Mutual benefits: How banks can offer private credit the infrastructure to go retail

Key takeaways

- Driven by tighter bank lending regulations and growing institutional demand, the private credit market is projected to reach $3 trillion in AUM by 2028.
- Private credit is also increasingly attracting retail investors with innovations such as exchange-traded funds (ETFs), while regulatory changes may potentially expand investment to 401(k) plans.
- Banks and private credit firms can form mutually beneficial partnerships, with banks providing lending, infrastructure and compliance support and private credit funds diversifying risk and deploying capital efficiently.

Tighter lending regulations for major banks and increasing demand from institutional investors seeking new opportunities have driven significant growth in the private credit market. Over the 10 years to 2023, global assets under management (AUM) in private credit quadrupled, reaching $2.1 trillion – comparable in size to the more established high-yield bond market.[1] Moody's expects this growth to continue, projecting that AUM will reach $3 trillion by 2028.[2]

Private credit started as a form of direct lending, primarily to medium-sized businesses operating in a space that entailed higher risk than many banks were willing to accept. As fund managers attracted more AUM, private credit expanded into a wider range of financing structures, offering greater flexibility than

1 https://www.rba.gov.au/publications/bulletin/2024/oct/growth-in-global-private-credit.html
2 https://www.moodys.com/web/en/us/insights/credit-risk/outlooks/private-credit-2025.html

traditional bank loans. Asset-backed finance, which extends loans to a broader range of borrowers, including consumers (credit card debt), homeowners (residential mortgages), and commercial real estate developers, further fueled this trend.

Private credit funds generate predictable income streams, making them attractive to both pension funds and insurance companies, which require regular cash flows to meet payment obligations. At the same time, increased regulatory requirements and balance sheet constraints have pushed banks toward a ‘capital-light’ model, leading them to reduce corporate lending. Industry analysts predict that, over the next decade, up to $6 trillion in assets could shift to non-bank lenders.[3]

“The shift in credit exposure by banks has created an opportunity for private credit firms to step in,” says **Stephen Jeselson, Division Manager for Private Capital and Global Asset Management at U.S. Bank**. “Banks rely on deposits for funding, which means they must meet the liquidity needs of depositors, whereas private credit firms raise longer-duration capital, making them better suited to these financing solutions.”

As well as AUM, the investor base is expanding. Initially accessible only to large, sophisticated institutional investors, interest in private credit gradually spread to family offices and, more recently, to high-net-worth individuals. These investors are willing to accept constrained liquidity in exchange for the potential for higher long-term returns.

> “Retail is where it’s at, and that’s not going away – everyone wants access to the retail investor.”

Amanda Karshna
Head of Relationship Management – Alternative Investments
U.S. Bank Global Fund Services

3 https://www.mckinsey.com/industries/private-capital/our-insights/the-next-era-of-private-credit

Everybody wants retail

The success of private credit has begun to generate interest from the retail market. However, retail investment typically involves thousands of smaller investors accessing the asset class via a fund rather than the private capital model, which relies on a smaller number of large investors.

While retail inflows into private debt have been growing at a faster pace than institutional allocations, they still account for less than 20% of total private debt AUM.[4] But this could change, with fund managers exploring the potential for a private credit ETF. Regulatory changes may also open the door to private credit investments in 401(k) plans, unlocking access to a much larger pool of capital.

“Retail is where it’s at – and that’s not going away,” says **Amanda Karshna, Head of Relationship Management for Alternative Investments at U.S. Bank**. “Everyone wants access to the retail investor.”

Funds targeting the retail market must meet strict compliance requirements related to reporting, liquidity, fund administration and infrastructure. But private credit originated from private equity, an asset class built on illiquid, long-term investments focused on capital appreciation rather than income. As a result, reporting and valuations in private credit have traditionally been infrequent and lack the transparency expected from funds investing in public markets. For example, net asset valuations (NAV) are typically produced quarterly, whereas liquid retail investment funds require daily valuations.

Unlike major banks, which have a long history of supporting mutual fund managers in the retail sector, most private credit firms are neither sufficiently experienced nor equipped to handle these administrative demands.

Financial symbiosis

This dynamic creates a mutually beneficial relationship between banks and private credit funds. Banks can lend directly to private credit managers, either to finance new loans or to provide leverage that enhances returns. Private credit firms distribute the capital across multiple smaller loans to businesses in different sectors, reducing vulnerability to default. This diversification also helps lower the bank’s overall risk profile.

4 https://www.moodys.com/web/en/us/insights/credit-risk/outlooks/private-credit-2025.html

Banks also hold loan portfolios that come with the necessary infrastructure to handle packaging, management, valuation, and the frequent reporting that regulators require. Since due diligence, credit checks and risk management have already been completed by the bank, it can continue providing administrative support for these assets once they've been acquired by a private credit fund. "We aren't competing against each other; we're partners, helping private credit firms expand their products and grow their funds," adds **U.S. Bank's Karshna**. "We have a robust private credit ecosystem that provides all the enabling functions and allows the manager to focus on their strategy and other core manager responsibilities."

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As private credit continues to expand into new areas, this kind of specialized expertise will be essential to minimize risk and maximize opportunities. Ideally, this support will come from a one-stop shop.

"We continue to see private credit funds raising capital and presenting new opportunities," says **Mike Henry, Group Head of U.S. Bank's Subscription Finance Division**. "Going forward, I anticipate it will remain one of the most prevalent strategies that we lend to."

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