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How Banks and Private Markets Are Redefining Credit

The U.S. banking industry is entering a new era in which regulated banks and private lenders are increasingly intertwined. We believe this trend will continue to open attractive opportunities for dynamic allocation across the credit spectrum.

In this article, we explore various aspects of the broader strategic realignment unfolding across the U.S. banking sector. Specifically, we address structural shifts in how credit is created (led by the increase in lending to non-depository financial institutions) and how risk is assumed (including further adoption of Significant Risk Transfer transactions). We also discuss the banking sector's ongoing pursuit of stability, scale and durable earnings growth as private lenders assume a more active role in long-term financing.

This evolution is not zero-sum for investors, in our view. Rather, we believe it is widening the pipeline of opportunities across public and private credit markets.

Redefining Credit: Banks and NDFIs Come Together

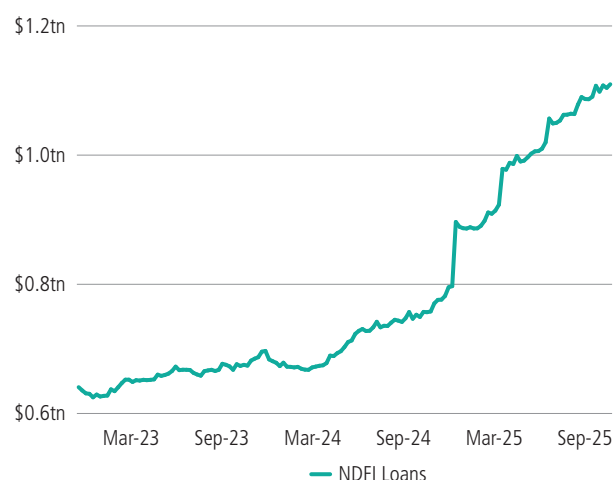
The U.S. banking industry is entering a new era shaped by evolving regulation and shifting competitive dynamics. In the wake of the 2024 U.S. presidential election, policymakers have revisited several key elements of the post-crisis framework, including Basel 3 Endgame, the Supplementary Leverage Ratio and the Federal Reserve's stress-testing process. While implementation timelines remain fluid, we believe the direction of reform is increasingly clear and headed toward a risk system that balances prudent oversight with greater operational flexibility and a more sensitive approach to capital.

These developments are unfolding alongside the continued rise of private markets. Rather than competing head-to-head, banks and private lenders are becoming increasingly connected through financing relationships, distribution arrangements and in some cases overlapping exposures. The result is a more integrated credit ecosystem in which both sides play complementary roles in capital formation.

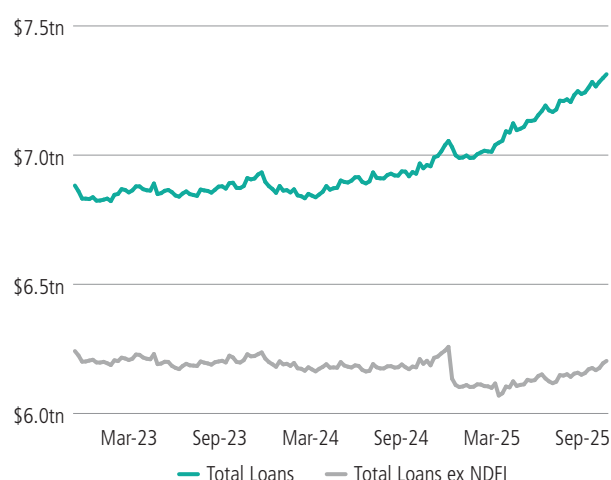
Lending to non-depository financial institutions (NDFIs) remains the fastest-growing category on regulated bank balance sheets: Excluding this segment, overall loan growth would be flat for the industry (see figure 1). We believe this shift highlights how banks are pursuing areas of structural growth while developing a more symbiotic relationship with private lenders.

