

Is private credit turning into a lemon?

And it is a central banker saying so.

Banks and insurers are deep in it.

Sarah Breeden, Deputy Governor for Financial Stability at the Bank of England, warned this April that private credit could tip into a "**market for lemons**". George Akerlof's Nobel idea, where information asymmetry and adverse selection drive out the good ones, leave the bad, and the market can collapse.

Same pattern as 2008.. subprime mortgages turned into lemons.

\$1.5-2T

market size (FSB)

6.0%

record default rate, April (Fitch)

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The story so far

This is the fourth dispatch in the series. If you are new, here is the gist of the prior three.

DISPATCH 1 · 24 MAR

The \$2.7T shadow market is cracking

Defaults forecast near the Covid peak.
Listed managers down **30-50%**. Dimon:
"when you see one cockroach, there are probably more."

DISPATCH 2 · 26 MAR

How deep is US bank exposure?

\$1.57T of US bank loans sit behind the non-bank lenders.. the banks fund the people making the risky loans.

DISPATCH 3 · 8 MAY

Red flag in US life insurance

Up to **\$2.4T** exposure. PE often owns both sides.. the insurer and the credit fund.. and decides what the loans are worth.

*Across banks, non-banks and insurers.. nobody has the exact number, because so much of it is undisclosed and layered.
The stress is real and rising fast.. and it will be felt across banking and insurance.*

Prior dispatches: [\[1\] The \\$2.7T Shadow Lending Market](#) · [\[2\] US Bank NDFI Exposure](#) · [\[3\] Red Flag in US Life Insurance](#)

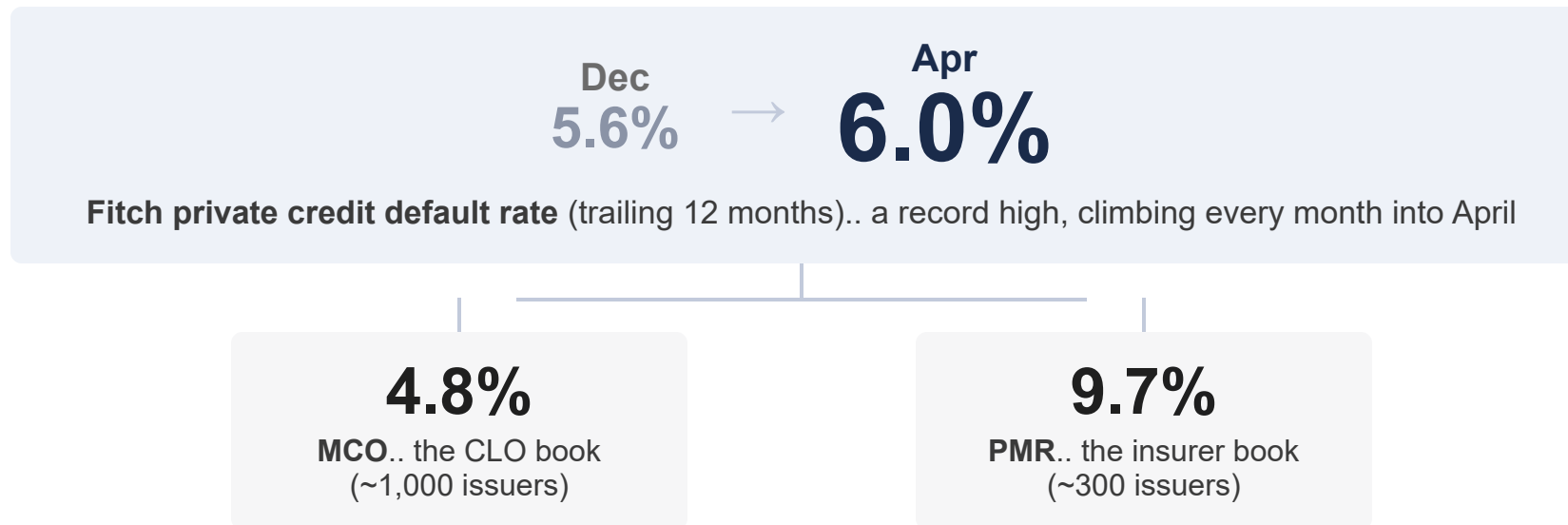
What changed in eight weeks

For two years this was a slow drift.. in eight weeks it became a cluster.

