

Valuation Discipline in Private Credit

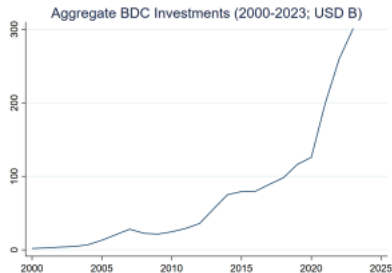
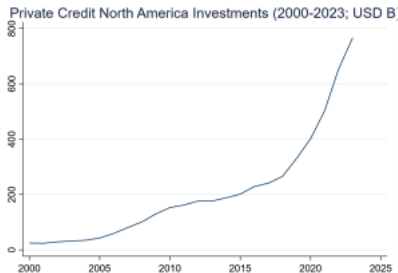
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June 3, 2025

Private Credit a.k.a. “Direct Lenders”

Often directly originate loans without bank syndication ($\therefore$ rarely traded)

- Borrowers are primarily private, middle-market firms
- Holdings are mostly illiquid assets that are hard to value



Sources: Preqin, Refinitiv, and SNL Financial.

Concern: Flawed Valuations and Misreporting

The rapid growth of private credit has attracted attention from regulators and the press that raise concern about opaque valuation practices imposing risks to investor welfare and financial stability

- Bloomberg: “Flawed Valuations Threaten \$1.7 Trillion Private Credit Boom”
- Financial Times: “Private credit returns are great (if you believe the marks)”
- Financial Times: “It is right to shed light on opaque private capital markets”
- Bloomberg: “SEC’s Top Cop Concerned About Private Credit Valuations”

Reasons Behind Concerns

Private credit managers have both the discretion and incentives to overstate values of their loan portfolios

- Discretion
 - Holdings primarily consist of illiquid assets that lack of readily quotable market prices
 - Outsiders have limited information about underlying assets as borrowers are mostly private
 - Valuation involves mark-to-model approach
- Incentives
 - Fair values of loan portfolios are often directly tied to compensation, fund-level borrowing, or the success on follow-on fundraising
 - Face weaker or lagged market discipline due to quarterly updating, closed end fund structures, and longer term holdings
 - Face minimal regulatory oversight over valuation processes

⇒ Market solution: Delegate loan pricing to third-party valuation intermediary (IMF 2024)

How does third party appraisal affect private credit valuation practices?

- Outsourcing loan pricing to an external third party could reduce bias and enhance credibility of reported valuations (Shaffer 2023)
 - But if use is voluntary, managers could just deviate
 - Effectiveness in addressing agency concerns is unclear because they are mostly hired by asset managers themselves
 - “Third-party appraisers may face agency issues of their own, prioritizing client retention over delivering impartial assessment” (IMF 2024)
- ⇒ The extent to which such services are used, as well as their quality or effectiveness remain an empirical matter

This paper

We use data from a third party valuation intermediary to open 'the valuation blackbox'

- Through the database, we not only observe recommended valuations and associated methods, but also borrower firm financials, debt terms, and credit documents
 - We pair this with publicly available quarterly SEC filings
- The data enables us to
 1. Compare reported vs. recommended appraisal values
 2. Compare valuations for the same loan across multiple lenders
 3. Examine the underlying inputs and valuation techniques used in the appraisal process

Setting: Business Development Companies (BDCs)

Private credit managers raise capital through two types of closed-end funds

1. Private credit (PC) funds

- Limited partnership with fixed life, like PE/VC

2. Business development companies (BDCs): PC fund + SEC disclosure

- A special type of closed-end funds created under the Small Business Investment Incentive Act of 1980 to spur investments in small enterprises
 - Most are perpetual life (vs fixed life)
 - Accessible to retail investors

⇒ We focus on BDCs as they are required by the SEC to disclose fair values of their entire investments on a quarterly basis

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 - Because lead lenders receive higher appraisals, even within the same loan!
4. Mechanism: Information asymmetry across lenders
 - Lead lenders appear to use more soft information from renegotiations
 - No difference in valuation methodologies or financial statement delivery

