



CENTER FOR BANKING  
AND FINANCE



# The Rise of Private Credit and its Intersection with Banking Markets

March 28, 2025



# The Panelists



Brad Boland  
Senior. Managing Director  
Huntington Bank



Robert Cammilleri  
Global Head of Fund & Asset Finance  
Barings



Justin Reimer  
Associate Counsel  
Golub Capital



Prमित Sheth  
Head of Structured Products  
Dawson Partners



Mike Mascia  
Head of Fund Finance  
EverBank



# Table of Contents



What is Private Credit?



Contrast with “banks”



Market Dynamics



Intersection with Banks



Predictions for the Future



# Private Credit Rampage

"Blackstone Spies \$30 Trillion Opportunity in Private Credit", Bloomberg, October 4, 2024

"Ares Closes US Direct Lending Fund with a Record \$34 Billion Capital Base", Private Debt Investor, July 31, 2024

"This opaque, lightly regulated corner of Wall Street is growing by leaps and bounds. Some worry it will eventually deliver a shock to the financial system", Marketwatch, October 3, 2024

"Carlyle Sees a 'Deluge of Opportunities' in Private Credit from Basel Endgame", The Middle Market, March 1, 2024

"Move Over, Banks. Alternative Asset Giants Plunge Into Private Credit", Barrons, October 29, 2024

"Investors see 'Golden Age' of Private Credit", Markets Media, August 16, 2024

"Private Debt is Trouncing Private Equity So Far This Year", Wall Street Journal, June 26, 2024

"Apollo Plans to Have \$1.2 Trillion Credit AUM by 2029", Private Debt Investor, October 2, 2024

"Private Credit growth is 'likely to double' in the next five years – Ares' Araogheti", Pensions and Investments, May 20, 2024

"Giant Banks Struggle, But Private Credit is Soaring", Forbes, October 8, 2024



## What is Private Credit?

Private Credit: A non-publicly traded loan or other debt-like instrument privately negotiated between a borrower and a non-bank lender, such as a private credit fund.

- Semi-Synonym: Direct Lending

### Private Credit

- Apollo Private Credit Fund
- Michael Dell's Family Office
- Canadian Pension Plan Board