FIGURE 1: LOANS TO NDFIS HAVE DRIVEN OVERALL GROWTH IN BANK LENDING

NDFI Loans: Dec. 2022 to Oct. 2025



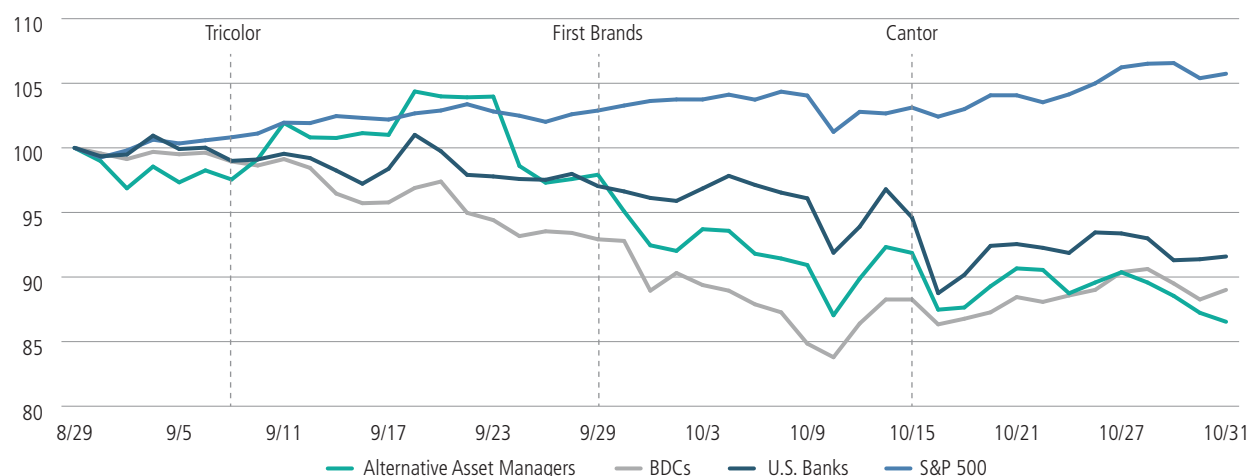
Total Loans vs. Total Loans ex NDFI: Dec. 2022 to Oct. 2025



Source: Federal Reserve data for Large Domestic Banks NSA as of October 29, 2025.

Market behavior around the Tricolor, First Brands and Cantor losses in September and October underscored these linkages. Bank, BDC and alternative asset manager stocks moved in close correlation (see figure 2), reflecting perceived shared exposures and a broader sensitivity to credit conditions, even where exposure differed.

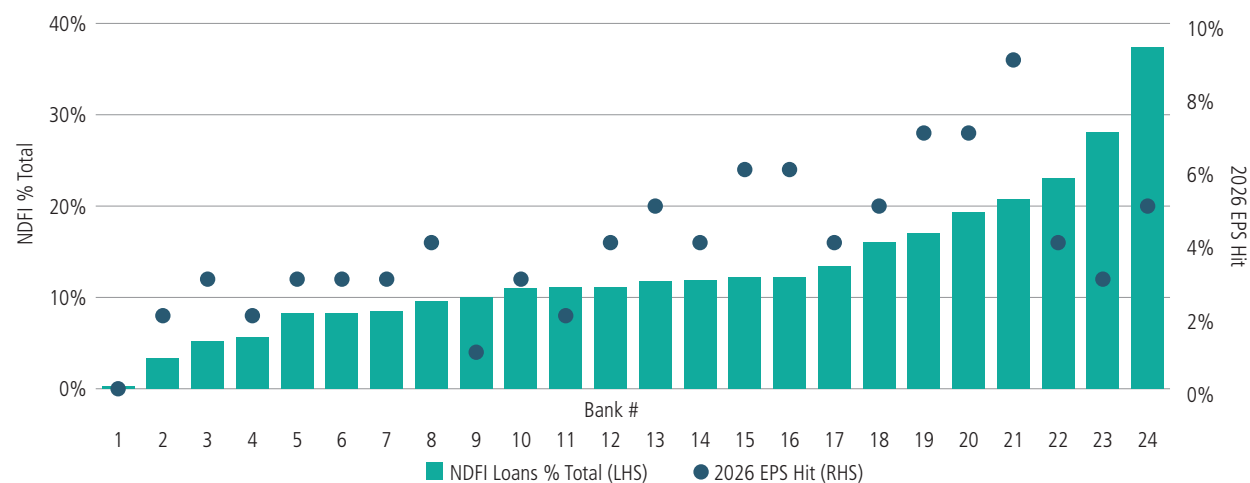
FIGURE 2: BANK, BDC AND ALTERNATIVE ASSET MANAGER STOCKS HAVE BEEN MOVING TOGETHER



Source: FactSet as of October 31, 2025. Alternative Asset Managers = all publicly traded U.S. firms w/MCap >\$5bn, BDCs = VanEck BDC Income ETF, & US Banks = SPDR S&P Regional Banking ETF.

