

Corporate and Commercial Private Credit Loan Servicing: Outsource, Build, or Buy?

Evaluating Third-Party Loan Agency vs. In-House Servicing

Executive Summary

As private credit has grown into a multi-trillion-dollar asset class, corporate and commercial direct lenders face an increasingly consequential operational decision: how to service the loans they originate. The core choice is between outsourcing servicing to a third-party loan agent — an experienced intermediary who handles loan administration mechanics — or bringing servicing in-house using self-built tooling or purchased purpose-built software. This paper examines all three options in depth, with particular attention to the capabilities of modern SaaS servicing platforms such as LoanStreet, and offers a framework for determining the path that best suits their strategy, complexity, and growth stage.

The Stakes of the Servicing Decision

Loan servicing is the operational backbone of a lending business. Done well, it protects asset quality, preserves lender-borrower and lender-lender relationships, ensures regulatory compliance, and provides the data necessary for sound portfolio management. Done poorly, it creates reputational risk, financial errors, compliance failures, and strained borrower and co-lender relationships and can ultimately undermine asset quality.

For a private credit direct lender, the servicing challenge is compounded by the complexity of the instruments involved. Unitranche structures, PIK toggles, non-pro rata funding arrangements, multi-currency facilities, complex origination and ongoing fee calculations, document and financial covenant compliance and tracking, and frequent amendments — none of these fit neatly into generic legacy banking software or spreadsheets. The servicing solution must be capable of handling this complexity reliably at scale.

Against this backdrop, the build-vs-buy-vs-outsource decision deserves serious analysis.

Option A: Outsourcing to a Third-Party Loan Agent

What Outsourcing Provides

A third-party loan agent is a specialist firm that performs loan servicing on the lender's behalf. Their responsibilities typically include managing payment processing and cash flows, maintaining loan records, handling draw requests under revolving or delayed-draw facilities, tracking covenant compliance, managing syndicate communications, and administering waivers, amendments, and other modifications over the life of the loan. The appeal is straightforward: the lender gets to focus on what it does best — sourcing, underwriting, and managing credit risk — while delegating complex loan administration to an experienced specialist.

The Case for Outsourcing

Expertise on Day One. A reputable loan agent brings established processes, trained personnel, and institutional knowledge of how to manage complex credit instruments. Rather than investing months or years in building internal servicing expertise, the lender can be operationally functional for any closing.

Scalability Without Fixed Costs. Outsourcing converts much of the servicing cost from fixed to variable. A lender does not need to hire, train, and retain a full servicing team to manage its portfolio. As the portfolio grows, the lender generally pays proportionally more — but avoids the overhead and management burden of a larger internal team during earlier or slower periods. Moreover, an invoice from a third party agent can make it easier for a private credit lender to pass along these costs to their borrowers (and potentially LPs) and therefore not directly bear the expense.

Reduced Operational Risk. Experienced loan agents have tested processes for managing complex events: defaults, accelerations, amendments, lien releases, and intercreditor disputes. For lenders without deep operational experience, the risk of mishandling a non-routine event is real. A qualified agent reduces that risk.

Ancillary Fund Services. Some loan agents and fund administrators offer a broader suite of services — fund accounting, investor reporting, tax preparation, regulatory filings — that can be bundled with loan servicing. For smaller managers in particular, the ability to consolidate these functions with a single third party may offer both cost savings and operational simplicity.

Considerations on Outsourcing

Despite these advantages, outsourcing introduces meaningful risks and constraints that must be carefully evaluated before any engagement.

Transparency and Data Access. This is perhaps the most critical issue. When a third party services loans, lenders depend on them for loan data accuracy and timeliness. The degree of transparency they provide varies enormously. Some agents offer real-time, granular access to loan data through their own platforms or data feeds; others provide periodic reports that may be days or weeks stale. A direct lender that cannot see its own portfolio data in real time is flying blind — unable to answer questions, assess covenant compliance, or make informed asset management decisions without first requesting information from a third party. Before engaging any loan agent, lenders should understand precisely what data they will have access to, in what format, and on what timeline.

