AI in Private Credit

Interview preparation summary · PC track

INT.XC.1.a · AI in Private Credit

Use an AI assistant to scan and summarise credit agreements, borrower financials and market reports for a first view, and verify what it says against the source before relying on it.

A credit junior is now expected to use an AI assistant to get through credit agreements, compliance certificates, borrower accounts and sector reports faster, and to produce a first view, not a final one. The skill is verification. Ask for clause or page references and read each cited passage yourself; a confident summary can invent a covenant level, a basket, a date or a quotation, and can drop the qualifier that matters, such as a greater-of grower, a cap on add-backs or a condition on a refinancing. Check units, currency and period (a fifteen month period is not a year). Prompt for what is not in the document, for example no equity cure, no cap on add-backs, no financial covenant, then search the text to confirm each gap. Verify most heavily the items that drive the credit decision: leverage definitions, covenants, maturities, change of control and permitted debt. Never paste borrower, sponsor or deal material into a tool your firm has not approved; firms differ, so check the policy. The usual mistake is trusting a clean layout or asking the assistant to check its own answer.

WORKED EXAMPLE: CHECKING AN AI SUMMARY OF A COVENANT PACKAGE

An approved AI assistant summarises the facility agreement of Holloway Fixings Ltd. It says: maintenance covenant of net leverage no higher than 5.50x, and EBITDA add-backs allowed up to 25% of EBITDA before add-backs. The agreement itself says 5.00x (stepping down from 5.50x after the second test date, which has passed) and an add-back cap of 15% of EBITDA before add-backs. Net debt is 190.0m, EBITDA before add-backs is 32.0m and the borrower claims add-backs of 8.0m. Does the summary change the answer on covenant compliance? Ignore tax and use the figures as stated.

Answer: Per the agreement, covenant EBITDA is 36.8m, net leverage is 5.16x against a 5.00x limit, so the covenant is breached; the summary's 4.75x against 5.50x with 13.6% cushion was wrong on both the level and the cap.

> **Interview tip:** Say that you use an assistant as a map to the document, that you read every cited clause and re-perform every number that drives the decision, and give a concrete example of a qualifier or figure it got wrong.

INT.XC.1.b · AI in Private Credit

Use an AI assistant to review and build credit analysis, such as leverage, cover, covenant headroom and recovery workings, and independently check its arithmetic, formulas and assumptions.

An assistant can help a credit junior review a model for formula and logic errors, write a formula or script for cover ratios or a recovery waterfall, and challenge assumptions in a downside case. It writes fluent numbers that are sometimes wrong, so every output is re-performed independently. Test generated formulas on a case where you know the answer by hand and on edge cases such as zero interest or negative EBITDA; reconcile balances to the term sheet and the accounts, including face value against net proceeds after original issue discount; and check definitions, because assistants often mix up interest cover and fixed charge cover, gross and net debt, or EBITDA cushion and debt headroom. Use it to argue the other side of your story: ask for the assumptions a conclusion depends on and then flex them yourself, since an assistant tends to follow the framing of your prompt and can make any downside look comfortable. Keep a short record of what was AI-assisted and what you checked, so a reviewer can follow the work.

WORKED EXAMPLE: FINDING WHY AN AI INTEREST COVER FIGURE IS WRONG

An AI assistant reviewing the model for Calder Haulage Ltd reports: term loan 100.0m, EBITDA 24.0m, interest cover 3.69x. The term sheet says the loan pays base rate 4.0% plus a margin of 6.5%. Capex is 6.0m and scheduled amortisation is 1.0m a year. Find the right interest cover and fixed charge cover (EBITDA less capex, over interest plus scheduled amortisation), and say what went wrong. Figures in millions; ignore tax and use a full year of interest on the opening balance.

Answer: Interest cover is 2.29x, not 3.69x, because the assistant dropped the 4.0% base rate; fixed charge cover is 1.57x. The error overstated cover by about 1.4 turns.

> **Interview tip:** Describe the habit: work backwards from any odd output to the input that explains it, re-perform the ratio by hand, and test any generated formula on a case with a known answer.

INT.XC.1.c · AI in Private Credit

Use an AI assistant to draft credit memos, emails and notes, then own the recommendation by editing for accuracy and tone, keeping an audit trail and being honest about how AI was used.

Drafting is where an assistant saves a junior time and where the risks are quietest. The structure and the recommendation must come from you: decide what the credit case is, what would make you pass, and what the numbers say, then use the assistant to tighten wording in your firm's memo format. Fluent text sounds more certain than the evidence allows, so replace adjectives such as robust, comfortable or ample with the actual cover, headroom and recovery, and compare each with the fund's limits. Remove anything that reads like a commitment to a sponsor that the fund has not approved. Use only an approved tool, strip or avoid confidential detail in prompts where policy requires, and keep versions: the workbook, the draft, your edits and a short note of what was AI-assisted and what you checked. Tell your team plainly how you used it. In an interview, name a specific use, one place you did not trust the output, and what you would never delegate: the credit judgement, the sign-off and anything confidential.

WORKED EXAMPLE: EDITING AN OVER-CONFIDENT AI DRAFT SENTENCE

An AI-drafted credit memo for Marlowe Cold Storage Ltd says: 'Even in the downside case, with EBITDA flat at 40.0m, leverage falls below 3.0x by year three, so deleveraging is comfortable.' Opening net debt is 168.0m at 10% interest on the opening balance. Capex is 8.0m, cash tax 3.0m and working capital outflow 1.0m a year; all free cash flow repays debt. Check the sentence and rewrite it for the memo. Ignore other items; year-end cash flows.

Answer: Year three net leverage in the downside is 3.27x (about 3.3x), not below 3.0x; the memo should state the figure and the path rather than call it comfortable.

> **Interview tip:** Say that the assistant helps with wording, but the recommendation and every number in the memo are yours, and give an example of a confident sentence you corrected against the model.

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