Behavioural and Fit Questions (Private Credit)

Interview preparation summary · PC track

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INT.CB.1.a · Motivation and Fit

Explain why you want to lend rather than own, using the asymmetry between a lender's capped return and an owner's open-ended one.

Interviewers ask why private credit, and why lending rather than owning, to find out whether you understand what the job rewards. A lender earns a contractual return: a spread over a base rate, fees and original issue discount, all capped. An owner keeps the upside but sits beneath the debt and absorbs the first losses. The honest case for lending is therefore about asymmetry, not about avoiding risk: you are paid to be right about a narrower question, whether the business will repay, and you are protected by the equity below you, by security and by covenants. A strong answer shows the numbers, for example how far enterprise value can fall before your loan is impaired, and admits the cost, which is giving up the upside. Common mistakes are saying you dislike risk, dismissing equity as gambling, or ignoring that lenders do lose money when they misjudge cover or recoveries.

WORKED EXAMPLE: LENDER AGAINST OWNER ON THE SAME BUSINESS

Harlow Packaging is invented. EBITDA is 12.5m and a sponsor buys it at 8.0x, so enterprise value is 100.0m. A direct lender provides 4.5x EBITDA of senior debt at a base rate of 4.0% plus a 6.0% margin. The sponsor puts in the rest as equity. Ignore fees, tax and amortisation. Compare the lender and the equity owner if EBITDA falls 25% and the exit multiple drops to 7.0x, and if EBITDA rises 30% and the multiple rises to 9.0x.

Answer: The lender gets 10.0% in every case and is only impaired if EBITDA falls about 36% at a 7.0x multiple, whereas the owner moves from losing 78.6% to making 2.06x on the same two scenarios.

> **Interview tip:** Name the trade directly: a capped return in exchange for a cushion, and quantify the cushion. Never say you prefer lending because it is safe.

INT.CB.1.b · Motivation and Fit

Describe your risk appetite as a lender in terms of expected loss and loss budget, and show you can accept being wrong.

A lender's risk appetite is not a feeling about volatility but a number about losses. The tool is expected loss, which is probability of default times loss given default, set against the yield the loan earns after fees. A loan paying 10% with a 3% annual default probability and a 40% loss given default has an expected loss of 1.2%, so the net return is about 8.8% before costs. Because upside is capped, one large loss can erase several years of income from other loans, so lenders think in a loss budget and limit position size. Interviewers ask about being wrong because every portfolio has defaults. A good answer says what you would do early, such as tighter reporting, an amendment or a lower hold, rather than claiming you would never lose. Common mistakes are claiming a zero-loss record, treating a downgrade as a failure, or ignoring correlation between loans.

WORKED EXAMPLE: HOW MANY GOOD LOANS PAY FOR ONE BAD ONE

A direct lending portfolio holds ten loans of 5.0m each, so 50.0m in total. Each pays a 10.0% yield. Assume a 3% annual probability of default and a 40% loss given default, and that one loan does default with that recovery. Ignore fees, funding costs and timing within the year.

Answer: With these inputs expected loss is 1.2% a year, one realised default costs 2.0m which is 4.0% of the book, and the portfolio still returns 6.0% in that year.

> **Interview tip:** Show that you can be wrong and survive it. Give the loss number, the response you would take early and the position size that keeps one mistake affordable.

INT.CB.1.c · Motivation and Fit

Answer why this firm and why now with specific, public evidence and an honest account of your path, without claiming inside knowledge.

Why this firm and why now is a test of preparation and honesty. A strong answer has three short parts: what draws you to credit, what you learned about this manager from public sources, and why your timing makes sense. Public sources include its website, fund descriptions, published commentary, regulatory filings, a listed vehicle's reports, press on its deals and conversations with people you can name. Useful specifics are the part of the capital structure it lends in, whether it lends to sponsor-backed or non-sponsor borrowers, typical hold size, sector focus and how it describes its approach to downside. Never claim to know its internal process or invent a deal. For timing, link your path to the next step, such as what a few years of credit work has taught you and what you want to learn next. A common mistake is flattering the brand without any detail.

WORKED EXAMPLE: BUILDING A NINETY-SECOND WHY THIS FIRM ANSWER

Imogen is an invented candidate with two years in a bank's leveraged finance team. She is interviewing at Ashdown Credit Partners, an invented direct lender. Its public fund summary describes senior and unitranche loans to sponsor-backed mid-market companies, with typical holds she has read as 15m to 40m. She has spoken to one associate there. Build a ninety-second answer at about 150 words a minute, with three parts weighted 25%, 50% and 25%.

Answer: The answer fits 90 seconds at about 55, 115 and 55 words across motivation, firm and timing, and each firm claim is tied to a public source or a named conversation.