Despite the headlines and ensuing market volatility, our analysis suggests that the risk of further credit losses remains manageable. When we stress-tested NDFI loans across major U.S. banks at a 1% loss rate (versus most banks' historical track record of near zero losses over the years for this segment of their lending book), we found that potential losses would remain well within banks' earnings capacity to absorb them (see figure 3).

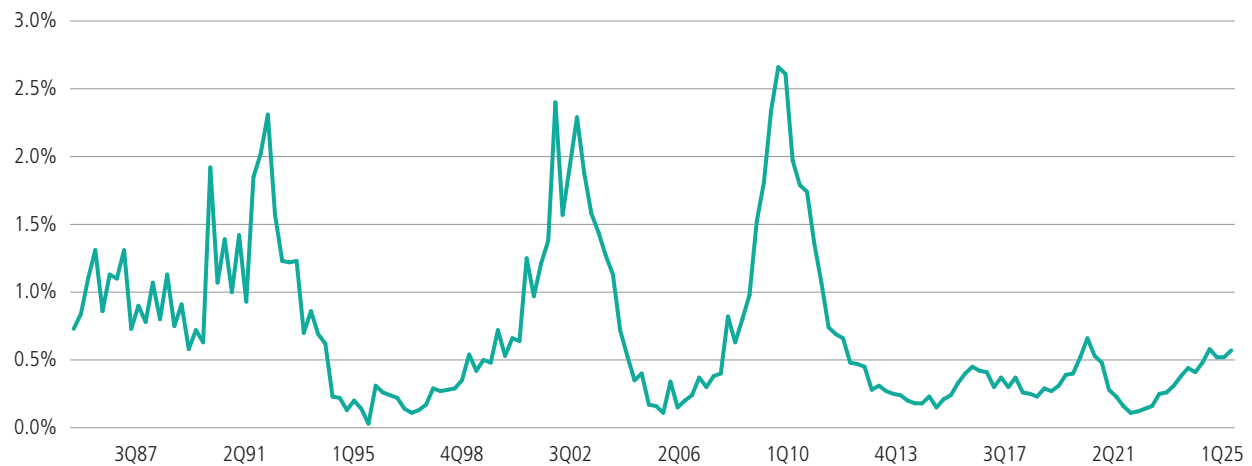
FIGURE 3: LOANS ACROSS MAJOR U.S. BANKS APPEAR MANAGEABLE ASSUMING A 1% LOSS RATE ON NDFI PORTFOLIOS



Source: Analysis covers all constituents of the Invesco KBW Bank ETF (KBWB) and assumes a 1% loss rate on total NDFI exposure, a 21% corporate tax rate, and 2026 consensus share count and EPS. Regulatory loan data are from FactSet as of September 30, 2025. FactSet consensus estimates are as of November 13, 2025.

For perspective, since 1985 the long-term charge-off rate on C&I loans has been 71 bps, and the highest quarterly charge-off ever recorded—in 3Q 2009, during the Global Financial Crisis—was 2.66% (see figure 4). In our view, conservative underwriting, meaningful collateral coverage and short-duration profiles continue to anchor the strength of these NDFI portfolios, and that recent concerns of broader systemic cracking are likely overstated.

