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SFA Research Corner

A Strategic Partnership: Banks and Private Credit Reshaping Asset-Based Lending

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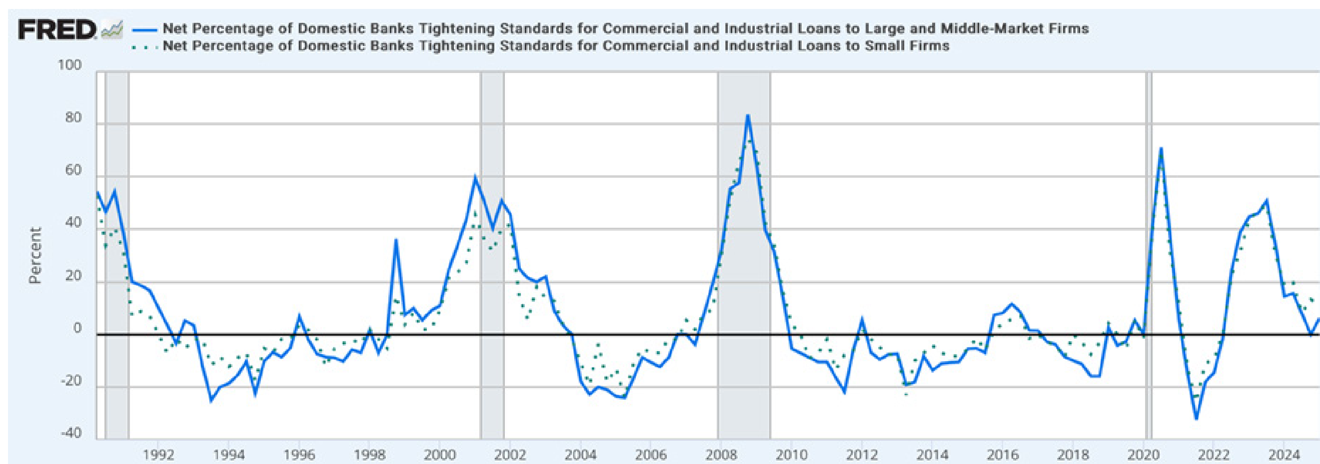
According to Moody's Ratings' 2025 Private Credit Global Outlook, at least nine major partnerships between banks and private credit sponsors were formed in 2024, including a $25 billion collaboration between Citigroup and Apollo Global Management. In this partnership, Citigroup leverages its client network and capital market expertise to identify and structure financing opportunities, sourcing deals that align with Apollo's investment strategy to ensure corporate borrowers have access to credit. Instead of holding these loans on its own balance sheet—which would require higher regulatory capital—Citigroup works with Apollo to facilitate private credit financing while generating fee income. As the lender, Apollo provides the capital, benefiting from Citigroup's deal flow and deep client relationships, allowing it to access a steady pipeline of investment opportunities. Since these transactions are privately negotiated, Apollo can offer tailored lending solutions.

Although large banks have led this shift, mid-sized banks, which often have deep ties to regional businesses and middle-market companies, are also stepping in—as seen in Webster Financial Corporation and Marathon Asset Management's private credit joint venture, announced in July 2024, to provide direct lending solutions to sponsor-backed middle-market companies.

Fed: Net % of Domestic Banks Tightening Lending Standards



Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US) via FRED®

Ironically, the rise of private credit has been driven by banks pulling back from lending due to increasing regulatory constraints—first after the Great Financial Crisis and again in 2023 with the initial Basel III “endgame” proposal, which called for significantly higher capital requirements, making certain loans more costly to hold. Although the proposal was revised in 2024 and may be further eased in 2025, potentially resulting in a neutral impact on U.S. banks’ capital levels, private credit firms had already stepped in to fill the gap left by banks’ retreat.

As private credit flourished in corporate lending, competition intensified, leading to compressed yields and a crowded deal market. In response, private lenders shifted into asset-based finance (ABF), where opportunities were more attractive than in the oversaturated corporate credit space. This shift provided banks a pathway back into corporate finance at this risk level while avoiding the need to keep those loans on their balance sheets.

This trend is reflected in Moody’s Ratings’ October 2024 survey of 32 global banks involved in private credit, which found that nearly all respondents were engaged in secured lending to asset-based lending facilities, with total commitments reaching $350 billion—65% of the $525 billion in private credit loan commitments held by these banks.

It is a natural fit. Banks could leverage their expertise in asset-based lending to structure, originate, and manage transactions, facilitating larger financing solutions while keeping loans off their balance sheets. This approach preserved key client relationships, reduced regulatory exposure, and generated fee income through structured partnerships and co-lending models.

A private ABF strategy offers a practical way to capitalize on these opportunities, particularly by utilizing existing Asset-Backed Securities (ABS) teams, as discussed in SFA’s April 2024 Research Corner, “Harnessing the Potential in Private Asset-Based Finance.” Integrating private ABF alongside ABS, a strategy that results in traded securities, expands the capital provider pool—diversifying funding for issuers, increasing investor options, and broadening banks’ and service providers’ customer base. Since both ABF and ABS share a foundation in securitization, they require overlapping skills, including structuring deals around asset cash flows, evaluating collateral quality, and assessing credit risk. A team proficient in both strategies enhances adaptability, helping investors navigate market shifts more effectively.

Both ABF and ABS provide businesses with capital but in different ways: ABF through direct loans secured by assets, and ABS through the securitization of those assets into tradeable securities. However, key differences exist:

- ABF involves privately negotiated direct loans, typically held on balance sheet by private credit funds, making them illiquid and customized, whereas ABS pools assets and issues securities to institutional investors, offering greater liquidity.
- ABF lenders focus on asset liquidation value and cash flow generation, structuring deals with dynamic funding, while ABS investors rely on credit enhancements and tranching to manage risk.
- ABF often serves as early-stage financing, such as warehouse lending facilities, while ABS provides large-scale refinancing to free up capital.

A lasting union?

The growing partnerships between banks and private credit firms are reshaping corporate finance, extending private credit’s role beyond corporate lending into asset-based strategies. If the Trump administration eases Basel III “endgame” regulations as expected, banks may face less immediate pressure to rely on private credit partnerships, as they could retain more higher-risk loans on their balance sheets without incurring additional capital charges. If these collaborations prove successful, they could persist beyond regulatory changes and become a lasting feature of the corporate finance landscape.