



Lord Abbett Explains—Private Credit

The Genesis of Private Corporate Lending



Michael Cibelli, CFA
Portfolio Specialist, Alternatives

In this video, Lord Abbett Portfolio Specialist Michael Cibelli explains how consolidation, regulation, and investor demand sparked the growth in direct corporate lending.

MICHAEL CIBELLI: What happens when banks stop lending, but businesses still need funding? That's where private corporate lending by non-bank institutions comes in. And it's a big reason why private credit has taken off in recent years.

This is Lord Abbett Explains: Private Credit

The Genesis of Private Corporate Lending

In our previous video, we discussed how private credit has evolved beyond corporate loans. It now includes private real estate loans, infrastructure, and even loans backed by specific assets or asset-based financing.

But let's zero in on that corporate subset. Which is when—instead of borrowing from a bank or through public bond and loan issuances in the capital markets—a company receives a loan directly from a private, non-bank lender.

It's not a new asset class, but it's been growing in recent years.

What's Driving the Growth?

1. Bank Consolidation

First, bank consolidation. Since 2001, the number of U.S. commercial banks has declined by half.¹ The consolidation has led to fewer and larger banks, which have become less willing to lend to smaller corporate borrowers.

2. Bank Regulation

Second, bank regulations. Capital requirements have become stricter post-global financial crisis. Banks must hold more capital against the loans they make to offset the risk of those loans, which has discouraged lending to smaller corporate borrowers.

3. Take Share

Third, private credit has begun to take share, not only from banks, but from the publicly traded leverage credit markets as well.

4. Risk-Adjusted Performance

Fourth, the risk-adjusted performance of the asset class has been very compelling, attracting institutional investors, and now, individual investors to the space.

5. Access

Fifth, access. Thanks to investment vehicles like interval funds and business development companies, individual investors now have access to private credit strategies that were historically only available to institutions, enhancing the ability of private credit to service the needs of borrowers up and down the middle market.

Let's Talk Numbers

The result of all this? Private corporate lending has grown from about \$310 billion in 2010 to \$1.7 trillion today and now accounts for roughly one-third of the overall leveraged credit market.²

And it's important to note, while direct lending assets have grown, so has the demand for private capital. In other words, it's not new capital chasing the same borrower base.

Let's Recap

Growth Drivers

So, while the concept of private corporate lending isn't new, it has experienced significant growth. Driving that growth has been...

1. Transfer of risk

One, the transfer of risk from commercial banks to non-bank lenders due to bank consolidation and regulation.



2. Private loans market share

Two, private loans gaining market share from the publicly traded leveraged credit markets.

3. Risk-adjusted returns

Three, compelling risk-adjusted returns.

4. Greater access

And four, greater access for individual investors.

Thanks for joining us. Don't miss our next Lord Abbett Explains: Private Credit video on private market segmentation.

¹Federal Deposit Insurance Corporation (FDIC) Historical Trends as of 12/31/2024.

²Prequin. Data as of September 30, 2024. Most recent data available.



Glossary

Asset-based loans are a financing arrangement where the lender provides credit that is secured by collateral. The collateral typically includes inventory, accounts receivable, equipment, or other property owned by the borrower.

Business development company (BDC) is a type of investment company in the U.S. that provides capital to small and mid-sized businesses, as well as distressed companies. BDCs are designed to help these firms grow during their early stages or regain financial stability.

Direct lending is a type of private credit strategy that makes direct, illiquid loans to middle market companies outside of the traditional banking system. A direct loan refers to a privately negotiated loan provided by non-bank lenders directly to a borrower, typically a middle-market company.

Global financial crisis refers to a severe worldwide economic downturn that occurred between 2007 and 2009, primarily due to the downturn of the U.S. housing market and the subsequent failure of major financial institutions.

An **interval fund** is a type of closed-end investment company registered under the Investment Company Act of 1940 that do not trade on public exchanges. They offer periodic repurchase opportunities at specific intervals, usually quarterly, when investors can redeem a portion of their shares at the fund's net asset value (NAV).

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