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- Apr 2026** **IMF** Global Financial Stability Report flags private credit.. selective defaults could run **2–3x higher** under stress.
-
- Apr 7** **Moody's** cuts the US BDC sector outlook to **negative** from stable.
-
- Apr 2026** **Bank of England** running industry stress tests. Breeden's "this time is different?" speech.
-
- May 6** **Financial Stability Board** publishes its Vulnerabilities in Private Credit report.. data gaps, valuation, opacity.
-
- May 7** **Office of the Comptroller of the Currency** warns PIK and restructurings "may mask underlying credit deterioration."
-
- May 11** **FS KKR (FSK)** breaks in public.. banks cut the credit line, KKR steps in days later.
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- May 17** **Department of Justice** probing valuation marks at a BlackRock private credit fund.
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- May 18** **Fitch** private credit default rate hits a record **6.0%** (April TTM).. the highest since its index began.
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- May 27** **European Central Bank** Financial Stability Review names US private credit as a spillover risk to the euro area.
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The data turned

The default rate just hit a record.. and it has been climbing every month.



- The two books split sharply: the insurer-facing **PMR** book runs at nearly double the **MCO** CLO book.. and PMR actually eased a touch, from 10.0%.

A note on the method: all rates are **trailing 12 months**, and Fitch counts by **number of defaulters, not dollars**. That cuts both ways.. a few large names can't inflate the rate, but it also tells you nothing about the dollar scale. Nine small defaults and nine large ones read the same here.

Sources: [Fitch Ratings, US Private Credit Default Rate Hits a High of 6.0% in April 2026, May 18 \[01a\]](#) · [Fitch PCDR Methodology \[01c\]](#)

The measurement fight

The default number you believe depends on what you choose to count.

Fitch is clear about what counts as a default. Of the events in April, here is what they actually were:

55%

PIK / interest deferral.. borrower stops paying cash interest and rolls it into the loan

35%

Maturity extension under stress.. the due date gets pushed out to avoid a miss

6%

Bankruptcy or liquidation.. the company genuinely goes under

- So roughly **9 in 10 "defaults" are stress restructurings**, not companies dying. Fitch labels them defaults anyway.. and it is right to.
- Moody's reads it the same way: about **65%** of 2025 private credit defaults were distressed restructurings, swaps and extensions agreed under duress.

*That is the whole fight. Count the restructurings and the rate looks alarming. Strip them out and it looks calm.
Same loans.. two very different stories.*

Sources: [Fitch Ratings, US PCDR April 2026 \[01a\]](#) · [Fitch PCDR Methodology \[01c\]](#) · [Moody's, US corporate default risk 2026 \[17\]](#)

A KKR fund breaks in public

When even one of KKR's own funds needs rescuing.. you read the order of events.

- **May 8 (Fri):** JPMorgan-led banks cut the fund's credit line by **\$648M**, raised rates, and some lenders walked away entirely.
- **May 11 (Mon):** KKR steps in with a **\$300M** rescue of its own fund.. fresh equity, plus cash to buy out investors heading for the door.
- **8.1%** of the fund's own loans have stopped paying, up from 5.5% at year-end. A Q1 loss of roughly **\$560M** already.

The tell

FSK is a **\$12.3B** fund co-managed by **KKR**, one of the biggest names in private credit.

Its biggest exposure is **software**.. the sector everyone is worried about.

Shares down nearly **half** this year. Moody's cut it to **junk** in March.

*If a fund run by KKR needs a rescue.. you have to wonder what the smaller, less-backed funds look like.
And the banks have only pulled their line so far.. no writedown disclosed yet.*

Source: [CNBC, FS KKR.. JPMorgan-led group reins in credit, May 11 \[02\]](#)

BlackRock TCPC.. and the DOJ

When there's no market price, the mark is an opinion.. and opinions are now under federal scrutiny.

- TCPC filed a rare **off-cycle** disclosure in January.. NAV cut **19%** in one go (\$8.71 to \$7.07). Stock fell 13% that day, the most since March 2020.. and is down **24%** on the year.
- **The big one:** class-action suits followed, claiming the fund made "materially false" statements and didn't properly value its loans.
- The **Manhattan US Attorney (SDNY)** is now seeking information and has questioned executives over valuation practices.

Jay Clayton, SDNY: "if people are mismarking in order to generate fees, that's always been a no-no."

In a market with no daily price, the NAV is the manager's own number.. that is the whole model, and it is now the thing under investigation.

Source: [Bloomberg, BlackRock private credit fund's valuations are probed by DOJ, May 17 \[07\]](#)

Banks · the back door

Banks left the lending.. they never left the financing.

After 2008, regulators pushed banks out of risky middle-market lending. They came back as the financiers behind it.. credit lines, warehouse facilities, leverage. By late 2025 US banks had extended nearly **\$300B** of credit to private credit funds, BDCs and CLOs (Moody's).