### Non-Private Credit

- Bank Loan
- High Yield Bond
- Public Stocks or Anything Equity

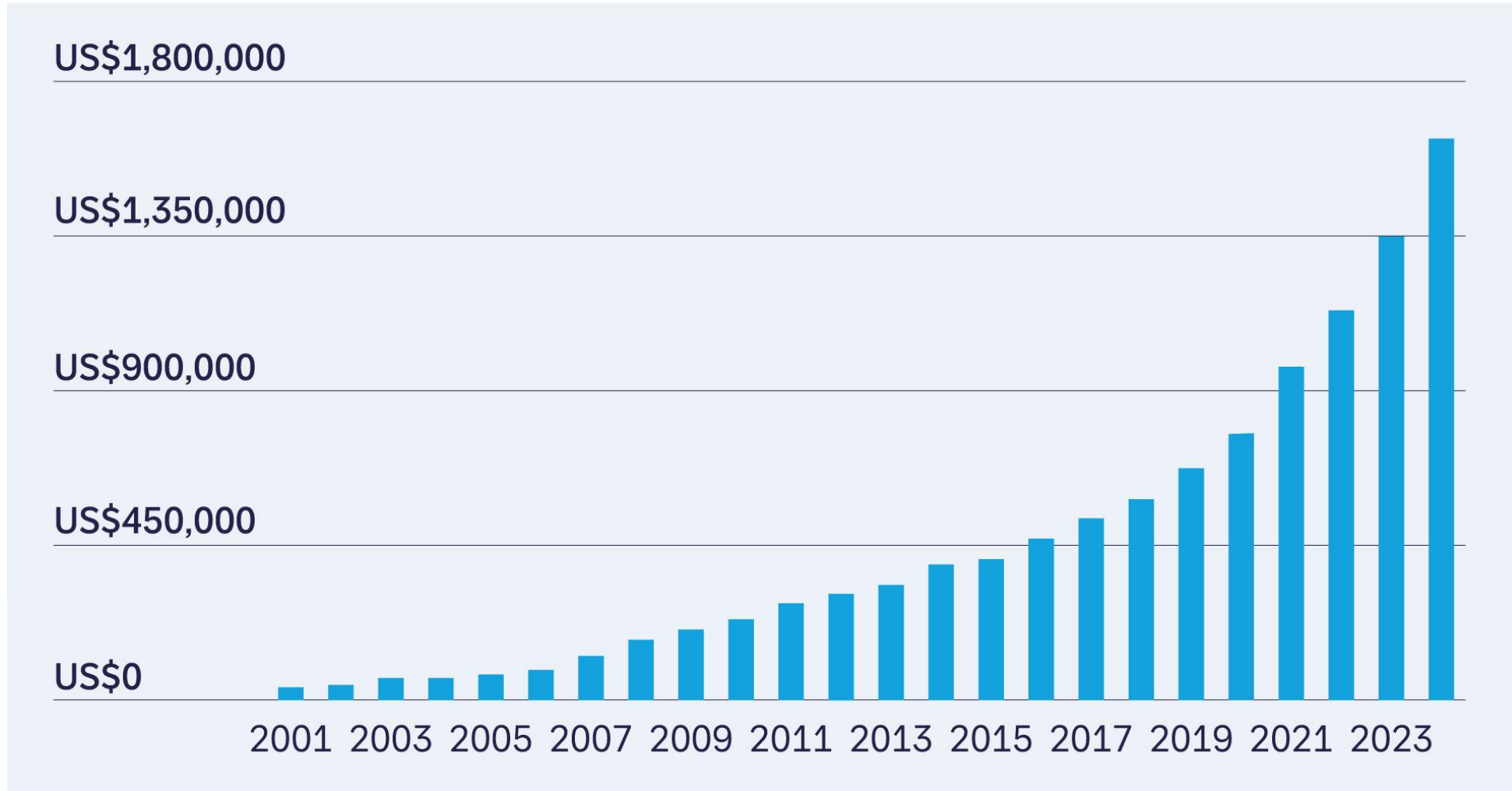
### Gray Area

- Public BDC's
- ETF's that invest in Private Credit
- Captive Insurance money owned by Private Equity
- GE Capital



# Why Should You Care?

Total Private Debt 2000 to 2024 (US\$m)





# What is Private Credit?

Factors driving the rise and growth of private credit:

## Bank Regulation

- Global Financing Crisis
- Hung Syndications
- Leverage Loan Guidance
- OCC Narrative

## Explosion of Private Equity

- Generated tremendous LBO returns
- Pay large fees
- Have enormous leverage in negotiations with Lenders ("covenant light")

## Investor Demand

- Yield in a low rate environment
- Asset diversification
- Floating rate returns

## Borrower Demand

- Flexible and customizable
- No Ratings
- No Underwriter Fees
- Speed of Execution
- Terms ("PIK-Toggle")

## Structural Market Shifts

- Rising Interest Rates
- Fewer Public Companies
- Regulatory Capital Environment

