RATINGS SHOPPING

A FAMILIAR INCENTIVE, A NEW CREDIT MARKET

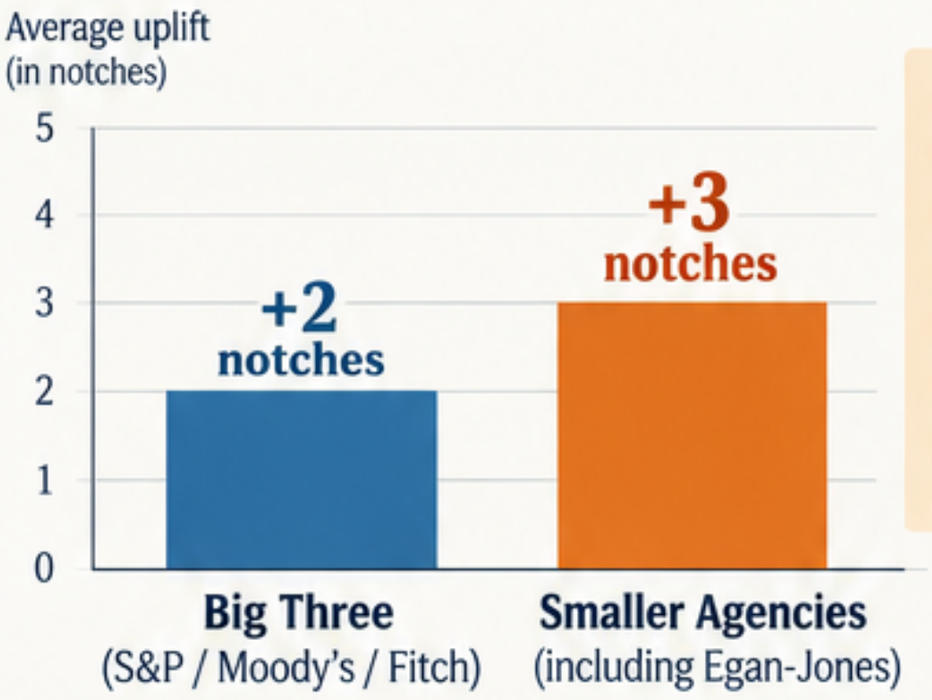
Echoes of 2008 in today's private-credit and insurer ratings landscape — not a claim that the crises are identical.

KEY TAKEAWAY

As in 2008, borrowers have strong incentives to seek higher ratings. Today, the dynamic is playing out in private credit and insurance company portfolios, where ratings can affect regulatory capital requirements.

RATING GAPS VS. NAIC ANALYSTS

Average uplift in a 2023 sample of 109 privately rated securities



8 of 109 cases were 6+ notches above NAIC assessment; all from smaller agencies.

The underlying 2024 NAIC study was **WITHDRAWN** in 2025 over data/methodology concerns. This is a limited, non-representative historical sample — not definitive evidence of rating inflation.

EGAN-JONES | SCALE & STAFFING

A large number of ratings relative to a small analyst team, according to public filings and research.

3,000+
private-credit investments reportedly graded in 2024
Source: Bloomberg, June 2025

~20
credit analysts in 2024 filing
Source: Egan-Jones Form NRSRO / **SEC**

14,348
total outstanding ratings, Dec. 31, 2025
Source: SEC (NRSRO statistics)

150+ investments / analyst
Simple 2024 arithmetic, NOT a measure of analyst effort or credit quality.

FT Alphaville compared rating counts and analyst staffing, noting that different asset-class mixes make simple productivity comparisons imperfect.

THEN AND NOW: SIMILAR INCENTIVES, DIFFERENT MARKETS

2008 | STRUCTURED MORTGAGE FINANCE

- Issuers sought high ratings for mortgage-backed securities (MBS) to make them easier to sell.
- Higher ratings supported lower capital requirements for banks and other investors.
- Led to rapid growth in highly rated structured products, followed by significant losses.

2026 | PRIVATE CREDIT HELD BY INSURERS

- Private-credit borrowers seek higher ratings to broaden investor demand.
- Ratings can be used in insurer capital calculations, potentially lowering required capital.
- Rapid growth in private credit and increased use of smaller rating agencies has raised questions about rating consistency and comparability.

HOW RATINGS CREATE INCENTIVES

Issuer seeks ratings
Higher rating can attract more investors and lower funding costs.

→

Rating used in insurer capital calculation
Insurers may rely on ratings to determine required capital.

→

Stronger grade can lower required capital
A higher rating can reduce capital requirements, making the investment more attractive.

INCENTIVES WARRANT SCRUTINY

These dynamics are similar to those seen in 2008 and highlight why rating practices, methodologies and oversight deserve close attention.

Differences between today's markets and 2008 are material and are not proof of misconduct.

AGENCIES DISPUTE CLAIMS

Rating agencies, including Egan-Jones, dispute claims of weaker quality and cite their methodology, specialization and historical performance.

FT (27 Oct 2026): **NAIC softened a proposal** for additional rating-agency scrutiny.

Sources: Financial Times / FT Alphaville (2025–26); Bloomberg (June 2025); SEC NRSRO statistics (2025) & Egan-Jones 2024 filing; Fitch review (Dec 2024) of later-withdrawn NAIC sample; NAIC/industry responses.

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