\$22B

JPMorgan direct exposure.. the same bank now leading the pullback at FSK, and whose CEO is warning loudest

17%

Wells Fargo.. share of its \$36B corporate book tied to **software**, the sector under the most pressure

\$22B

Citigroup.. no losses reported yet, but flagging "active monitoring"

- JPMorgan's **Jamie Dimon** warned in his 2026 letter that losses will be "**higher than expected**", hitting the industry's lack of "rigorous valuation marks." The **Fed** has since formally queried major banks on their exposure.
- And it is not just US banks.. European disclosures this season ran **\$20–30B each** (Deutsche \$30B, BNP \$25B, Barclays \$20B). Deutsche's disclosure alone dented its share price.

Sources: [Forbes, May 24 \[01\]](#) · [CNBC, FSB warning & European bank disclosures, May 6 \[05\]](#)

Insurers · the quiet channel

The loudest stress is in the funds.. the quietest is on insurance balance sheets.

- Private credit held by US life insurers grew **20%+** in 2025.. now ~10% of total assets, and **over 15%** for PE-affiliated insurers like Athene and Global Atlantic.
- The **FSB** warns these PE-insurer structures may "exploit flexibility and opacity in valuations.. regulatory arbitrage.. and offshore reinsurance jurisdictions." A regulator's words, not mine.
- The **US Treasury** has assembled a team to assess insurer exposure and will meet state regulators on the emerging risk.

Why it's quiet

Insurers mark to model and hold to maturity.. losses surface slowly, if at all, in public filings.

The IMF warns that insurers holding complex, leveraged private credit, often rated investment grade with thin capital buffers, could face **larger-than-expected** losses in a stress.

The fund stress makes headlines. The insurer exposure won't.. it sits in slow-moving annuity books that only reveal stress years later, by which point retirees are already holding it.

Sources: [Forbes, May 24 \[01\]](#) · [FSB, Vulnerabilities in Private Credit \[04\]](#) · [IMF GFSR, Apr 2026 \[13\]](#)

The layer cake · what makes this hard to size

The risk isn't one bad loan.. it's leverage stacked on leverage, the way 2008 was.

"Leverage is a **layer cake**.. at the borrower, fund and sponsor level.. making it hard to measure. Loans are sometimes **sliced and diced into CLOs**.. losses that are already hard to size become even harder to trace."

Sarah Breeden, Deputy Governor, Bank of England · "This time is different?"

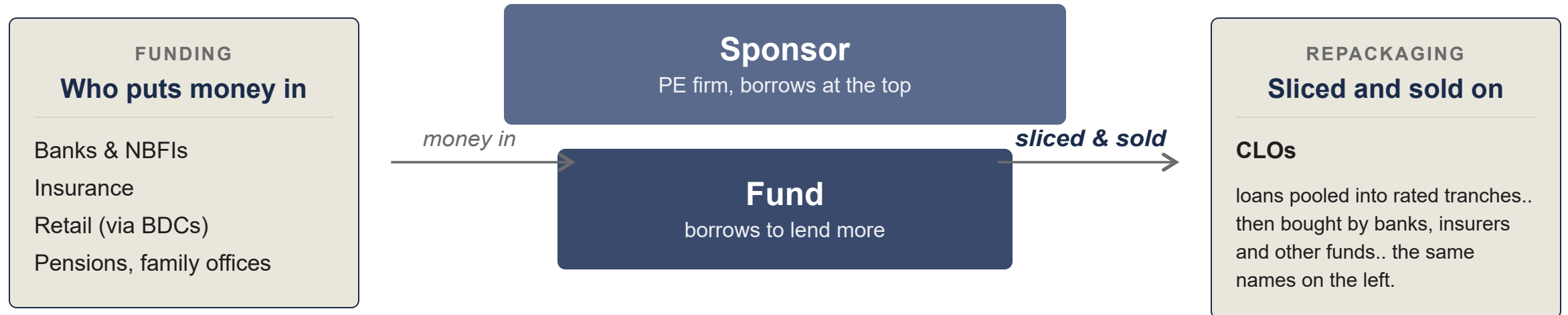
The **FSB** says the same: borrower-level debt is driven by PE sponsors buying companies with "a high proportion of debt".. then the credit funds lend on top, the funds borrow on top of that, and reporting captures only "the first layer."

Leverage piled three deep and sliced into CLOs is exactly the shape 2008 took.

Sources: [Bank of England, Breeden speech \[15\]](#) · [FSB, Vulnerabilities in Private Credit \[04\]](#)

The layer cake

Leverage stacks up.. funding feeds in.. the risk gets repackaged out. All of it balances on one borrower.