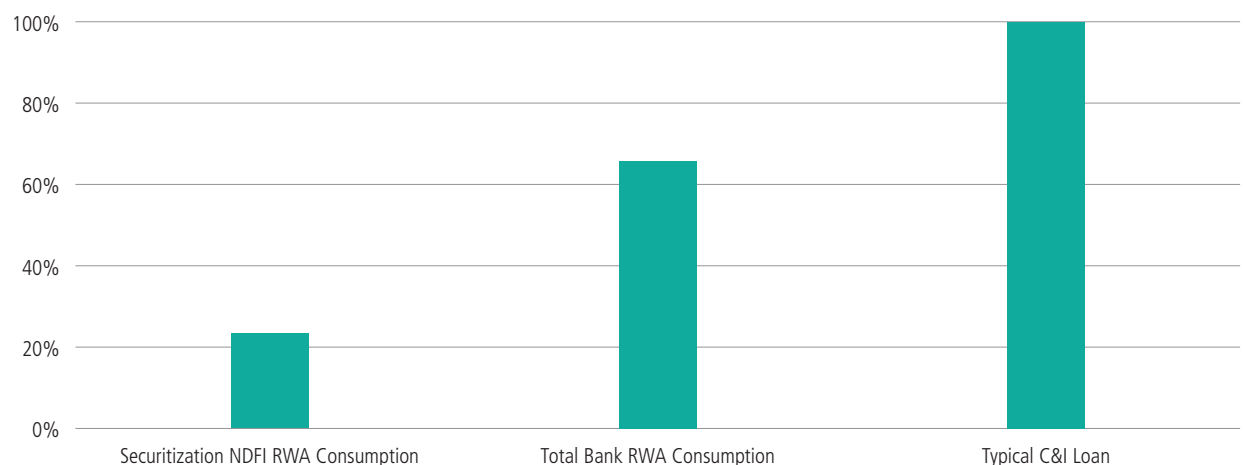
FIGURE 4: COMMERCIAL AND INDUSTRIAL LOAN CHARGE-OFFS HAVE AVERAGED 71 BPS SINCE 1985



Source: Federal Reserve data for 100 Largest Banks NSA as of June 30, 2025.

Furthermore, the regulatory treatment for NDFI lending remains favorable. Under the Simplified Supervisory Formula Approach (SSFA), risk weights are determined based on the credit enhancement and subordination characteristics of a given exposure rather than by applying a uniform 100% treatment. As a result, loans to NDFIs often prove more capital efficient—with risk-weighted-asset values well below 100%—compared to other kinds of loans (see figure 5).

FIGURE 5: UNDER CURRENT REGULATION, NDFI LOANS ARE COMPARATIVELY CAPITAL EFFICIENT



Source: Regulatory and GAAP data are from FFIEC and FactSet of September 30, 2025. Analysis covers all constituents of the Invesco KBW Bank ETF (KBWB) based on a simple average.

In light of modest historical losses and favorable regulatory treatment, we expect NDFI lending to remain a key source of incremental growth for the banking industry.

Expanding Cooperation: The Rise of Significant Risk Transfers

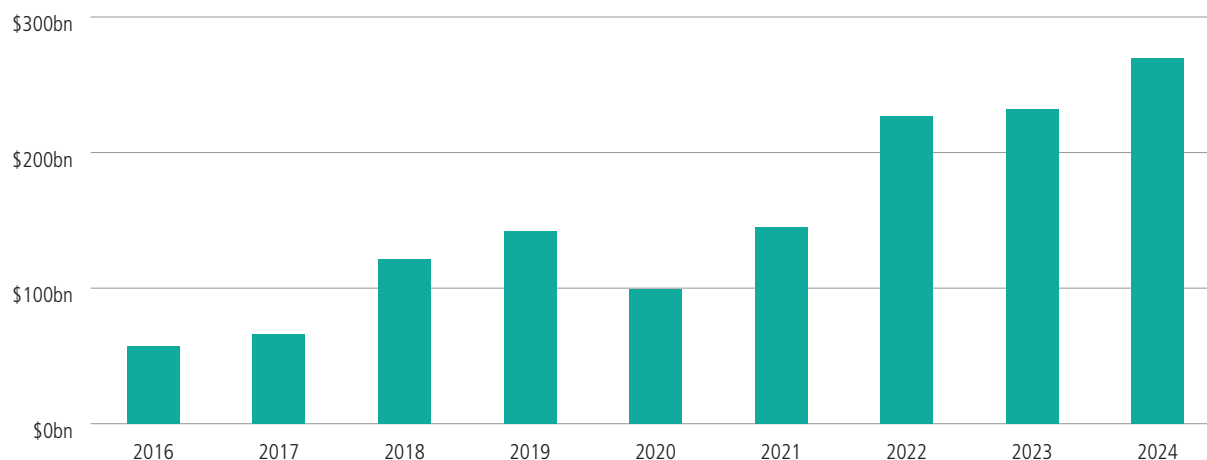
Alongside the growth in NDFI activity, banks and private lenders are cooperating on other fronts. One prominent example: Significant Risk Transfer (SRT) transactions, in which banks share portfolio exposure with external investors such as private funds and insurance vehicles.