> **Interview tip:** Give two or three firm facts you can source, say where each came from, and be open about what you do not know. A specific, modest answer beats a flattering one.

INT.CB.2.a · Stories and Judgement under Pressure

Structure a credit-flavoured behavioural story as situation, decision, evidence, result and learning, and quantify the key judgement.

Behavioural answers in credit work best when the story centres on a judgement call with evidence, not on effort. A useful shape is situation in one or two sentences, the decision you owned, the evidence you used, the result, and what you changed afterwards. In credit the evidence is usually a number: leverage, cover, covenant headroom, the share of EBITDA that comes from adjustments, or a downside case. Putting that number in the story makes it checkable and shows you think like a lender. Aim for about two minutes, use I for your actions and we for the team, and be ready for follow-ups such as what would you do if the sponsor disagreed. Prepare four or five stories that can answer several themes. Common mistakes are telling a story with no figure, hiding behind we, and ending without a learning.

WORKED EXAMPLE: TURNING A MONITORING STORY INTO A QUANTIFIED ANSWER

Tomasz is an invented credit analyst. He monitored a 60.0m loan to a testing business. EBITDA was 12.2m and net debt 59.8m, so leverage was 4.9x against a maintenance covenant of 5.5x. A year earlier leverage was 4.0x. He asked for monthly reporting and a cash-flow forecast. Build his two-minute story at about 130 words a minute, and quantify the headroom.

Answer: The story is built around one number, 10.9% EBITDA headroom down from 27.3%, and one decision, earlier reporting, with a result and a changed practice.

> **Interview tip:** Put one figure in every credit story. It shows how you think, gives the interviewer something to probe and makes the answer hard to fake.

INT.CB.2.b · Stories and Judgement under Pressure

Handle a disagreement with a sponsor or colleague by separating positions from interests, saying what you hold firm on, and pricing what you concede.

Lenders spend much of their time negotiating with sponsors who want looser terms, so behavioural questions often ask about a disagreement. A strong answer shows that you understood the other side's interest, held firm on what protects repayment, and traded something of value for what you conceded. Typical firm points are the leverage and cover tests, security, limits on leakage such as dividends, and information rights. Typical tradeables are a covenant level, a cure right, timing, or a baskets limit, in exchange for margin, a fee, a tighter reporting package or an equity injection. Quantify the trade: a covenant reset that raises headroom from 5% to 13% might be worth a margin step-up of 50 basis points. Common mistakes are describing a fight you won, blaming the other party, conceding without pricing it, or saying you never disagree with your sponsor clients.

WORKED EXAMPLE: PRICING A COVENANT RESET IN A SPONSOR NEGOTIATION

Brackley Controls is invented. Net debt is 104.0m on EBITDA of 20.0m, so leverage is 5.2x against a maintenance covenant of 5.5x. The sponsor asks to reset the covenant to 6.5x with no fee. You are the lender's credit lead. Compute headroom under each covenant and design a response that you could defend.

Answer: Headroom is 5.5% today, 20.0% under the sponsor's ask and 13.3% under the 6.0x compromise, and the compromise is priced at 0.52m a year plus a one-off 0.26m fee.

> **Interview tip:** Describe the other side's interest fairly, state what you refused to trade, and put a price on what you conceded. A story that ends in a priced compromise sounds credible.

INT.CB.2.c · Stories and Judgement under Pressure

Tell a failure or mistake story honestly, with a figure, the cause, the cost and a concrete change in practice, and pair it with evidence-based strengths.

The failure question tests judgement and honesty. Choose a real mistake that is small enough to be safe to share but real enough to cost something, and avoid the fake weakness such as working too hard. Say what you decided, what you got wrong and why, what it cost or could have cost, and what you changed. In credit the best examples are specific: you accepted a sponsor's add-backs without testing them, relied on a single downside case, or missed a leakage basket in documents. Quantify the error, for example how much of adjusted EBITDA came from add-backs and what leverage looks like without them. For strengths, give one or two traits and a piece of evidence for each, such as the risk you caught or the process you built. Common mistakes are blaming others, minimising the error, or learning nothing.

WORKED EXAMPLE: QUANTIFYING AN ADD-BACK MISTAKE

Wenlock Labs is invented. A sponsor presented adjusted EBITDA of 18.0m, made up of reported EBITDA of 14.0m plus 4.0m of add-backs. Net debt was 90.0m. You accepted the 18.0m. Later you found only 1.5m of the add-backs were supportable. Compute the leverage you used and the leverage you should have used, and write an honest answer.

Answer: Leverage was 5.0x on the sponsor's figure and 5.8x on supportable EBITDA, add-backs were 22.2% of adjusted EBITDA, and the lesson was to demand evidence per add-back and show three leverage figures.

> **Interview tip:** Pick a real error with a number, own the cause in your first sentence and finish with a change you still use. Avoid the disguised strength.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.