THE PRIVATE CREDIT (R)EVOLUTION

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Private credit, formerly a niche area of finance, has become a major force in corporate lending, burgeoning in size, rivalling bank lending in the leverage loan market and competing with the syndicated loan market. The challenger sub-sector is becoming more like the leveraged loan market in the US in two distinct ways: more direct lending (DL) from private credit providers is secured and secondly, private credit is increasingly using syndicated – or 'Club Deals' – to help raise the capital for the loans. Shadow banking – or private credit – is closing the gap between its services and those of corporate banks. Furthermore, banks are now offering their advisory services or partnering with funds, creating a convergence of business practices and a synchronisation of the two industries. In this article, GreySpark Partners discuss how the private credit industry is competing with banking and in turn, potentially becoming more like it.

Club Deals are when a group of lenders form a club to provide the capital sufficient for a large loan. They are eerily similar to BSLs.

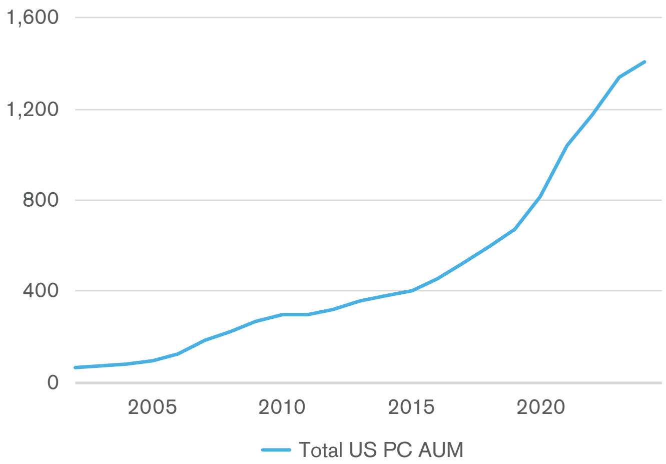
Leveraged Loans are rated between BBB- and BB+ but have both a spread over 125 bpds and are secured by the first or second lien.

Broadly Syndicated Loans (BSL) are loans in which the capital is raised from multiple lenders in a syndicate.

Leveraged loans are loans to already highly leveraged companies. While most Broadly (publicly) Syndicated Loans (BSLs) are leveraged loans, not all leveraged loans get syndicated on the public market. The BSL market was effectively formed in the 1980s to help fund leverage buyouts (LBOs) that rose in popularity during this time. 'Private Credit' also began in the 1980s when insurance firms started to offer loans and invest in private bond issuances of mid-market firms, called 'private placements'. The floating rate private credit loan that defines direct lending today only gained popularity in the 2000s, and then exploded in popularity after the 2008 crisis.

Private credit growth could, therefore, be seen as further evolution in the credit market, offering more choice for borrowers and better yields for investors. The post-financial crisis regulations increased the cost of risk weighted assets on bank balance sheets and traditional lenders retreated from riskier loans, creating a gap in the financing space. When the leverage loan market effectively dried up during COVID, some firms spotted an opportunity to offer private credit for larger amounts. The current market size of private credit now is thought to be USD 2.1 tr, as of 2023, according to the International Monetary Fund (IMF) or USD 2.5 tr, as of the start of 2025, according to the Bank of International Settlements (BIS). Private credit market grew significantly in the years following the financial crisis, and again after 2015, and surged post-COVID: the 'AUM (Assets Under Management) of private credit funds tripled over the past decade, rising by 50% in the post-pandemic period to an estimated USD 2.1 tr'. The three periods of relevant growth are shown in **Figure 1**. Looking at just US Federal Reserve, since 2009 there have been three clearly distinct periods of growth. The AUM more than doubled from 2019 to 2024 and nearly doubled from 2014 to 2019, whereas 2009 to 2014 saw more moderate growth.