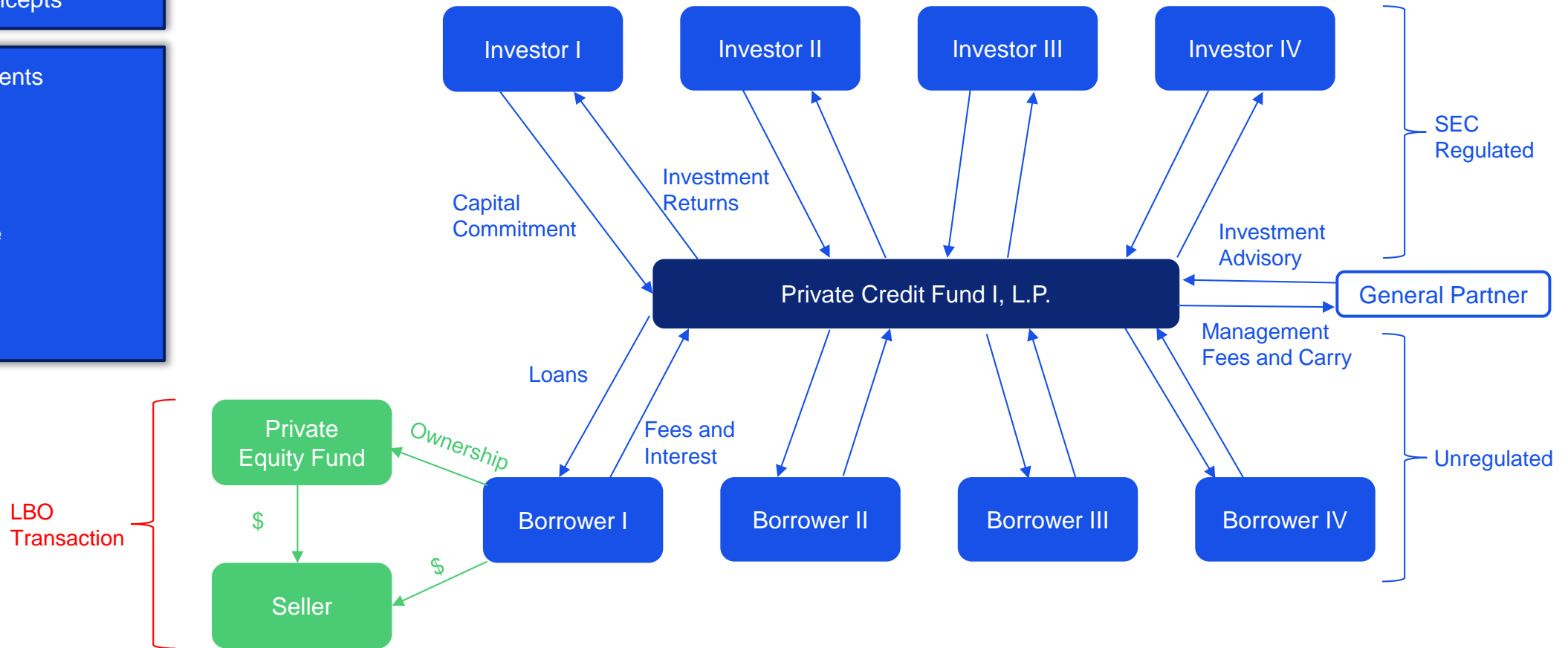


# What is Private Credit?

The standard private credit fund structure mimics the private equity fund model.

## Essential Concepts

- Capital Commitments
- Capital Calls
- “Investments”
- Management Fee
- Preferred Return
- Carry