Some Implications

1. Third party appraisal is a widely used and effective tool that disciplines private credit valuation practices
 - ⇒ Enforced as a monitoring and governing mechanism by creditors
2. The effectiveness of their intermediation depends on informational inputs
 - ⇒ Observed dispersion in marks may not be entirely driven by agency reasons, but also by information asymmetry across lending relationships
 - ⇒ Understanding different sources of information asymmetry is important to evaluating reported valuations
3. Why is this important?
 - Accurate valuation is crucial to improving investor protection
 - Especially as private credit managers not only raise growing amounts of capital from pension funds and insurance companies but also expand access to retail investors through vehicles like BDCs

Policy Implications: Is Pricing Opacity a Feature or Bug?

- ⇒ Regulators increasingly call for more transparency and oversight
 - Raising concern that opaque valuation threatens investor welfare and financial stability
 - *“Investors, large or small, benefit from greater transparency, competition and integrity. It’s not as if some state pension fund benefits from opacity”* (SEC Chair Gary Gensler)
- ⇐ Others argue that pricing opacity is an essential feature of private assets that facilitates lower volatility to enable longer-term investment
 - i.e., frequent information updates are unnecessary for longer term holdings or sophisticated investors
 - *“Big time multi-year illiquidity and its often accompanying pricing opacity may actually be a feature not a bug....investors have the privilege of less information and not being told prices”* (Cliff Asness)

Prior Literature and Contribution

- Level 3 asset valuation
 - Role of agency frictions and regulation on valuation practices:
 - Banks (Plosser Santos 2014; Begly et al 2017; Behn et al 2022)
 - PE/VC funds (Barber Yasuda 2017; Chakraborty Ewens 2017; Brown et al 2019, Jenkinson et al 2020)
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- Private credit
 - Prior work focused mostly on:
 - Substitution of and interaction with banks (Chernenko Erel Prilmeier 2022; Davydiuk Marchuk Rosen 2022; Chernenko Ialenti Scharfstein 2024; Haque Mayer Stefanescu 2025; Haque Jang Wang 2025)
 - Lending relationships (Block Jang Kaplan Schulze 2024; Jang 2024)
 - Performances (Munday Hu Zhang 2018; Erel Weisbach Flanagan 2024)
 - Most related to Curtis Raney 2021 and Gonzales-Uribe Balloch (2021)

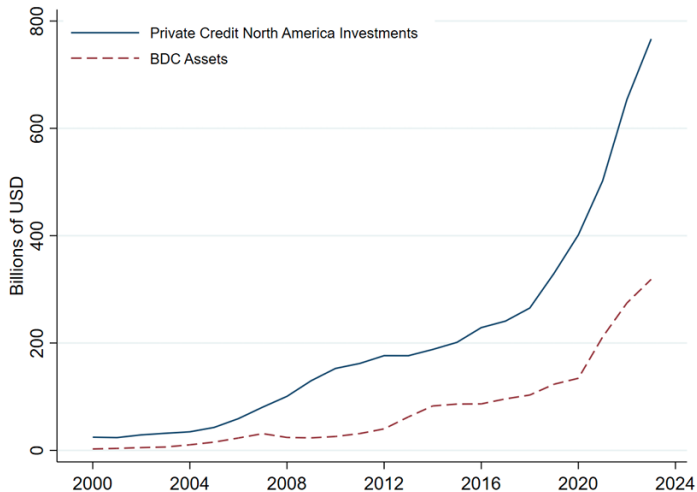
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- First paper to:
 1. Study valuation practices in broader private credit (beyond BDCs)
 2. Document ubiquity and disciplinary effects of third-party appraisals
 3. Provide direct evidence on the role of information asymmetry

Business Development Companies (BDCs)

- BDCs invest in both debt and equity of mostly private firms
 - As of 2023 Q3, BDCs have invested nearly \$300B, with 80% in senior secured first-lien debt
- The largest private asset managers tend to have BDCs along with their PE, PC funds
 - Ares, Golub, Blackstone, Apollo, ...etc
- BDC Capital Structure
 - Locked-up equity: 45% (55%) publicly (privately) held as of 2023 Q3
 - Debt: mostly bank revolving lines of credit (Jang 2024)
 - Public BDCs also have bonds, but still almost always have bank revolvers
 - Mean (median) book leverage: 44% (51%)

Figure 1: Growth in Direct Lenders



Sources: Preqin, Refinitiv, and SNL Financial.