Responsiveness and Service Quality. A loan agent juggles many clients simultaneously. Response times on requests, errors, and special situations may not meet a lender's expectations — particularly during busy periods or when the agent's staffing is stretched. Co-lenders and borrowers who experience slow responses or administrative errors will hold the direct lender responsible, regardless of who services the loan. Lenders should conduct thorough due diligence on an agent's client-to-staff ratios, and response time track record before engaging.

Complexity Handling. Loan agents aren't equally capable with complex instruments. Many have systems and processes optimized for straightforward, broadly syndicated credit or other traditional bank loans. A private credit lender with bespoke deal structures (e.g., PIK components, multi-currency tranches, non-pro rata funding mechanics, complex fee waterfalls) should verify specifically that a prospective agent can demonstrate proficiency with similar structures.

Institutional Knowledge. Over time, an experienced internal servicing team builds deep knowledge of the lender's portfolio, borrower relationships, and deal history. When servicing is outsourced, that institutional knowledge sits with a third party – and the lender risks losing continuity if the relationship ends, the agent loses key personnel, or the agent is acquired.

Cash Flow Mechanics. How cash moves through the servicing arrangement matters. Lenders should understand who holds cash and for how long, and how collections of interest and principal are distributed to co-lenders. If the outsourced agent is holding cash, the concentration with a single third party creates counterparty risk that must be evaluated and mitigated. Does the agent generate and deliver payment instructions with manual steps, or is there straight-through processing? What happens to cash in the event of an agent transition or agent insolvency?

Covenant and Compliance Tracking. When a lender has engaged the loan agent to monitor financial or document covenants, the lender should understand exactly how they handle the tracking, what their escalation processes look like, and how that information will be communicated to the lender's asset management team.

Straight-Through Processing and Error Risk. Manual data entry – rekeying payment instructions, balance information, or transaction details across systems – creates operational risk. "Fat-fingering" a payment amount or account number can have serious consequences. Evaluating an agent's straight-through processing capabilities that minimize manual intervention is critical, as heavy reliance on manual workflows increases error risk.

Software Used By Third-Party Agent. If the Lender selects a third-party agent that is using a modern platform such as LoanStreet, many of the above risks – including transparency and data access, covenant and compliance tracking, and straight-through processing – are mitigated.

Option B: In-House Servicing

Bringing loan servicing in-house – whether building or buying the associated tools – means the direct lender takes ownership of each loan’s full administrative lifecycle. This requires people and a servicing platform capable of handling the deal complexity and volume.

The Case for In-House Servicing

Control and Transparency. The most fundamental advantage of in-house servicing is that the lender owns the relationship with its borrower, including all of the applicable data and processes. There is no potential for third-party interference with the borrower or any other lender. Nor is there dependency on a third party for access to portfolio information, and no latency between an event occurring and the lender knowing about it. This is not merely a matter of convenience; for asset managers with fiduciary obligations to investors, real-time portfolio visibility and control is a governance imperative.

Real-Time Portfolio Information. Asset management teams benefit from real-time portfolio information for covenant compliance and watch-list purposes. They can positively impact portfolio performance by reacting to loan developments and improving underwriting in a feedback loop. Accounting teams also need real-time portfolio information in order to manage the lending institution’s cash, including the ability to make payments for back leverage.

Responsiveness. When a borrower has a question, when a co-lender or investor needs information, or when a loan event requires prompt action, an in-house team with direct access to the servicing system can respond immediately. There is no queue of other clients ahead of you, no need to route requests through an intermediary.

Competitive Differentiation. Operational excellence is increasingly a differentiator in private credit. Borrowers and co-lenders are more likely to return when they experience a seamless, transparent lending process with clean documentation, timely communication, and a professional borrower portal. A lender that can credibly describe its servicing capabilities to prospective investors and borrowers is better positioned in a competitive market.

Cost Efficiency at Scale. While outsourcing may be less expensive at low loan volumes, the economics typically shift as a portfolio grows. An efficient in-house servicing team can be a source of additional manager income generated by the difference in what a borrower may pay for loan agency and the actual servicing costs.

Preservation of Institutional Knowledge. An in-house team that services a portfolio over time develops deep knowledge of the portfolio, the borrowers, and the deal history. This knowledge has real value; It supports better asset management decisions, facilitates smoother amendments and workouts, and reduces the risk of important information being lost.