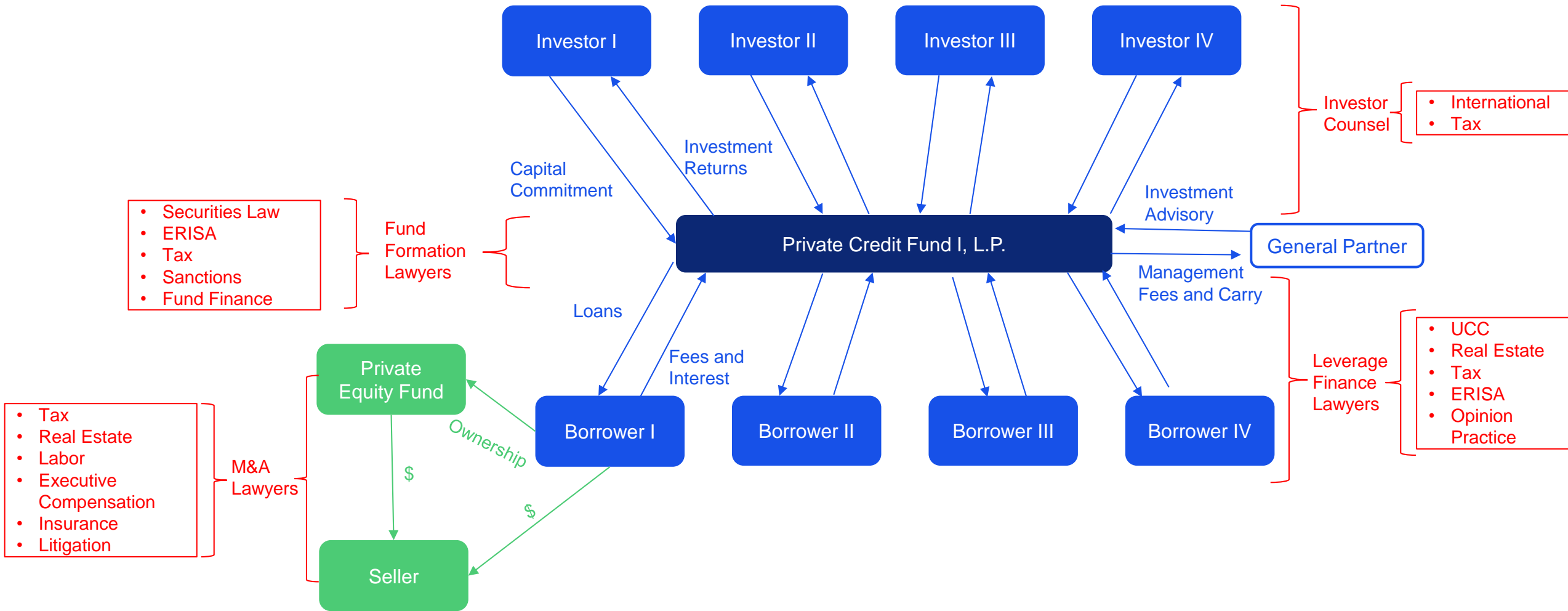






# What is Private Credit?

## What do the lawyers do?





# Private Credit in Comparison with Banks

## Bank Balance Sheet

Assets	Liabilities
<ul style="list-style-type: none"><li>• Securities (Treasuries, MBS, CLO's)</li><li>• Loans</li><li>• Reserves</li></ul>	<ul style="list-style-type: none"><li>• Checking Account Deposits</li><li>• Savings Account Deposits</li><li>• Certificates of Deposits</li><li>• Brokered CD's</li><li>• Home Loan Bank Borrowings</li><li>• Subordinated Debt/Pref Equity</li><li>• Owner's Equity</li></ul>

### Pros

- Low Cost of Funds
- High Leverage
- Subsidized Borrowings
- FDIC Insurance
- Access to the Fed Window

### Cons

- Fundamental mismatch: Borrow short, lend long
- Regulatory Creep and Cost of Compliance
- Equity Returns



# Private Credit in Comparison with Banks

## Private Credit Fund Balance Sheet

Assets	Liabilities
<ul style="list-style-type: none"><li>Loans</li></ul>	<ul style="list-style-type: none"><li>Shareholder "Equity"</li></ul>

### Pros

- Tenor Alignment: Long term capital funds long term loans
- Fixed vs. Floating Alignment
- Unregulated
- No investor expects equity-like returns
- Virtually zero cash drag
- Less consumer customer service

### Cons

- Fundraising can be hard
- Higher average cost of funds
- No governmental subsidy
- No leverage



# Private Credit in Comparison with Banks

## Private Credit (**Levered**) Fund Balance Sheet

Assets	Liabilities
<ul style="list-style-type: none"><li>Loans</li></ul>	<ul style="list-style-type: none"><li><b>Senior Leverage</b></li><li>Shareholder "Equity"</li></ul>