Figure 1: US Private Debt Assets Under Management (in USD billions)
Source: US Federal Reserve



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The Rise of Private Credit

The rapid rise of private credit over the past 15 to 20 years raises a fundamental question of why this is happening now. Analysis of the regulatory changes post-financial crisis suggests that private credit grew due to the capital requirements of banks, their retrenchments from risky lending – especially to SMEs – and Private Credit firms offering of high yields in the decade that followed. Three key reforms made in the 2014 Basel Accords - Standardised Approach for Counterparty Credit Risk (SA-CCR), the Revised Securitisation Framework, and the Large Exposures Framework – affected banks' ability to provide credit, such that private credit rose by lending to borrowers unable to get loans from banks. Additionally, the Basel Accord on risk-based capital, which mandated banks to hold more capital relative to perceived credit risks on their balance sheet, meant that risk-based capital may have been viewed by banks as a regulatory tax, such that riskier loans became less affordable.

These reforms also seem to have shifted the structure of lending, in that direct lending became akin to corporate banking. The BIS found that private credit is a larger industry in countries with lower policy rates, less efficient banking systems and stricter banking regulation, suggesting that private credit flourishes when investors are seeking greater returns in debt investments and banks are unable to lend to certain borrowers. This creates a credit demand that private credit firms can meet. The share of direct lending that was secured rose sharply after 2010 and then again after 2015, going above 50% after 2020 as shown in **Figure 2**. The BIS suggested that this is part of a broader synchronisation of direct lending offering from Private Credit firms and those of the banking sector. This suggests that private credit was pricing in a new risk premium for these secured loans. This may be because these new secured loan customers were riskier borrowers who could not get bank loans.

Private credit has become a competitive force in leveraged buyout (LBO) financing, now funding roughly half of all large buyouts in recent years, taking away a key revenue stream from banks. This figure rises to 77% for Private Equity-backed LBOs according to S&P / Preqin. This is a paradigm shift in the LBO market, as before 2022, roughly 80% of USD +1 bn buyouts were funded through the syndicated loan market, with direct lenders handling less than 20%. However, dual shocks from the Ukrainian war and US Federal Reserve base rate rises effectively meant the syndicated loan market ground to a halt for much of 2022. Private Equity firms have continued to turn to direct lenders for multibillion-dollar LBOs in 2025 because direct lenders offer greater speed, certainty of execution and flexibility over traditional syndicated markets even if they are more expensive.

Figure 2: Increased Volume and Competition for Private Lending Drives Spreads Down

Source: BIS: '*Collateralized lending in private credit*', GreySpark analysis

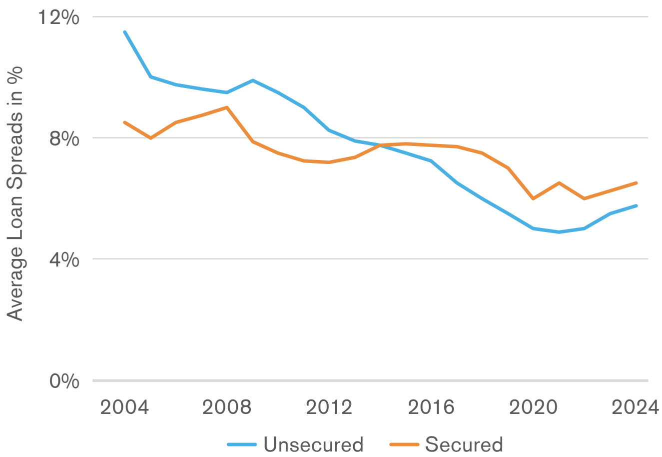

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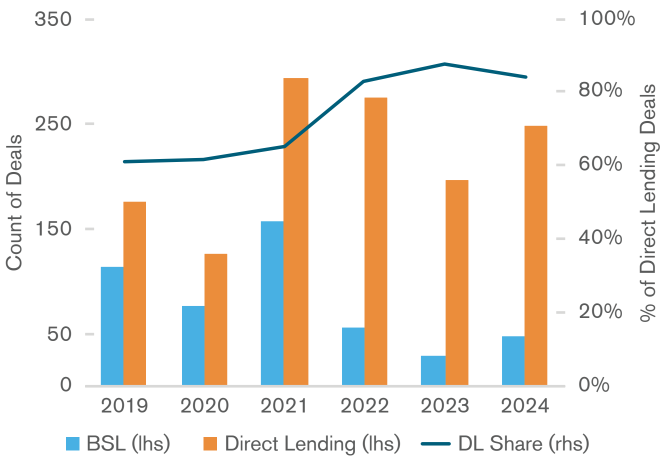
Figure 3: Financing for Leveraged Buyouts in 2024
Source: McKinsey