The Case Against In-House Servicing

Upfront Investment in People and Process. Building an internal servicing capability requires implementing software, developing internal procedures, training teams and potentially hiring dedicated servicing staff. For a lender early in its lifecycle or managing a small portfolio, this non-trivial investment may not be justified.

Learning Curve. Even with strong software, the team must learn how to use it effectively and develop operational discipline within its workflows. The transition from a spreadsheet-based or outsourced model to an in-house software model requires change management and typically involves some adjustment period. This will be easier on a more intuitive and modern software solution.

Ongoing System Management. SaaS platforms require ongoing attention — ensuring integrations remain functional, keeping user permissions current, training new staff, and staying current with platform updates. This is manageable, but it is a real operational responsibility that must be owned internally if the lender builds their own technology. Additionally, the lender should consider that as a portfolio evolves, with different loan features or products, the system must also evolve. If the lender buys the software, they should be comfortable that it has a reputation and record of maintaining, managing, and enhancing the system.

Considering a System Assembled with Excel, Email and Document Retention Software

The Power of Excel. Excel can engage in complex formula calculations, organize data and use pivot tables for data visualization. It is versatile for modeling, easy to use, and generally understood by most loan operations professionals.

An Inexpensive Option. The combination of Excel, email, a reminder system and a document retention system can be the foundation for a simple low cost loan servicing system.

But Excel Is Not A Single Source of Truth. Modern loan agency requires permissioned access to a single source of truth for all loan parties, including the borrower, lenders and other supporting third-parties. A purpose-built SaaS platform is a real-time, unified data environment for all teams involved in loan management — operations, accounting, compliance, and asset management. While Excel is a powerful tool, a lender would need to maintain parallel spreadsheets and/or reconcile data across systems and teams.

And Excel is Difficult for a Team to Use. Once a lender is scaling and multiple team members are accessing a spreadsheet to make changes, a servicing process risks breaking down. Crucially, spreadsheets lack auditing processes and control points for understanding changes over time. It is difficult to pinpoint when a particular change has occurred, who made it, and whether additional back-dated changes are necessary.

Emails Are Not For Tracking. A lender incurs operational risk by maintaining relationships with its borrowers exclusively with emails instead of via a borrower portal. Emails can go to an incorrect address and are not organized for future reference. For example, it is difficult to audit the metrics of a borrower's draw requests by reviewing emails.

LoanStreet: The Software That Today's Private Credit Lenders Require

A private credit lender that is scaling should look to a purpose-built agency software platform to service and manage their loans. This software needs to have the power and flexibility of Excel, but also must be a single source of truth that allows multiple people from different teams to access and manipulate the same authoritative record in an auditable fashion. The transparency of this system eliminates a class of errors that plagues manual and multi-system environments, and also ensures that information is consistent, current, and accessible across the organization – to portfolio managers, accountants, CFOs, compliance officers, and investors.

Native Private Credit Functionality. Private credit instruments are structurally complex; Legacy and traditional bank loan servicing platforms are simply not built or designed to handle them. While Excel can help mitigate these gaps for legacy platforms, LoanStreet natively supports all of the nuances of modern private credit, including PIK interest, unitranche structures, non-pro rata funding mechanics, multi-currency facilities, and complex origination and ongoing fee calculations. This eliminates the workaround of maintaining shadow spreadsheets for legacy or traditional bank systems to capture what they cannot – a practice that is endemic in the industry and a leading source of operational risk.

Reduced Administrative Burden Through Self-Service. Loan servicing involves many inquiries from the deal parties, an administrative burden that modern technology can alleviate. LoanStreet includes a borrower portal that allows borrowers to submit draw requests, receive invoices and upload supporting documentation for covenant compliance and other ongoing obligations, engaging in routine interactions with the lender without manual handling by the operations team. Similarly, co-lenders in a syndicated transaction can access deal information and manage their own interactions. This self-service model frees operations staff to focus on higher-value activities.