BDC Use of Third-party Appraisal

Most BDCs use third-party valuation services either voluntarily or per request of investor/creditor

- 1/13/23 Varagon Capital Corporation credit agreement with CIBC Bank
 - "Approved Third-Party Appraiser" means any Independent nationally recognized third-party appraisal firm (a) designated by the Borrower in writing to the Administrative Agent ... and (b) reasonably acceptable to the Administrative Agent. Notwithstanding the foregoing, it is understood and agreed that Houlihan Lokey Howard & Zukin Capital, Inc., Alvarez & Marsal, Kroll, LLC (f/k/a Duff & Phelps LLC), Murray, Devine and Company, Lincoln International LLC and Valuation Research Corporation shall be deemed to be Approved Third-Party Appraisers.
 - Valuation Dispute Resolution. Notwithstanding the foregoing, the Administrative Agent shall at any time have the right to request, in its reasonable discretion, any Unquoted Investment included in the Borrowing Base with a value assigned by the Borrower pursuant to Section 5.12(b)(ii)(B) be independently valued by an Approved Third-Party Appraiser retained by the Administrative Agent ...

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Panel A: Third-party appraisal required by creditors

	No			Yes			Mean Difference
	N	Mean	SD	N	Mean	SD	
I(BDC over 5 years)	53	0.34	0.07	74	0.59	0.06	-0.25***
BDC Assets (USD B)	53	0.65	0.15	74	3.26	0.81	-2.60***
BDC Liabilities/Assets	53	0.37	0.03	74	0.49	0.01	-0.12***
Total PC fund raised (USD B)	53	10.74	2.51	74	21.34	3.21	-10.60**

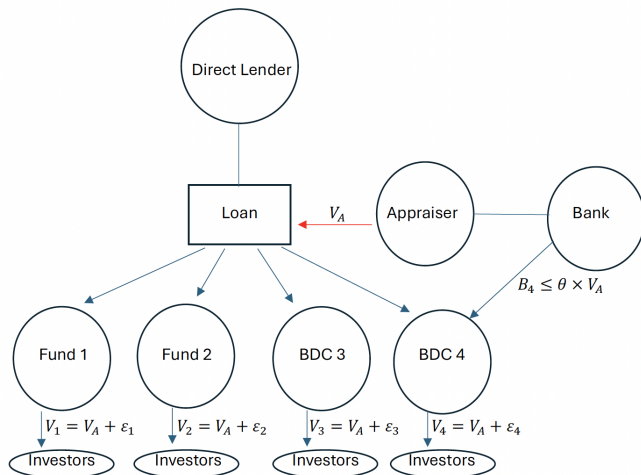
Panel B: Third-party appraisal used

	No			Yes			Mean Difference
	N	Mean	SD	N	Mean	SD	
I(BDC over 5 years)	31	0.32	0.09	96	0.54	0.05	-0.22**
BDC Assets (USD B)	31	0.35	0.09	96	2.75	0.63	-2.40***
BDC Liabilities/Assets	31	0.33	0.05	96	0.48	0.01	-0.15***
Total PC fund raised (USD B)	31	6.32	1.63	96	20.34	2.76	-14.01***

* $p < .10$, ** $p < .05$, *** $p < .01$

- Older BDCs, bigger BDCs, more levered BDCs, BDCs of bigger PC fund managers are more likely to use third-party appraisal.
 - Lower cost burden from scale and reputation? Creditor influence?

Use of Third-party Appraisal



While existing data sources on BDCs allow us to observe V_3 and V_4 , our novel database allows use to additionally observe V_A , ϵ_3 , and ϵ_4 .

