

First Brands Bankruptcy Underlines Scope of Private Credit Exposures

While the impact of the auto parts supplier's bankruptcy on the private credit market is debatable, it highlights the need to be aware about debt holdings and protections, industry watchers say.

By **Justin Mitchell** | October 10, 2025

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The collapse of auto parts supplier **First Brands Group** into bankruptcy last week provides a glimpse into the complex web of debt just one company can have in its public and private loans – and how far those exposures can span across the private credit manager landscape.

The high-profile failure also highlights the treacherous path for such lenders to recover their money, which hinges on the quality of the collateral they secured, if any, and how close they are to the front of the line for repayment, industry watchers say.

In the aftermath of the private company's bankruptcy filing late last month, court filings and news reports revealed it had borrowed money using many different instruments, including broadly syndicated loans, asset-backed financing and supply-chain finance. And managers held these loans in a variety of structures, including collateralized loan obligation, or CLO, investments as well as semi-liquid vehicles such as interval and tender offer funds.

Early reports indicated First Brands may have borrowed against certain assets multiple times, prompting it to launch a private corporate investigation, while yesterday the Financial Times reported that the **Department of Justice** had begun its own inquiry into the matter, citing anonymous sources. And one creditor claims that \$2.3 billion dollars supposedly backing liabilities has "simply vanished," according to a separate FT report.

Even in the current market environment where credit investing, especially private credit, is booming, the First Brands case highlights the necessity for managers to cleave to the fundamentals, said one advisor who used to work at a prominent asset management firm in its global credit platform.

"It's so important, especially [for] the credit investor, to really understand what you have, not just based on the term sheet, not just based on a perspective, but really understanding what the documents say – and not just what the documents say, but really negotiating for real transparency," he said. "Obviously, it's hard to prevent all-out fraud, but the way you can mitigate the risk is by ensuring that you have the rights to information, confirming the information and getting ongoing disclosures and information rights."

Most lenders are just scrambling to figure out what their collateral is and what protection that collateral has, said **John Sparacino**, a principal at law firm **McKool Smith**.

"To the extent you don't have collateral, or your collateral has been commingled, or you can't locate it, or it's not worth anything, and you're now just an unsecured lender, your ability to control what happens and advocate for a healthy return on your position dramatically goes down," he said.

Due to the complexity of First Brands' borrowing, and the potential for fraud to have factored in its troubles, the unravelling process is likely to be long and complex, Sparacino added.

A Web of Debt

For private credit firms, the largest exposures appear to be through CLOs, which are groups of loans that are packaged and securitized by banks and then sold, often at a discount, or acquired as a distressed investment play. That's how many private credit managers came to hold the company's debt, sources told FundFire Alts.

The largest was **Marathon Asset Management**, which held over \$280 million in First Brands' debt, according to a filing. It was alongside dozens of other major private credit names, including **Monroe Capital**, **Antares Capital**, **Sagard**, **Värde Partners**, **Sycamore Tree Capital Partners**, and **Franklin Templeton** affiliate **Alcentra**, just to name a few. Sagard, Värde, Alcentra and Sycamore Tree declined to comment for this story, while the rest did not respond to requests for comment by press time.

Most of the company's debt load appears to be in broadly syndicated loans, and the impact on these CLO holdings – and the private credit asset class broadly – is limited, according to a report from **Fitch Ratings**. The greater impact appears to be for certain asset-based loans, it said.

"First Brands' troubles appear to stem from billions of dollars in off-balance sheet financing, including receivables factoring and inventory reverse-factoring arrangements. These off-balance sheet financings may fall under the 'private credit' umbrella as the liabilities were incurred privately between First Brands and its various lenders. However, they are distinct from the traditional direct lending, which is typically on balance sheet and supported by first-ranking, all assets security over the borrower group," the report says.

Several private credit firms were exposed through such esoteric structures, including, **Pemberton Asset Management**, **Evolution Credit Partners**, and **Aequum Capital**. Pemberton and Aequum declined to comment, while the rest did not respond to requests for comment.

Asset-backed lending, or ABL, is an increasingly popular type of private credit, as reported. Often, such transactions are remarkably safe, as lenders usually have physical collateral to take over in a default, the former asset management executive said.

"The more your collateral is hard assets, easily quantifiable assets, [or] easy to locate assets, the less downside risk you had, which is why the ABL-type lenders usually have very little risk," he said.

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But First Brands may have double-booked some assets used as collateral, according to the FT.

Meanwhile, managers with debt based on the business's operating value are best served by taking part in "debtor-in-possession," or DIP loans, which provide post-

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bankruptcy financing to help a company pay expenses during the process – and can help a lender get ahead on the repayment line, the asset management source added.

Late last month, Marathon and other lenders formed an "ad hoc group" to provide DIP financing to First Brands, according to court filings. The court last week authorized \$4.4 billion in loans, with \$3.3 billion to cover previous expenses and \$1.1 billion to help it continue operating.

Not all managers are scrambling to recover their funds. At least two, **Apollo Global Management** and **Diameter Capital Partners**, shorted the company's debt and made significant profits from those bets, the FT reported.

And various managers appear to have had exposure to First Brands through holdings in non-traded interval funds, tender-offer vehicles and business development companies. A **Morningstar** analysis shows interval funds from affiliates of **AllianceBernstein**, Franklin Templeton and **Calamos Investments** were among vehicles with 1% to 2% exposure within their portfolios through non-traditional or multi-sector bonds as of their most recent filings over the summer?

Private Credit Ramifications?

First Brands' bankruptcy still could be a "wake-up call" for private credit investors, especially around newer fund managers, said **Edward Altman**, a professor emeritus of finance at **New York University**.

"When you get more firms migrating to private credit, and you get more firms forming a private credit company, then you have a much more complicated negotiation situation when there's distress," he said. "Now, maybe [investors] are going to re-evaluate the portfolios of these private credit firms."

Financial market players were aware of issues at First Brands for months, and the company's situation appears "idiosyncratic," said **Carson Block**, chief investment officer at **Muddy Waters Research**, on Wednesday at the Financial Times' Future of Asset Management conference in New York, which FundFire cosponsored.

"I heard about problems [with the company,] but I do suspect that it's isolated [and] it's not indicative of something systemic in private credit," he said.

If First Brands had been "documented and underwritten" in the private markets, the company's struggle arguably would not have played out in the same way because of the "tons of information" those investors have access to, said **Jana Markowicz**, chief operating officer of U.S. direct lending for **Ares Management**, at the same conference.

"You have a direct access to management, you're asking many, many detailed due diligence questions, getting access to customer-level information and supplier-level information and doing private equity-style due diligence to make a loan," she said. "That is different than what you find in the public markets."

Ares has no exposure to First Brands, a spokesperson said.

At the very least, First Brands shows investors that it is important to know what and who they are investing with, said **Kenneth Lamont**, a principal for management research at Morningstar, in a statement.

"The opacity and structural complexity of many private market investments, coupled with fewer layers of external scrutiny, add to the investment risk and demand a higher standard of due diligence when selecting managers," he said.

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