Beyond The Mark

THE LEAD | June 17, 2026

How are direct lending loan values calculated? We introduced the topic in our "Par for the Course" installment last month. By popular demand we're digging deeper into how experienced managers establish that number. Investors see the output, but don't always get a picture of the inputs. So here's a quick lesson on loan valuations in a private credit portfolio.

The first thing to know is a single loan valuation can involve upward of 20 data fields. This includes financials, market comps, outlook, management commentary, and more. Each one is capable of pushing fair value in either direction. Getting it right is as much art as science. And that's where the fun begins.

To eliminate the appearance of conflict, deal teams have moved away from setting marks. Instead, dedicated internal valuation teams have stepped in. Insulated from origination bias with no skin in the game, their incentive is to get it right.

Using third-party valuation firms provides additional oversight and methodology diversification. More than three-quarters of BDCs use these specialists, canvassing thousands of loans across the market. They identify the key value drivers and the impact these dynamics have on the loans. That kind of market intelligence only comes from deep experience and expertise.

At the portfolio level, the rigor only deepens. The best managers monitor every loan – not just a sample. They cover multiple factors from market changes and portfolio company activity to exits, repayments, draws, PIK, restructurings, watchlist changes, and estimated costs. And what was a quarterly exercise has increasingly become monthly. That's not a rubber stamp, that's a gauntlet.

When lenders arrive at different marks for the same loan, it isn't necessarily evidence of a broken process. It may result from updated financial statements or varied business assumptions.

When the media called out certain large software loans going on non-accrual, the disparity between past and current marks became an industry-wide indictment. As is often the case, these were outliers. As our *Chart of the Week* shows, ~62% of loans held by more than one BDC are marked within one point of one another.

Marks are more method than myth. And they are tested, not over a quarter or two, but over many years and multiple cycles. Investors who stick with managers who have built valuations on a sound foundation with layers of checks and balances, will find those marks stand the test of time.