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- Available data:
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 - Firm financials, debt terms & documents, and valuation methods used
- High coverage of direct lenders and their borrowers
 - 19 of top 25 US PC fund managers and 98 of 173 BDCs are lender clients
 - 32% (53%) of PC borrowers (with disclosed loan terms) in Pitchbook

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- High coverage of direct lenders and their borrowers
 - 19 of top 25 US PC fund managers and 98 of 173 BDCs are lender clients
 - 32% (53%) of PC borrowers (with disclosed loan terms) in Pitchbook
- Representative on key debt terms (interest rate, amount, maturity)
 - More representation of PE-backed firms with level 3 loans
 - More representation of bigger direct lenders with more BDCs

1. BDC Collateral

- Universe of BDC asset holdings sourced from SEC filings
- For each investment made by a BDC, data include:
 - Investment type: Debt (first lien, second lien, subordinated), equity, other
 - Fair value and cost
 - For debt investments: par amount, interest rates, non-accrual (i.e. default)

2. (Anonymous) Third-party Valuation Firm (Jang, 2024)

- Covers nearly a half of the BDC universe
- A client BDC requests the data provider to value their investment portfolio
 - Typically 25% of portfolio per quarter; effectively yearly for each investment
- Assigns a range of fair values for each investment:
 - Inputs: Firm financials (balance sheet & income statement), default history (covenant & payment), etc
 - Valuation methodology: Mostly DCF [will ask more and fill later]
- May assign different fair values on the same loan held by two different BDC clients if they provide different amount of information.
 - A client's information cannot be used for another client given fiduciary duty

Table 1: Balance test: Pitchbook US private debt borrowers in Database

	In Database			Not in Database			Mean Diff.
	N	Mean	SD	N	Mean	SD	
Spread (bps)	2002	635.6	189.1	1764	645.9	285.8	-10.3
Loan Amount (\$M)	2002	175.2	315.3	1764	158.6	410.7	16.6
Maturity (years)	2002	5.3	1.2	1764	5.4	2.6	-0.1
PE-backed (%)	2002	94.7	22.4	1764	76.4	42.5	18.3***

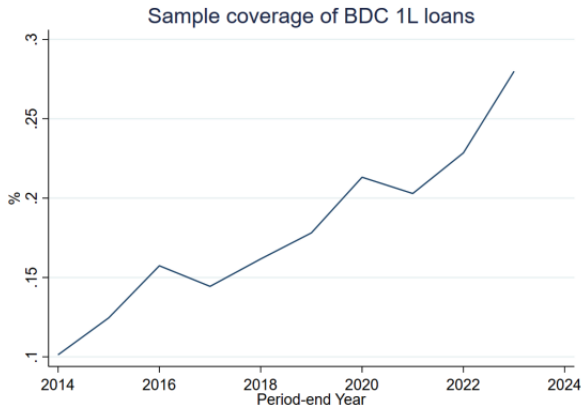
* $p < .10$, ** $p < .05$, *** $p < .01$

Table 2: Balance test on quarterly 1L loan terms: BDC-reliant firms in Database

	In Database			Not in Database			Mean Difference
	N	Mean	SD	N	Mean	SD	
All-in-yield (%)	32867	8.723	2.510	70169	8.717	2.856	0.006
Tenor (months)	33048	47.551	19.467	70281	47.392	20.375	0.160
Total BDC loan (\$M)	33168	54.564	124.205	70792	25.796	57.362	28.768***

* $p < .10$, ** $p < .05$, *** $p < .01$

BDC loan sample coverage (2014-2023)



- Chernenko et al. (2024): 60% and 20% of BDC loans were broadly syndicated as of 2014 and 2023, respectively.
 - These are traded in secondary market, so do not qualify as level 3 assets
- ⇒ 25%-40% coverage of BDC loans subject to “mark-to-model” valuation

Third-party appraisal and valuation accuracy

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- Does third-party appraisal improve valuation accuracy?
 - We follow CR2021 to measure the unrealized portion of fair value updates
- Concern: BDCs may selectively choose certain loans for appraisal
- Why we believe this is not problematic:
 - Appraisals are generally contracted at the portfolio level, and if not, most BDCs implement semi-annual or quarterly rotations.
 - Ex-ante assignments at the time of contract as well as creditor discretionary requests would suggest near exogenous treatment.