Audit Trail and Compliance Support. An audit trail is essential in today’s environment for regulatory compliance, investor due diligence, and internal controls. In the event of a dispute, an audit, or an investor review, the lender should be able to produce a complete record of all loan activity, including the party that took the action with respect to such loan. On LoanStreet, every action is captured in an immutable audit trail, and the platform includes tools for tracking covenant compliance – both financial covenants and document delivery obligations – with structured workflows to ensure that nothing falls through the cracks.

Payment Processing and Straight-Through Processing. A lender will want as much straight-through processing as possible to reduce the risk of payment errors. Activities that occur directly on the platform – such as covenant document submission, draw requests, and PIK or interest rate elections – flow through the loan record. LoanStreet's STP means that the payment processing instructions flow automatically from the loan record to execution without manual re-entry.

Integration Capabilities. Lenders will want their loan management and servicing system to interface with the other systems in the organization: accounting, fund administration platforms, data warehouses, compliance platforms (for KYC/AML) and even payment platforms. Rather than requiring manual data file transfer or reconciliation between systems, information flows automatically – reducing operational burden, improving compliance, and maintaining consistency across the organization. With its API infrastructure, LoanStreet easily integrates with such systems.

Financial Analytics. Lenders want to leverage the loan data that is being generated for a wide range of financial analytics. While LoanStreet can export the loan’s entire structural complexity to data warehouses and business intelligence platforms LoanStreet can also provide cash flow projections alongside IRR and MOIC calculations at the loan and portfolio level. This gives asset management and investor relations teams timely, accurate performance data directly in the servicing platform, instead of requiring custom models that are difficult to maintain and update

A Decision Framework

The right choice depends on a lender's specific circumstances, guided by the following decisional framework:

Portfolio Size and Growth Trajectory. Smaller, earlier-stage lenders may be tempted to build a simple in-house servicing system using Excel, email and a document retention system, but in today's private credit world there are meaningful risks associated with such a solution. Such lenders should instead consider a third-party agent or a purpose-built solution like LoanStreet.

Deal Complexity. Lenders whose portfolios consist of complex, bespoke private credit instruments should be especially cautious about using an Excel-based solution or outsourcing to an agent that cannot demonstrate deep proficiency with those structures. If no suitable agent can be identified, in-house servicing may be the only viable option for ensuring accuracy and reliability.

Investor Expectations. Institutional investors increasingly expect their managers to have robust data infrastructure, real-time reporting capabilities, and strong internal controls. A lender that can demonstrate in-house servicing capabilities supported by a purpose-built platform will have an advantage in fundraising and institutional investor relations.

Syndication and Co-Lending Activity. Lenders who frequently originate or participate in syndicated or club transactions should pay particular attention to how their chosen servicing model handles co-lender access and communication. A direct self-service platform like LoanStreet can be a significant differentiator in attracting and retaining co-lending partners.

Control Preferences. Some lenders simply prefer to own their operational processes. For these organizations, the control, visibility, and responsiveness of in-house servicing will outweigh the convenience of outsourcing even at modest portfolio sizes.

V. Conclusion

There is no universally correct answer to the build-versus-buy-versus-outsource question.

Outsourcing to a qualified third-party agent can provide immediate expertise, operational scalability, and relief from the burden of building or buying internal infrastructure. But it introduces dependencies on a counterparty's responsiveness, capabilities, and transparency that must be rigorously evaluated. The quality of the agent's underlying technology is as important as the quality of their people.

In-house servicing with purpose-built software can give the lender control, transparency, and long-term cost efficiency — along with the ability to deliver a superior experience to borrowers and co-lenders. Though this is difficult with an Excel-based internally “built” system. Platforms like LoanStreet have materially lowered the barrier to entry for this model by providing native private credit functionality, self-service portals, straight-through payment processing, and robust integration capabilities that eliminate the reliance on error-prone manual processes. For lenders who invest in the people and processes to use such a platform well, the operational and strategic benefits are substantial.

Both models can serve direct lenders well under the right conditions. However, the decision must be made with an understanding of what each model entails — and the challenges the lender will face.

This white paper is intended for informational purposes. It does not constitute legal, financial, or regulatory advice.

About LoanStreet

Contact us today to learn more about our platform and products. With over 1,300 financial institutions registered and hundreds already receiving our reports, we are ready to help you build a more efficient loan participation model.

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