

Flexible Covenants and Private Capital: Credit Strategy in a Looser Lending Environment

*By: Chris Woodard, CMO & Co-Founder,
Handle.com*

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Abstract

The private credit market's explosive growth has popularized covenant-lite loans, eliminating traditional financial covenants that once served as crucial early distress signals. This transformation fundamentally redistributes risk, leaving trade credit professionals dangerously exposed without the indirect protection of bank monitoring. This analysis examines the practical implications of this looser lending environment, identifying critical blind spots for suppliers. It provides actionable frameworks for credit teams to adapt by developing proactive, internal monitoring systems. Success now requires using operational data, strategic term-setting, and enhanced diligence to protect cash flow when traditional lender safeguards are absent.

Private credit markets have grown from \$46 billion to over \$1 trillion since 2000, fundamentally reshaping corporate lending through covenant-lite structures that eliminate traditional financial maintenance requirements. This transformation redistributes credit risk throughout the lending ecosystem, creating both opportunities and blind spots for trade credit professionals. While covenant-lite loans now comprise over 90% of leveraged lending, their reduced early warning mechanisms force trade creditors to develop alternative monitoring systems. This analysis examines how flexible covenants affect credit exposure assessment, risk distribution among stakeholders, and traditional monitoring approaches. Using recent market data from leading credit research organizations, the article provides practical frameworks for adapting credit strategy in an environment where traditional covenant triggers no longer provide early distress signals. Trade credit teams must balance the commercial benefits of customers' financing flexibility against increased monitoring requirements and delayed intervention capabilities inherent in covenant-lite structures.

The private credit market has experienced explosive growth over the past decade, emerging from a niche financing alternative to a dominant force reshaping corporate lending. From \$46 billion in 2000 to roughly \$1 trillion in 2023, private credit's expansion has fundamentally...

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