Third-party appraisal appears to have a disciplinary effect

$$Change_{i,j,t} = \beta_1 Change_{i,j,t-1} + \beta_2 Appraised_{i,j,t-1} \times Appraised_{i,j,t-1} + \beta_3 Appraised_{i,j,t-1} + \alpha_{i,j} + \alpha_t + \epsilon_{i,j,t}$$

	(1)	(2)	(3)	(4)
	I(Appraised)	Change (%)	Change (%)	Change (%)
L.Change (%)	0.000 (0.000)	0.047*** (0.010)	0.072*** (0.015)	0.089*** (0.016)
L.Change (%) X L.I(Appraised)				-0.108** (0.043)
L.I(Appraised)				0.184 (0.116)
Constant	0.187*** (0.000)	-0.726*** (0.007)	-0.693*** (0.010)	-0.727*** (0.023)
Sample	Client	All	Client	Client
Loan FE	Yes	Yes	Yes	Yes
YQ FE	Yes	Yes	Yes	Yes
N	104531	181249	103093	103093
R-squared	0.75	0.23	0.25	0.26

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

- Appraisal is unrelated to prior performance, consistent with exogeneity.
- Positive serial correlation in reporting updates exist even for client BDCs.
- Third-party appraisal reduces the correlation to virtually zero

Do, and when do, BDCs deviate from 3rd-party appraisal?

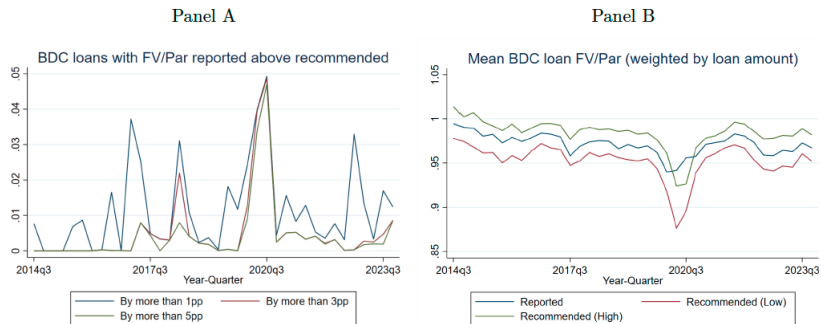
Table 6: Summary statistics: BDC 1L loans in the Database

	N	mean	p1	p10	p50	p90	p99	sd
Reported FV/Par	15157	0.967	0.515	0.933	0.986	1.000	1.020	0.089
Recommended FV/Par (High)	15157	0.980	0.588	0.954	1.000	1.010	1.029	0.087
FV/Par Deviation	15157	-0.013	-0.125	-0.028	-0.010	0.000	0.017	0.069
I(FV/Par Deviation>0.1pp)	15157	0.040	0.000	0.000	0.000	0.000	1.000	0.197
I(FV/Par Deviation>1pp)	15157	0.014	0.000	0.000	0.000	0.000	1.000	0.119
I(FV/Par Deviation>3pp)	15157	0.008	0.000	0.000	0.000	0.000	0.000	0.087
I(FV/Par Deviation>5pp)	15157	0.006	0.000	0.000	0.000	0.000	0.000	0.080
I(Lead)	15157	0.302	0.000	0.000	0.000	1.000	1.000	0.468
I(Closed a fund)	15157	0.323	0.000	0.000	0.000	1.000	1.000	0.468
I(COVID)	15157	0.096	0.000	0.000	0.000	0.000	1.000	0.294
Par Amount (USD M)	15157	20.125	0.099	1.007	7.642	40.919	182.392	51.827
All in yield (percent)	15080	9.437	5.250	6.460	9.550	12.140	15.280	2.342
Cash spread (percent)	15126	6.062	0.000	4.750	6.000	7.750	11.720	1.582
Cash + PIK spread (percent)	15126	6.410	4.000	5.000	6.000	8.250	12.930	1.664
Tenor (months)	15150	49.433	6.000	24.000	52.000	70.000	82.000	17.906

$$\text{FV/Par Deviation} = \text{Reported FV/Par} - \text{Recommended FV/Par (High)}$$

How often/much do BDCs deviate from 3rd-party appraisal?