### Pros

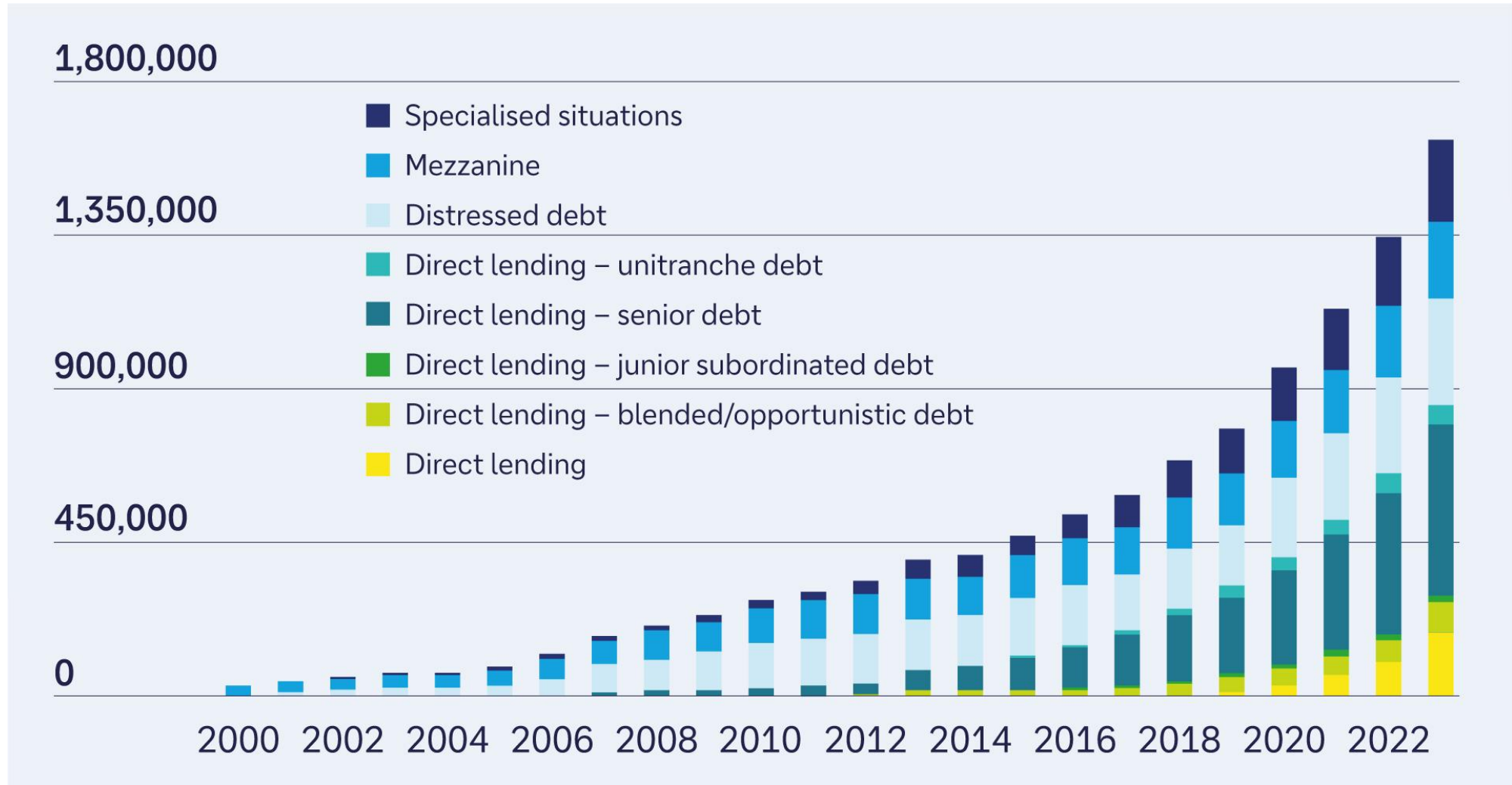
- Tenor Alignment: Long term capital funds long term loans
- Fixed vs. Floating Alignment
- Unregulated
- Investors can earn equity-like returns with largely debt risk**
- Virtually zero cash drag
- Less consumer customer service