SRT structures allow banks to manage regulatory capital efficiently while providing private-market participants with diversified access to institutional credit pools in a subordinated position. Growth in SRT activity (see figure 6) underscores how balance-sheet lending and alternative capital have become increasingly interdependent, linking regulatory capital management and private demand on a single continuum.

For investors, rising SRT supply has met significant demand, compressing yield spreads. While we believe traditional SRTs, which reference corporate loans, may still offer some relative value, those that offer exposure to differentiated credit pools—including residential and commercial mortgages, as well as project finance—may offer more attractive risk-adjusted returns, in our view.

FIGURE 6: DEMAND FOR SIGNIFICANT RISK TRANSFER (SRT) TRANSACTIONS IS ON THE RISE

SRT Volume



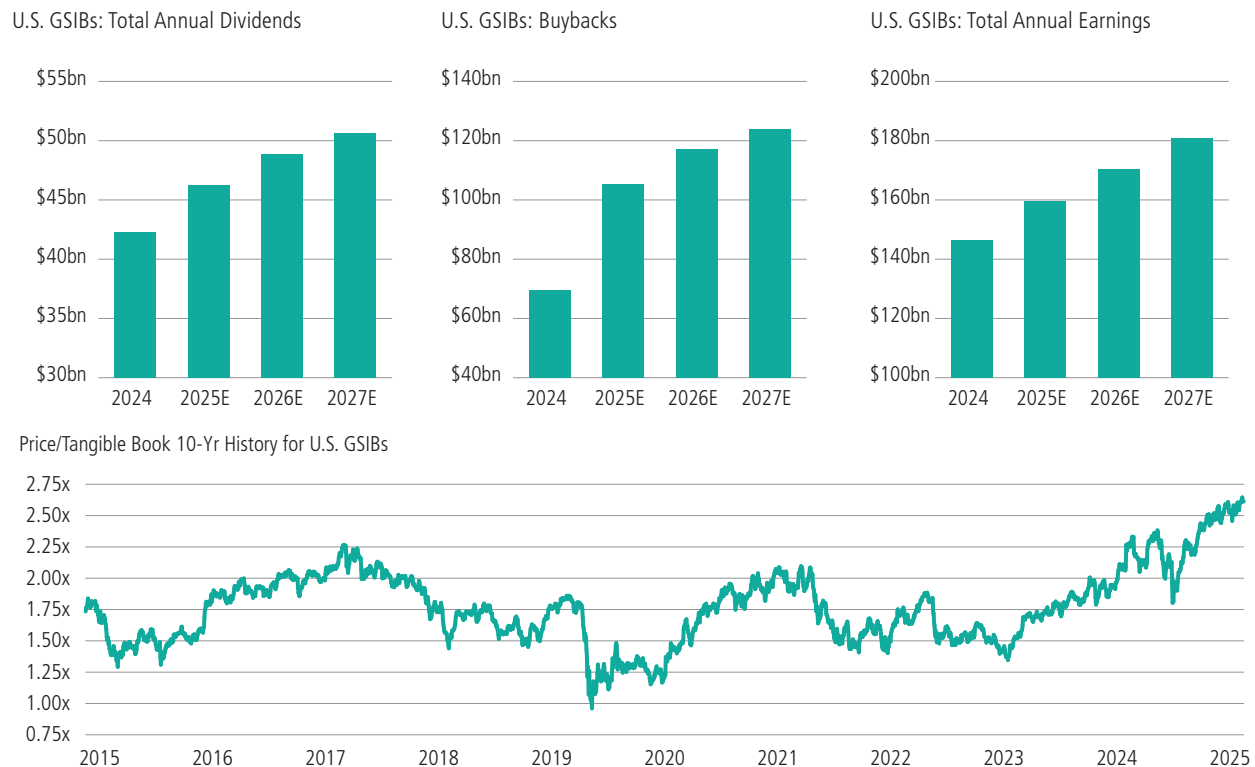
Source: International Association of Credit Portfolio Managers; converted into USD using December 31, 2024 FX rates per FactSet.

In parallel, several global banks are developing or expanding private market capabilities of their own, often through partnerships with established private market players. In our view, increased competition in some sectors for credit—and within corporate direct lending in particular—reinforces investors' need to build a differentiated origination strategy to achieve a sustainable edge going forward.