Figure 4: BDC reporting deviation from recommended valuation



1. Deviations are infrequent and small in normal times.
 - 1.1 4.0% (1.4%) of BDCs' reported loan fair values exceed the third-party recommended range (by more than 1 pp of par).
2. Deviations increase markedly during the COVID-19 period.
 - 2.1 Nearly 5% of loans were marked over 5pp above the recommended range.

Who deviates? Participant lenders mostly!

Table 7: Deviation determinants

	(1)	(2)	(3)
	FV/Par Deviation	FV/Par Deviation	FV/Par Deviation
I(Lead)	-0.001 (0.002)	0.001 (0.003)	0.001 (0.003)
I(Lead) X I(COVID)	-0.027** (0.012)	-0.027** (0.012)	-0.020** (0.010)
I(Closed a fund)	-0.000 (0.001)	-0.000 (0.001)	-0.002 (0.002)
I(Closed a fund) X I(COVID)	0.010 (0.018)	0.010 (0.018)	-0.014 (0.013)
Constant	-0.013*** (0.001)	-0.013*** (0.001)	-0.014*** (0.001)
Firm FE	Yes	Yes	No
YQ FE	Yes	Yes	No
Firm-YQ FE	No	No	Yes
Lender FE	No	Yes	Yes
N	15160	15157	8804
R-squared	0.31	0.32	0.88

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

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Figure 5: BDC reporting deviation from recommended valuation: lead vs non-lead

Panel A

Panel B

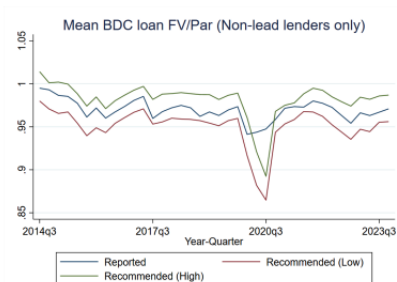
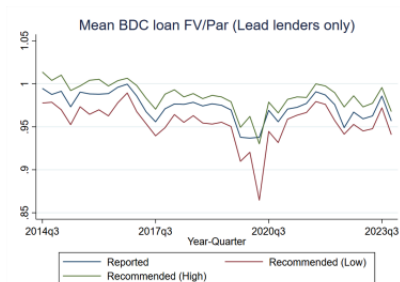


Table 8: Summary statistics: Cross-held private credit loans with lead and non-lead lenders

	N	mean	p1	p10	p50	p90	p99	sd
Rec. FV/Par (Low)	2198	0.940	0.383	0.877	0.966	1.000	1.010	0.105
Rec. FV/Par (High)	2198	0.972	0.575	0.928	0.999	1.009	1.020	0.091
I(Lead)	2198	0.422	0.000	0.000	0.000	1.000	1.000	0.494
I(COVID)	2198	0.055	0.000	0.000	0.000	0.000	1.000	0.227
Loan amount (USD M)	2198	90.099	1.000	6.963	53.304	188.865	803.031	148.493
Loan share	2198	0.266	0.001	0.008	0.190	0.661	0.958	0.249
Cash spread (percent)	2198	5.959	1.000	5.000	6.000	7.000	9.567	1.125
Cash + PIK spread (percent)	2198	6.259	4.500	5.250	6.000	7.500	12.000	1.247
Client Number of Qtrs	2198	25.308	2.000	8.000	28.000	38.000	40.000	11.103
I(Client over 5 years)	2198	0.675	0.000	0.000	1.000	1.000	1.000	0.468
I(Previous other business)	2198	0.184	0.000	0.000	0.000	1.000	1.000	0.388
I(Yield method)	2198	0.761	0.000	0.000	1.000	1.000	1.000	0.426
I(Current value method)	2198	0.061	0.000	0.000	0.000	0.000	1.000	0.238
I(Proprietary method)	2198	0.319	0.000	0.000	0.000	1.000	1.000	0.466
I(Latest financial)	2198	0.870	0.000	0.000	1.000	1.000	1.000	0.336

Lead lenders receive higher appraisals even on same loan

Table 9: Recommended FV/Par and lead lender in cross-held private credit 1L loans

