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SFA Research Corner

Private Ratings in Focus as Private Credit Market Grows

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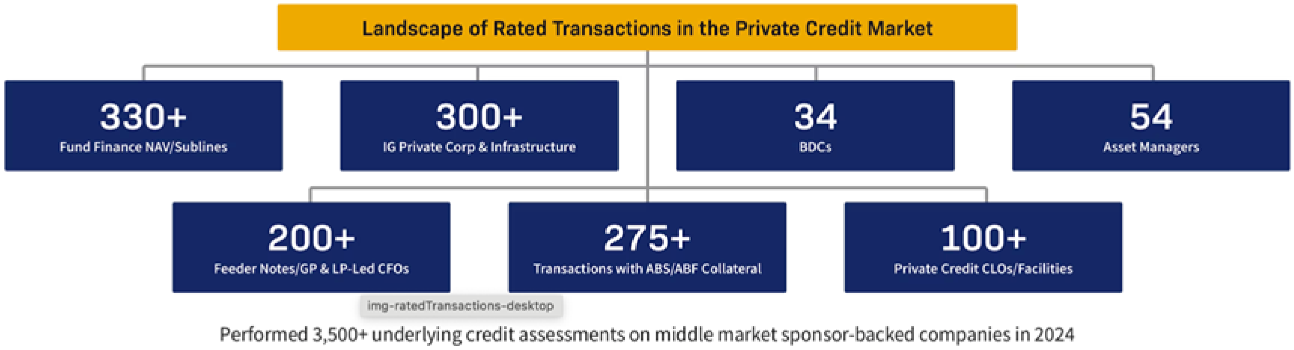
As private credit expands, Nationally Recognized Statistical Rating Organizations (NRSROs) are increasingly issuing private ratings, which are widely used by insurers and institutional investors—and are now drawing heightened regulatory attention. The Securities and Exchange Commission (SEC) defines private ratings as credit assessments "communicated by a nationally recognized statistical rating organization (NRSRO) to an issuer or a limited number of third parties but not made publicly available." The National Association of Insurance Commissioners (NAIC) refers to these as private letter ratings (PLRs), which have become critical for calculating risk-based capital—the formula-driven framework that determines the minimum capital insurers must hold based on asset risk. According to the NAIC, PLRs are particularly well suited to private credit because they offer confidentiality, regulatory utility, and structural flexibility. Unlike public ratings, PLRs are contractually restricted from broad disclosure and are typically used with privately distributed securities—a hallmark of many private credit transactions.

In its 2025 Staff Report, the SEC's Office of Credit Ratings—operating under the Credit Rating Agency Reform Act of 2006 and Section 15E of the Securities Exchange Act—highlighted how NRSROs are adapting to this shift. Many have expanded their ratings coverage to include instruments issued by private credit funds, business development companies, and non-bank direct lenders. In addition to corporate debt issued by alternative asset managers, private credit ratings are playing an increasingly pivotal role in the evaluation of securitized products such as Collateralized Loan Obligations (CLOs) backed by middle market loans, and Collateralized Fund Obligations (CFOs) backed by limited partnership interests in private investment funds. "Securitization plays a significant role in private credit by providing a mechanism to transform illiquid private loans into tradable securities," says Marc Pinto, Global Head of Private Credit and Insurance at Moody's. He adds that private ratings are "essential for investors to have clear visibility into the underlying assets and the associated risks. Enhanced transparency not only fosters trust but also enables more informed decision making, ultimately contributing to the stability and efficiency of the market."

The NAIC's heightened scrutiny comes as PLRs see growing adoption across the insurance sector, driven by several interrelated trends: the rise of private placements and non-bank lending, broader participation by small and mid-sized NRSROs, and insurers' increasing appetite for higher-yielding private credit. According to Fitch Ratings, insurers are steadily increasing allocations to private credit, attracted by incremental returns tied to "illiquidity and complexity premia" and expanding strategic partnerships with alternative investment managers that originate private credit assets, which allow insurers access to higher returns in a challenging rate environment.