The Quest for Durability: Banks Continue to Seek Scale and Stability

We believe deeper engagement with private markets is only one aspect of a broader strategic realignment across the banking sector. The largest institutions continue to allocate significant portions of excess capital to share repurchases and higher dividends—exactly what equity investors have rewarded, with the shares of the largest U.S. banks trading near all-time highs on valuation (see figure 7).

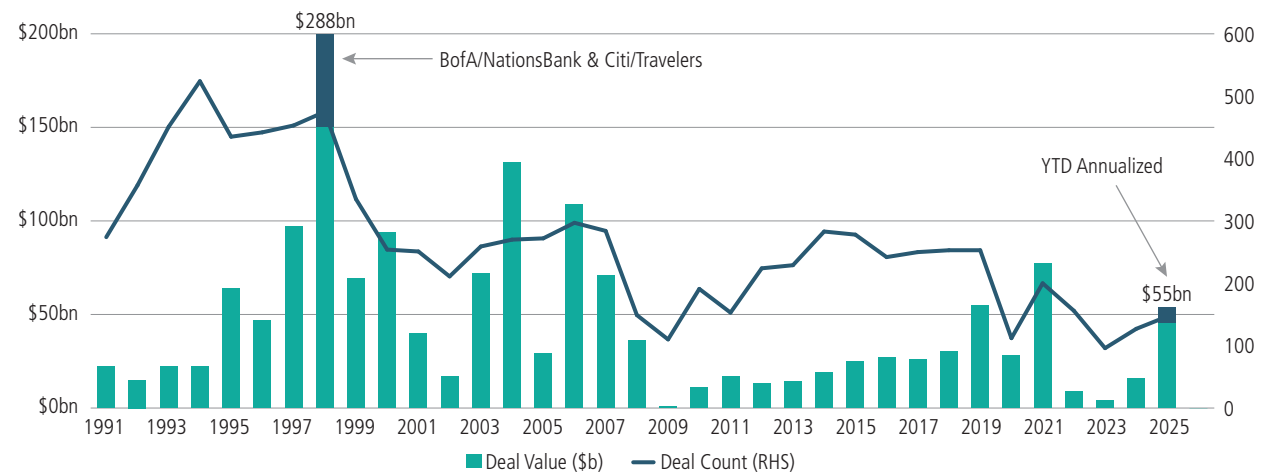
FIGURE 7: SHAREHOLDERS HAVE REWARDED BANKS FOR BOOSTING BUYBACKS AND DIVIDENDS



Source: FactSet and VisibleAlpha as of November 13, 2025 for U.S. GSIBs.

Among regional banks, consolidation remains a defining theme (see figure 8). Large regionals are acquiring smaller peers to increase scale, improve efficiency and strengthen their deposit franchises. We believe these actions aim to improve long-term competitiveness and cost discipline rather than to reclaim market share from private lenders. Across the industry, the focus remains on stability, scalability and durable earnings growth, in our view.

FIGURE 8: CONSOLIDATION IS PICKING UP ACROSS THE U.S. BANKING INDUSTRY



Source: S&P Global Market Intelligence per Truist as of November 14, 2025. Includes all bank, savings and thrift deals announced.

Consolidation may have knock-on benefits for private markets, too. For example, private credit managers may be able to borrow at more attractive rates, fueling even greater NDFI activity. Additional consolidation could also trigger the disposal of non-core assets, offering potentially compelling investments for well-positioned managers.

Conclusion: How to Capitalize on Credit Market Convergence

The post-2024 landscape is reshaping how credit is created, transferred and held. Banks are recalibrating balance sheets for efficiency while private lenders are assuming a more active role in long-term financing. We believe the result is not a zero-sum shift but an expanding opportunity set across the credit spectrum.

For investors, this evolution is tangible. SRT transactions and related bank risk-transfer structures provide direct, institutional access to high-quality, granular exposures once confined to bank portfolios. At the same time, broader cooperation in origination, syndication and distribution is widening the pipeline of investable credit assets.

Within this environment, we believe multi-credit platforms could be attractively positioned, allowing investors to allocate dynamically across public and private channels; participate in both bank-linked and direct-lending activity; and capture yield premia created by regulatory and structural dislocations.

At Neuberger, we are seeing this convergence in real time, and that the integration of regulated and private capital is not merely cyclical, but rather represents a durable, structural evolution in global markets. For diversified private credit investors, we believe the next phase of growth will be defined not by competition with banks, but by cooperation that opens greater opportunity.

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