	(1)	(2)	(3)	(4)
	Rec. FV/Par (Low)	Rec. FV/Par (High)	Rec. FV/Par (Low)	Rec. FV/Par (High)
I(Lead)	-0.002 (0.005)	-0.001 (0.005)	0.002 (0.005)	0.003 (0.006)
I(Lead) X I(COVID)	0.019** (0.009)	0.021* (0.011)	0.028*** (0.009)	0.035*** (0.013)
Loan share	-0.004 (0.014)	-0.005 (0.014)	-0.004 (0.015)	-0.005 (0.016)
Constant	0.942*** (0.004)	0.974*** (0.004)	0.951*** (0.005)	0.980*** (0.005)
Firm-YQ FE	Yes	Yes	Yes	Yes
Lender-YQ FE	Yes	Yes	Yes	Yes
Weight Type	Equal-weighted	Equal-weighted	Size-weighted	Size-weighted
N	2240	2240	2198	2198
R-squared	0.82	0.78	0.84	0.80

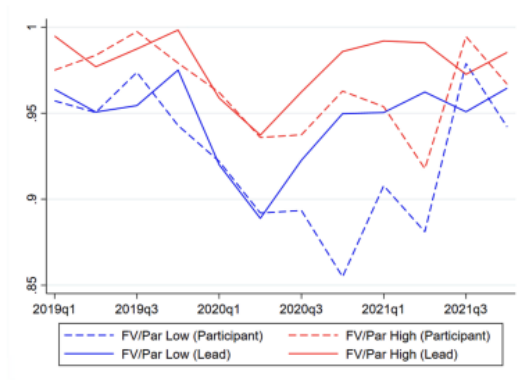
Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

- Even greater differences if estimation is weighted by loan size!

Who was right?

Figure 6: Cross-held loan recommended FV/Par: lead vs participant lenders (2019-2021)



- On average, participant lenders deviate more than lead lenders.
 - Results suggest this is due to lead lenders receiving higher appraisals.

- On average, participant lenders deviate more than lead lenders.
 - Results suggest this is due to lead lenders receiving higher appraisals.
- Why? Are there differences in:
 1. Valuation methodologies?
 2. Valuation inputs?
 - 2.1 Hard information: e.g. financial statement delivery
 - 2.2 Discount rates
 3. Soft information (from renegotiation)?

No differences in valuation methods

	(1)	(2)	(3)
	I(Yield method)	I(Current value method)	I(Proprietary method)
I(Lead)	-0.039 (0.037)	-0.001 (0.009)	0.034 (0.050)
I(Lead) X I(COVID)	0.074 (0.053)	0.020 (0.027)	-0.042 (0.051)
Loan share	0.005 (0.052)	0.027 (0.036)	-0.076 (0.087)
Constant	0.823*** (0.026)	0.035*** (0.010)	0.318*** (0.036)
Firm-YQ FE	Yes	Yes	Yes
Lender-YQ FE	Yes	Yes	Yes
Weight Type	Size-weighted	Size-weighted	Size-weighted
N	2198	2198	2198
R-squared	0.90	0.95	0.86

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Differences in valuation inputs

	(1)	(2)	(3)
	I(Latest financial)	YTM High (percent)	YTM Low (percent)
I(Lead)	-0.014 (0.029)	-0.103 (0.096)	-0.169** (0.084)
I(Lead) X I(COVID)	0.019 (0.030)	-1.515*** (0.436)	-1.284*** (0.495)
Loan share	0.062 (0.045)	0.092 (0.219)	0.215 (0.179)
Constant	0.828*** (0.021)	12.013*** (0.077)	10.927*** (0.069)
Firm-YQ FE	Yes	Yes	Yes
Lender-YQ FE	Yes	Yes	Yes
Weight Type	Size-weighted	Size-weighted	Size-weighted
N	2198	2126	2126
R-squared	0.91	0.97	0.97

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

- No difference in the timing of financial statement delivery
- Lead lenders use lower discount rates, reflecting more optimism.