There was a short comeback by the BSL market, driven by a wave of refinancings of private credit loans by BSLs in 2023 to 2024. This further supported the claim that 'that private credit growth stem[ed] partly from declining funding costs' comparative to banks and the return of BSLs in a higher rate environment was due to a shrinking spread of borrowing costs between BSLs and DL loans. While most deals still focus on middle-market firms, private credit funds in the US and Europe now provide loans to much larger corporate borrowers, which were previously funded in the BSL or corporate bond market. Recent reporting that Meta is seeking USD 29 bn funding in private capital (USD 26 bn in credit and USD 3 bn in equity) for a new data centre venture from private capital giants raises the question about why Meta would seek funding of this size from funds and not banks. **Figure 3** illustrates the competition for large LBO funding.

Co-existence of Bank and Private Credit Lending

Distinct lending channels that emerged over the past twenty years are now merging and coexistence is proving possible - for now. Private credit has reportedly adopted borrower-friendly terms typical of BSLs, while banks have adjusted to the speed and flexibility demanded by private equity sponsors. A new synergy of lending is also developing between banks and private credit, whereby banks fund the senior (first-lien) section of a loan and source, and then offload the junior (second-lien) debt to private credit funds using synthetic risk transfers (SRTs). This allows banks to remain active in direct lending while offloading higher risk to non-bank investors. SRTs will likely continue to grow in demand as banks want to retain a foothold in this market. Banks have become a key source of liquidity for Private Equity and Private Credit funds with the Boston Federal Reserve finding that 14% of large bank lending in 2023 was to non-bank financial institutions is to Private Equity and Private Credit funds, which is an increase from 1% in 2013. As private credit moves from the middle market into multi-billion-dollar territory, investment banks have started to emulate Private Credit's business model. In a bid to reclaim lost ground, traditional lenders, such as HSBC, have launched or expanded direct lending arms to compete head-on with private credit funds. While banks have a key role to play financing funds and their portfolio companies alike, increasingly banks are pivoting to a partnership model with private credit, either in club deals or aiding the structuring, origination and distribution of loan interests from different parties in larger loans.

Synthetic Risk Transfers are legal vehicles that move risky loan interests from one party to another.

Revolving Credit Facility (RCF) is a loan arrangement that lets a company borrow, repay, and borrow again within set limits, often alongside other term loans. Unlike fixed-term loans, RCFs provide flexible, short-term financing for immediate needs.

Forward Flow Arrangements are when banks originate loans but funds own the debt after said flows.

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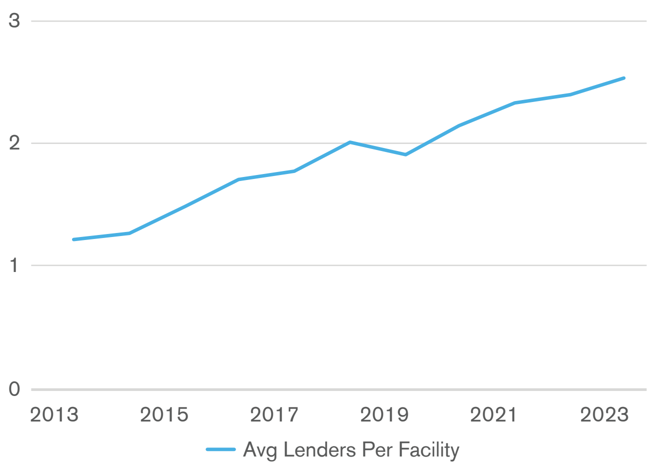
Partnerships between funds and banks for sourcing, originating and structuring credit are becoming common with no less than 14 partnerships announced in 2024. Private markets giant, Apollo, suggests that most of these partnerships focus on sub-investment grade-rated corporate borrowers, and often involve SRTs or Forward Flow Arrangements. In 2025, Club Deals account for 40% of all direct lending deals, in a shift that shows that direct lending is tending toward BSL structuring. Private credit deals are more likely to be Club Deals when banks are participating - as opposed to Club Deals between funds - and more likely involve revolving credit facilities when banks participate in Club Deals. This suggests that banks' experience in continuous liquidity and relationship management remains valuable in the private credit business model. The increase in the average number of lenders in a credit facility in the US according to the US Federal Reserve is shown in **Figure 4**.

