voluntarily agree to participate in this research study. I understand that even if I agree to participate now, I can withdraw at any time or refuse to answer any question without consequences of any kind.

I understand that I can withdraw permission to use data from my interview within one week after the interview, in which case the material will be deleted. I have had the purpose and nature of the study explained to me in writing and I have had the opportunity to ask questions about the study.

I understand that I will not benefit directly from participating in this research. I agree to my interview being recorded. I understand that disguised extracts from my interview may be quoted in the master's thesis or other topics related to studies at Turku School of Economics.

I understand that signed consent forms, interview notes and original audio recordings may be retained until 31.12.2024. I understand that I am free to contact any of the people involved in the research to seek further clarification and information.

Signature of research participant   Signature of researcher

Date __________________________

Appendix 3 Data Management Plan

1. Research data

   The data in the research is gathered from interviews and contains personal information and industry and company specific details. The data is gathered by me.

2. Processing personal data in research

   The data in the research is anonymized for the result to maintain privacy for the participants. The data is handled in compliance to the EU General Data Protection Regulation (GDPR) and the Finnish Data Protection Act. I am the controller of the research fata.

3. Permissions and rights related to the use of data: self-collected data

   The interviewees were given a consent form to inform them of the collection of data and their participation in the study was consensual. The interviewees were informed that the data will be anonymized for the thesis.

4. Storing the data during the research process

   The data was stored in the university's network drive during the research process.

5. Documenting the data and metadata

   5.1. Data documentation

   To document the data, I will use separate documents where I will record the main points of the data and the phases of the analysis.

   5.2. Data arrangement and integrity

   In order to keep the data in order and intact, and to prevent any accidental changes to the data I will keep the original data files separate from the data I am using in the research process so that I can always revert back to the original, if need be.

5.3. Metadata

I will not store data into a public archive/repository, and therefore I will not need to create any metadata.

6. Data after completing the research

I will destroy all data immediately after completion, because the data contains personal, company specific, and industry specific data that could be misused. In the consent form presented to the interviewees it was agreed that the data will be deleted by 31.12.2024, which was set as the deadline to assure sufficient time to complete the research.