### Cons

- Fundraising can be hard
- Higher average cost of funds
- No governmental subsidy
- Leverage always adds risk to the structure**



# Private Credit Market Dynamics

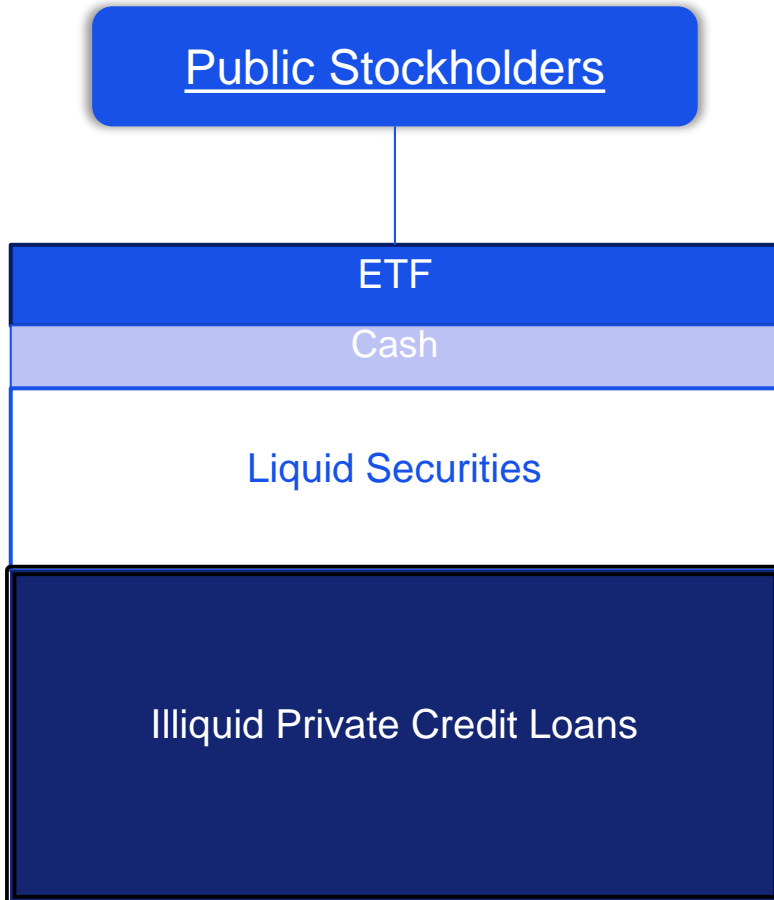


- Asset Class creep into opportunistic and Fund Finance
- Asset Backed Finance (“ABF”) is the next frontier



# Private Credit Market Dynamics

## Innovative Structures



### Pros

- Provides the masses access to income
- Easily purchased and sold in a brokerage account
- Converts an illiquid into a liquid

### Cons

- Do retail investors understand the risk?
- Liquidity always comes with a cost
- Fees are impactful

### Growing Structures

- Evergreen Funds
- Open Ended Funds
- Interval Funds
- BDC's
- Hedge Fund Evolution



# Private Credit Intersection with Banks

## Competition

- Private Credit has disintermediated banks from major parts of the LBO market
- Asset managers are buying insurance companies, obtaining access to lower cost funding sources
- Asset managers are dominating the battle for talent