Figure 4: The Rise of Club Deals in the US – the Average Lenders per Credit Facility

Source: US Federal Reserve



Delayed Draw term Loans are loads that give the principal capital in pre-agreed instalments such that cash flow is more manageable.

Bank exposure to private credit is modest, but growing. It is still relatively small compared to overall bank balance sheets, however. Bank commitments to private credit grew nine-fold from 2014 to 2024, with committed credit more than doubling over the past 5 years. In 2024, the IMF warned that the lack of data and the potential lowering of underwriting standards by private credit funds represented a growing risk in the credit market. Contradicting the IMF, the US Federal Reserve concluded that, in 2025, the risk to banks from Private Credit exposure is low. This is despite the fundamentals of private credit worsening. Thus far, while they are climbing, defaults have been modest, thanks in part to the built-in flexibility of private credit structures, which allow lenders to negotiate restructurings and offer forbearance. Systemic credit risk may be protected by private credit's adaptability, its sizable dry powder sitting in reserve that can be deployed when in the case of defaults and the acceptable leverage levels of the Private Credit firms themselves. PC lenders' dependence on bank credit lines could pose liquidity risks if many draw at once during a broad shock, according to the Boston Federal Reserve, but this systemic risk is mitigated by the fact most credit lines given by banks to Private Credit funds are first lien secured loans. These issues raise the questions of how much exposure banks should have to private markets and how far should they be allowed to emulate Private Credit lending practices. Banks are now joining in on the act and offering adaptable debt capital amounts in the form of Delayed Draw Term Loans (DDTLs). Banks are competing in this space by attempting to create 'synthetic' versions of Private Credit loan structures. From the perspective of Private Equity and Private Credit funds themselves and not the portfolio companies, loan commitments from banks represent a relatively small amount of AUM at 1.8%. Private credit size means it is likely to be only a matter of time before further regulation is brought to bear.

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Positioning for What Comes Next

Private Credit is indeed converging its business practices with banking, in some ways, but total convergence may pose risks to its business model. Previously focusing on funding telecommunications, technology and manufacturing, the private credit market has now turned to funding other industries, including life science, oil and gas, industrials and infrastructure. Demand for private credit funding for large projects in these industries has meant that loan sizes from private credit are increasing and loan structures are tending toward the characteristics of the BSL market. On the other hand, a new(ish) form of lending from Private Credit, which banks cannot entirely emulate, has raised concerns, including with the IMF. Payment-in-Kind loans (PIK) are growing in size in the US; PIKs allow for the payment of interest to be added to the principal repayment at the end of the term of the loan in another form of secondary debt. This does take the temporary burden off start-ups but can drastically increase the overall debt burden quickly, especially in high-rate environments. The proportion of PIK loans approximately doubled in the five-year period from 2018 - 2023. Signs of distress can be masked by extending loans and simply adding interest payments to a loan's principal, through the set-up of a PIK refinancing, or other options. This is either a sign of the market worsening or rather, a sign of the adaptability of the new lenders. A benefit of private credit - a feature not a bug as it turns out - has been the lack of 'marking' of the debt through sales on the secondary market. This means that 'in the absence of observable price input firms must resort to mark-to-model approaches to estimate market prices that are inherently subjective' and PC loans are able to remain more opaque. This allows the apparent credit quality to remain more static than BSL debt, which is consistently re-marked. Furthermore, PIKs are hard for the BSL market to replicate because banks simply cannot offer some of those structures, nor do investors want fixed income assets with some of the fixed income deferred. Therefore, convergence of business practices could mean that private credit loses its edge, as Marc Lipschultz, CEO of BlueOwl put in a recent Bloomberg event.

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Private Credit has grown from a niche funding vehicle only spoken about in very specific finance circles in corners of the insurance and private equity sectors to be a significant player in corporate finance that now rivals banks. Private Credit developed as a challenger to corporate lending but has now come to mimic it in some key ways. However, they are different for a reason, and private credit is risking more restrictive regulation if it moves too far into the banking space.

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