Borrower
the company that actually owes

***When the borrower defaults..
the whole deck of cards
above it collapses.***

A simplified picture.. the real market is far more fragmented, with many more players and sub-segments, and linkages that run diagonally and loop back on each other in ways a clean diagram can't show.

Sources: [BoE, Breeden \[15\]](#) · [FSB, Vulnerabilities in Private Credit \[04\]](#)

The data isn't good enough to see the risk

Four bodies, four jurisdictions, one message.

FSB

FINANCIAL STABILITY BOARD · MAY 6

Wants national regulators to step up supervision.. flags patchy loan-level data, valuation subjectivity, reliance on small private-rating shops, and **"circles of risk" where banks fund the funds that buy banks' own risk transfers.**

IMF

GLOBAL FINANCIAL STABILITY REPORT · APRIL

Liquidity mismatch looks contained to semi-liquid structures for now. But **under a stressed-rates or stressed-earnings scenario, selective default rates could rise two to three times.**

BoE

BANK OF ENGLAND · BREEDEN, APRIL

Running stress tests alongside the industry. "This time is different?".. **risk migrates to the opaque, least-regulated corners, and crises hit when several vulnerabilities crystallise at once.**

ECB

FINANCIAL STABILITY REVIEW · MAY 27

Names US private credit as a **spillover risk** to euro area stability. Flags complex leverage structures, opaque valuations, PIK concentration and AI-disruption risk at US BDCs.

Sources: [FSB, Vulnerabilities in Private Credit \[04\]](#) · [IMF GFSR, Apr 2026 \[13\]](#) · [BoE, Breeden speech \[15\]](#) · [ECB Financial Stability Review, May 2026 \[16\]](#)

From watching.. to a federal probe

In months, the US regulators went from monitoring to questioning to a prosecutor's probe.

OCC

SEMIANNUAL RISK PERSPECTIVE · MAY 7

PIK and debt restructurings **"may mask underlying credit deterioration"** in private credit portfolios. Flags rising bank concentration to these funds as a monitoring priority.

Fed

FEDERAL RESERVE

Has formally queried major banks on their private credit exposure.. **a clear posture change from passive monitoring to active questioning.**

DOJ

MANHATTAN US ATTORNEY · SDNY

Federal prosecutors are scrutinising the valuation marks at a BlackRock BDC, with executives questioned. And Clayton has said publicly that "mismarking to generate fees" has "always been a no-no".. **the first time prosecutors have leaned on how private credit sets its prices.**

Sources: [OCC, Semiannual Risk Perspective \[18\]](#) · [Forbes, May 24 \[01\]](#) · [Bloomberg, DOJ probe \[07\]](#)

The other side · the bulls have a case

They're not ignoring the stress.. they're reading a different slice of the same data.

S&P Global · March

"Fundamentals remain resilient"

- Median interest coverage **up to 1.84x** from 1.74x.
- Upgrades roughly equal downgrades (65 vs 63).
- Default rate incl. selective defaults actually **fell** to 4.37%.

Goldman panel · Apr–May

Lynam · Arougheti (Ares)

- Redemption gates are a **feature, not a bug**.. designed to prevent fire sales.
- The scary retail BDC slice is only **~15%** of private credit.. the rest is locked-up institutional money.
- Realized losses below historical average. **"No run on the bank."**

The industry's line, via the American Investment Council: **"The private credit system is working as designed."**

Sources: [S&P Global, fundamentals resilient \[10\]](#) · [Goldman Sachs Exchanges, "Cracks in Private Credit" \[12\]](#) · [CNBC \[02\]](#)

Gundlach · "a little bit like 2006"

The DoubleLine founder called the subprime collapse early.. now he's pointing the same finger at private credit.

"A little bit like 2006, where everything is overvalued, cracks are starting to form. But everyone's like, it's all contained.. it's just software. **But it's not just software.**"

- He says private credit has **"the same trappings as subprime mortgage repackaging had back in 2006"**.. and calls it the next big crisis in the markets.
- On the valuation problem: private assets really have **two prices.. 100 or zero**. Marked at par one week, near-worthless the next when the borrower files (he points to Renovo).
- And a warning on timing: being right is not the same as being early. Being negative on mortgages in 2004 **took three years** to pay off.

Sources: [CNBC, Gundlach on private credit strains, Mar 2026 \[19\]](#) · [Fortune / Bloomberg Odd Lots, Nov 2025 \[20\]](#)

It always looks contained.. until it doesn't

In 2008 the cracks were already showing.. losses creeping up, indicators rolling over. But the line everybody parroted was the same one, over and over: no systemic risk.. the system is resilient.. these are minor stresses.. cycles come and cycles go.