Greater appraisal differences ahead of renegotiation

	(1)	(2)	(3)	(4)
	Rec. FV/Par Low	Rec. FV/Par High	Rec. FV/Par Low	Rec. FV/Par High
I(Lead)	0.002 (0.005)	0.003 (0.006)	0.002 (0.005)	0.003 (0.006)
I(Lead) X I(COVID)	0.027*** (0.010)	0.034** (0.013)	0.033*** (0.008)	0.038*** (0.011)
I(Lead) X I(COVID) X I(Pre-Reneg)	0.069*** (0.027)	0.058** (0.024)		
I(Lead) X I(Pre-Reneg)	-0.037 (0.026)	-0.026 (0.022)		
I(Lead) X I(COVID) X I(Post-Reneg)			-0.011 (0.020)	-0.008 (0.020)
I(Lead) X I(Post-Reneg)			-0.017 (0.017)	-0.012 (0.017)
Loan share	-0.004 (0.015)	-0.006 (0.016)	-0.004 (0.015)	-0.005 (0.016)
Constant	0.951*** (0.005)	0.980*** (0.005)	0.951*** (0.005)	0.980*** (0.005)
Firm-YQ FE	Yes	Yes	Yes	Yes
Lender-YQ FE	Yes	Yes	Yes	Yes
Weight Type	Size-weighted	Size-weighted	Size-weighted	Size-weighted
N	2198	2198	2198	2198
R-squared	0.84	0.80	0.84	0.80

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

- Consistent with incorporating more soft information from renegotiations
- Anecdotally, lead lenders also have more access to management cash flow forecasts and board materials.

Lead lenders submit more credit updates for appraisal

	(1)	(2)	(3)
	I(Credit Update)	I(Credit Update)	I(Credit Update)
I(Lead)	0.188*** (0.053)	0.173*** (0.058)	0.200*** (0.071)
I(Lead) X I(COVID)		0.127 (0.142)	
I(Lead) X I(Amendment)			-0.045 (0.080)
I(Lead) X I(Waiver/Forbearance)			0.369*** (0.143)
Constant	0.540*** (0.021)	0.539*** (0.021)	0.538*** (0.021)
Loan-Date FE	Yes	Yes	Yes
Lender-YQ FE	Yes	Yes	Yes
N	1601	1601	1601
R-squared	0.70	0.70	0.70

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

- Lead lenders are also more likely to provide credit documents for appraisal, in particular, amendments with waiver/forbearance.

Third-party appraisal integrity?

- Third-party appraisers may face agency issues of their own, prioritizing client retention over delivering impartial assessment (IMF 2024).

Third-party appraisal integrity?

- Third-party appraisers may face agency issues of their own, prioritizing client retention over delivering impartial assessment (IMF 2024).
- Our appraiser doesn't give different valuations based on client relationship length nor "cross-selling" potential (e.g. prior M&A advisory service).

	(1)	(2)
	Rec. FV/Par (High)	Rec. FV/Par (High)
I(Client over 5 years)	0.000 (0.009)	-0.009 (0.012)
I(Client over 5 years) X I(COVID)	0.009 (0.010)	0.015 (0.012)
I(Previous other business)	0.008 (0.009)	-0.010 (0.007)
I(Previous other business) X I(COVID)	-0.008 (0.017)	-0.010 (0.017)
Loan share	-0.002 (0.008)	-0.004 (0.009)
Constant	0.972*** (0.007)	0.987*** (0.010)
Firm-YQ FE	Yes	Yes
Lender-YQ FE	Yes	Yes
Weight Type	Equal-weighted	Size-weighted
N	2740	2698
R-squared	0.73	0.72

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Conclusion

1. Third party appraisal is a widely used and effective tool that disciplines private credit valuation practices
 - ⇒ Enforced as a monitoring and governing mechanism by creditors
2. The effectiveness of their intermediation depends on informational inputs
 - ⇒ Observed dispersion in marks may not be entirely driven by agency reasons, but also by information asymmetry across lending relationships
 - ⇒ Understanding different sources of information asymmetry is important to evaluating reported valuations
3. Why is this important?
 - Accurate valuation is crucial to improving investor protection
 - Especially as private credit managers not only raise growing amounts of capital from pension funds and insurance companies but also expand access to retail investors through vehicles like BDCs