The numbers illustrate this surge. In 2024, the NAIC reviewed 19,443 securities filings—of which 42%, or 8,229, were PLRs. By comparison, in 2023, PLRs accounted for just 25%, or 3,879, of 15,549 filings. According to the SEC, more than 80% of private ratings used by insurers are issued by small and mid-sized NRSROs, including Egan-Jones Ratings, KBRA, and Morningstar DBRS.

Expanding Use of Ratings in Private Credit: KBRA



Source: KBRA

Key Metrics For Credit Estimate* Borrowers by Industry 2024 vs 2025 (median): Morningstar DBRS

	Count		EBITDA ($ mill)		Interest Coverage		Net Leverage		Revenue Growth (year-on-year, in %)	
Year	2024	2025 (YTD)	2024	2025 (YTD)	2024	2025 (YTD)	2024	2025 (YTD)	2024	2025 (YTD)
Industrials	255	89	51.05	68.46	1.58	1.80	5.10	4.92	5.2%	4.7%
Healthcare	171	39	50.49	64.02	1.50	1.76	5.33	4.90	7.3%	10.3%
Technology	140	33	54.86	52.88	1.50	1.53	5.26	6.11	4.6%	9.3%
Consumer Cyclical	106	27	45.79	41.63	1.67	1.80	4.83	3.98	3.2%	0.8%
Financial Services	66	18	71.69	79.09	1.53	1.59	5.34	5.62	9.5%	8.3%
Other Sectors	105	28	51.46	40.10	1.69	1.68	4.67	4.80	4.6%	5.6%

**Morningstar DBRS uses the term "Credit Estimate" to denote private ratings. Source: Morningstar DBRS*

In March 2025, the NAIC proposed key amendments to strengthen the oversight of privately rated securities eligible for Filing Exemption (FE)—used for roughly 80% of fixed-income securities held by U.S. insurers. FE allows securities to receive an NAIC designation automatically based on a credit rating from a recognized provider, bypassing review by the Securities Valuation Office (SVO).

The proposal, issued by the Valuation of Securities Task Force (VOSTF), would require rationale reports supporting private letter ratings to be submitted within 90 days of any rating action—such as an affirmation, update, or change. These reports would also need to meet stricter content standards, offering sufficient analytical depth to justify the rating. If a report is missing or deemed inadequate, the affected security would lose its FE status and become subject to direct SVO review. The SVO also recommended removing an existing exemption that limits annual update requirements—meaning all privately rated securities would need updated rationale reports annually. These changes reflect the SVO's growing concerns about the adequacy and consistency of documentation supporting private ratings used for regulatory capital treatment.

This development builds on a broader reform agenda launched in 2024 in response to growing reliance on both public and private credit ratings. In August 2024, VOSTF adopted revisions to the Purposes and Procedures Manual, introducing a formal process to assess whether NRSRO ratings represent a "reasonable assessment of investment risk" before being accepted for capital purposes—a move away from automatic reliance on ratings. Momentum continued in November 2024, when the NAIC issued a Request for Proposal to establish a due diligence program aimed at mitigating "blind reliance" and ratings shopping. Together, these efforts reflect the NAIC's push to ensure greater transparency, accountability, and analytical rigor in the use of credit ratings across the insurance regulatory framework. They also signal a broader shift toward enhancing transparency and accountability in how ratings are used in an evolving private credit environment.

While the SEC is statutorily prohibited from regulating the substance or methodology of credit ratings, the commission has underscored that the responsibility to evaluate rating quality ultimately rests with users—particularly insurers and other institutional investors. The NAIC's reform efforts signal a broader shift toward increased accountability and transparency in how ratings, especially private ratings, are integrated into the regulatory framework in an era of expanding private credit markets. Ruth Yang, S&P's Global Head of Private Market notes, "Considering the expectation that private markets will double in size in the next three years, it's evident that market participants will need greater systemic transparency- clear, concise, cross-market technicals on market health and dynamics in order to manage their risks and have consistent, impartial insights on these investments."

Additional Resources:
S&P Global Ratings
Moody's
Fitch Ratings
KBRA
Morningstar DBRS
Egan-Jones Rating