## Banks Shift from “Retail to Wholesale”

- Subscription Credit Facilities
- NAV Loans

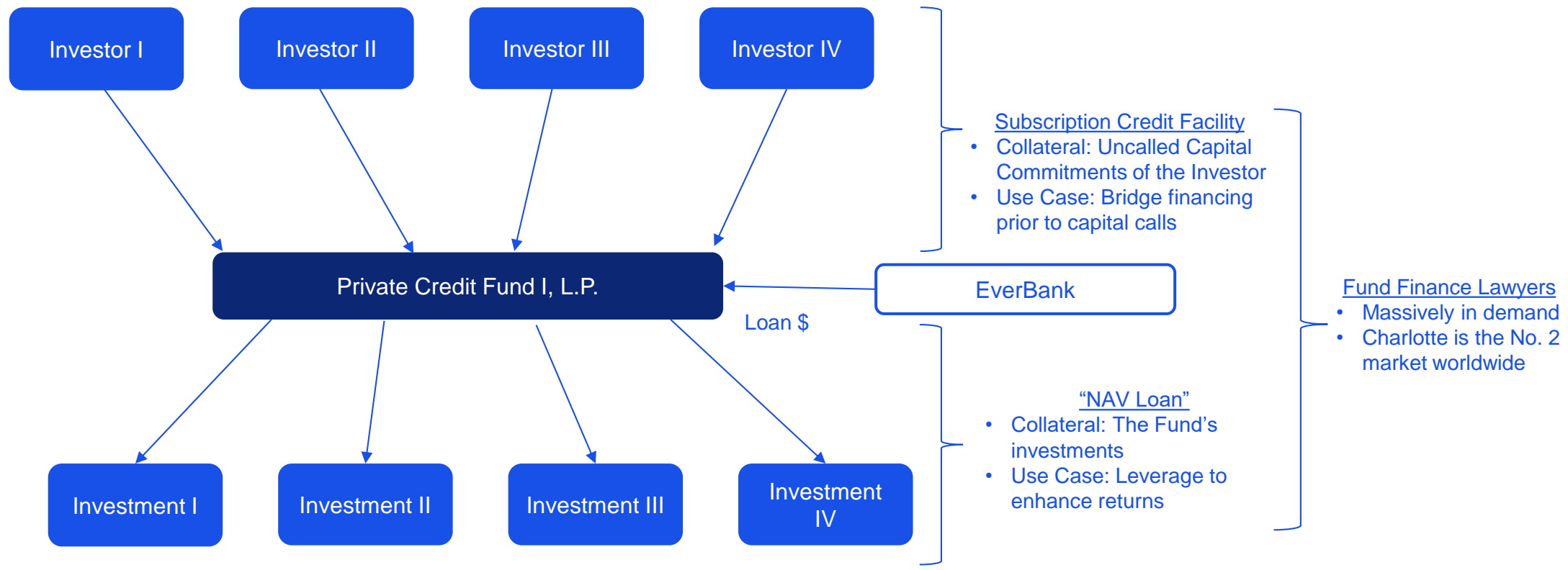
## Banks and Private Credit Partnerships

- 17 of the biggest banks in the United States have a joint venture arrangement with a private credit firm
- Citigroup and Apollo \$25B Partnership
- Goldman and Morgan Stanley have large private capital funds of their own



# Private Credit Intersection with Banks

## Fund Finance – Primary Product Offering







# Private Credit Market – Predictions for the Future

## Product Creep Becomes a Sprint

- Direct Lending → ABF
- Private Credit is coming for Real Estate
- Private Credit will go after NBFBI business

## Fundraising

- Market growth on 10-15% CAGR
- Mass influx of “retail” capital – Battle of the Channels
- 401k / IRA money nut gets cracked – Regulation will happen here
- The big get bigger

## Impact on Banks

- Accelerate transition from Retail to Wholesale
- Competitive pressure driving NIM compression
- Consolidation: Large and Community Banks
- Only high quality asset originators price well in the market
- More partnerships for non-bank capital
- Talent migration

## Macro Predictions

- Frothy, but Probably Manageable Systemic Risk
- Increased Litigation with consumer Investors
- Regulation at the margins until both (i) major consumer losses and (ii) most likely, a Democratic administration
- Extensive Asset Manager Consolidation

## UNC Law Banking Students

- Large, growing market
- The supply of lawyers in the space is limited
- This client base works almost exclusively with big law
- Responsibility to advise moderation of animal instincts