That line held right up until Lehman. Then the tone flipped overnight, and every skeleton fell out of the cupboard at once.

- *What is different this time is not the rhetoric.. that is identical. It is that I can see **many indicators cracking at once**.. labor, consumer delinquencies at or past 2007 levels, the layered credit in this deck, an S&P running on its own exuberance.*
- *Usually one thing cracks at a time. Right now it is several, together, while one corner of the world dances as if it is all fine.*

And there is one thing in here that is new.. AI displacing labour. Computerisation, the internet, mobile.. each played out over a period of time. This one is playing out instantly. So the pattern is similar to 2008.. but it is carrying a force none of the old cycles had.

*I am not calling a crash.. nobody can time these things.
But this is the part of the movie where everyone says it is contained.
Until...*

More: my deeper work on fundamentals, macros and markets is at tigzig.com/analysis

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REF	CITATION
Tigzig · Analysis	Fundamentals, Macros and Markets · the wider macro work behind this deck · tigzig.com/analysis
PRIOR DISPATCHES · TIGZIG	
[1] Mar 24	Private Credit · The \$2.7 Trillion Shadow Lending Market Is Showing Cracks
[2] Mar 26	US Banks & Non-Bank Lending · How Deep is the Exposure? Is There a Systemic Risk?
[3] May 8	Red Flag in US Life Insurance · \$2.4T (7.5% of GDP) in Private Credit and Offshore Reinsurance
EXTERNAL SOURCES	
[01] Forbes, May 24	Rising Private Credit Defaults Are Testing Banks And Insurers
[01a] Fitch, May 18	Fitch U.S. Private Credit Default Rate Hits a High of 6.0% in April 2026
[01c] Fitch, Jan 30	Fitch U.S. Private Credit Default Rate Methodology
[02] CNBC, May 11	FS KKR fund: JPMorgan Chase-led group reins in credit
[04] FSB, May 6	Report on Vulnerabilities in Private Credit

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REF CITATION

EXTERNAL SOURCES · CONTINUED

[05] CNBC, May 6	Financial Stability Board sounds alarm on private credit stress
[07] Bloomberg, May 17	BlackRock private credit fund's valuations are probed by DOJ
[10] S&P Global, Mar	Private Credit Fundamentals Remain Resilient
[12] Goldman Sachs	Goldman Sachs Exchanges · "Cracks in Private Credit" (Marks, Arougheti, Lynam)
[13] IMF, April	Global Financial Stability Report, Chapter 1
[15] Bank of England, Apr	Sarah Breeden · "This time is different?" Harvard speech
[16] ECB, May 27	Financial Stability Review · May 2026 (US private credit as spillover risk)
[17] Moody's	US corporate default risk in 2026
[18] OCC, May 7	Semiannual Risk Perspective, Spring 2026 edition
[19] CNBC, Mar 23	Jeffrey Gundlach warns of private credit strains in a "going nowhere" market
[20] Fortune, Nov 18	Gundlach on Bloomberg Odd Lots · private credit as the next crisis, "like 2006"

Amar Harollikar

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The screenshot displays the TIGZIG website interface. At the top, the navigation bar includes the TIGZIG logo, 'AI for Analytics', a search bar for 40+ apps, and links for 'Apps', 'Analysis', 'Blog', 'Feedback', 'Sign In', and 'Hide'. A dark banner below the navigation bar reads 'AI-FIRST SITE | AI agents & coders: fetch `tigzig.com/lms.txt` for structured data'. The main content area features a dark header with '40+ Tools for Analytics, Quants & Macro Signals' and an 'App Browser' link. Below this, a row of statistics shows '45 live apps', '6 categories', '200+ build guides', '95-item security checklist', and 'May 24, 2026 last updated'. The central part of the page is a grid of five tool cards: 'TREMOR' (Spot macro early warning signals), 'QUANTS AGENT' (AI-assisted quants reports), 'MFPRO' (Compare mutual funds), 'VIGIL' (Track ESG, workforce gaps), and 'DATS-4' (Chat with any database). Below the grid is a 'Try:' section with sample queries and a '+19 more' dropdown. A 'CURATED ANALYSIS' section follows, listing '12 macro & credit pieces' and '14 tool releases'. At the bottom, a section titled 'APPS & TOOLS' lists categories: 'Analyze' (7 tools), 'Database AI' (6 tools), and 'Tools' (8 tools). Specific tool cards are shown, such as 'TREMOR Macro Stress Sign...' (marked 'NEW'), 'DATS-4 Database AI Suite - V4', and 'DUCKKIT CSV to DuckDB'.