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# The emerging bank—private credit partnership

How the commercial real estate lending market has evolved with the cooperation of banks and non-bank lenders

## KEY TAKEAWAYS

### DISINTERMEDIATION OF LENDING

Regulatory capital requirements, liquidity rules, accounting changes, and concentration standards have reshaped how banks lend to CRE, opening the door for a wide array of institutions to step in.

### INCREASING INTERDEPENDENCE

Private credit can fill in where banks are constrained, and many banks may find it more capital efficient to partner than compete directly.

### POTENTIAL RISKS

The evolving cooperative model could cause liquidity issues in a market downturn, regulators may look through the financing structure, and each party may have different objectives.

*Private credit funds have stepped in where regulatory constraints limit bank commercial real estate lending. Rather than replacing banks, private lenders have become interdependent partners, enhancing market liquidity while introducing new structural and regulatory considerations.*

Over the last three decades, the US commercial real estate (CRE) lending market has evolved from a bank-dominated structure to a complex, multi-channel financing ecosystem.

Banks remain the single largest category of CRE lenders with almost \$3 trillion in outstanding CRE exposure as of 2024, but their lending behavior has shifted in

recent years.<sup>1</sup> Regulatory capital requirements, liquidity rules, accounting changes, and concentration standards have reshaped how banks participate in CRE lending, particularly in transitional or construction lending.

In our view, these developments paved the way for the growth of non-depository financial institutions, enabling non-bank lenders to absorb segments of the market where banks

have pulled back. Despite the perception that non-bank lenders are ‘replacing’ banks, we believe the evidence shows a more nuanced and structurally important outcome: the relationship is one of growing interdependence.

This article examines how structural shifts in regulation, capital markets, and investor behavior have reshaped the CRE lending landscape and altered the roles of banks and non-bank lenders in the US, with a focus on the role of private credit funds. It traces the historical evolution of CRE credit from a bank-centric model through the emergence of commercial mortgage-backed securities (CMBS) and, more recently, the rapid expansion of private credit. The discussion then focuses on how regulatory frameworks such as Basel III, current expected credit loss (CECL), and liquidity requirements have driven specialization across the capital stack, leading to an increasingly cooperative model between banks and private lenders.

Banks remain providers of senior, stabilized capital, while private credit lenders play an important role in financing transitional assets, absorbing execution risk, and supporting refinancing activity during periods of market adjustment. Together, they

## Until the late 1980s, commercial banks and savings institutions were responsible for virtually all CRE lending in the US.

support a multi-layered credit market in which each lender type occupies a role aligned with its economic, regulatory, and operational structure.

### How and why the CRE lending market changed

Until the late 1980s, commercial banks and savings institutions were responsible for virtually all CRE lending in the US. The industry was highly concentrated due to deposit funding, relationship banking, and limited competition from institutional capital. The savings & loan crisis exposed the systemic risk of such concentration. Between 1986 and 1995, more than 1,000 thrifts and banks failed, resulting in an estimated \$160 billion in resolution costs, much of it tied to CRE losses.<sup>2</sup> This prompted tighter supervisory oversight and ushered in risk-based capital requirements, diversification mandates, and increased federal scrutiny of ADC (acquisition, development, construction) lending.<sup>3</sup> It was, in our opinion, the first modern signal that CRE credit needed diversification.

CMBS emerged in the early 1990s as an alternative source of CRE capital. While CMBS issuance at \$230 billion represented up to 40% of CRE originations, banks still provided the majority of CRE loans, holding \$1.7 trillion worth by 2007.<sup>4</sup> With banks often financing both stabilized and transitional assets, and securitization markets generally absorbing longer-term and conduit-type loans, CRE capital availability was widespread. However, we observed this expansion mask vulnerabilities, including aggressive underwriting, high leverage, and systemic exposure to property cycles.

Market performance since the global financial crisis (GFC) shows how the crisis influenced CRE lending. Losses were widespread, demonstrated by a sharp rise in CMBS delinquencies, elevated bank CRE charge-offs, and liquidity evaporating across global credit markets.<sup>5,6</sup> In response, regulators introduced the Basel III framework for banks. It redefined bank CRE lending by introducing more punitive risk-weighting metrics for certain exposures (see [1](#)).

1

### The global financial crisis led to stricter lending requirements

Basel III redefined CRE lending by introducing more punitive risk-weighting metrics for certain exposures, leading banks to pull back from originating transitional or business-plan-driven loans.

CRE asset type	Typical Basel III risk weight	Notes
Stabilized, income-producing	~100%	Based on predictable NOI
Transitional/High volatility	150%	Materially higher capital requirement
Subordinated/Mezzanine	150%–250%	Often discouraged for banks
Treasury securities (reference)	0%	Illustrates opportunity cost

As a result, banks became structurally disincentivized to originate transitional or business-plan-driven loans.

Other factors can also contribute to banks' willingness to lend. CECL, a credit loss accounting standard implemented in 2020, requires banks to record lifetime expected losses at loan origination. For transitional CRE assets where stabilization timing is uncertain, this raises the level of required loan-loss reserves — which can further reduce banks' willingness to originate new loans.

Bank-originated CRE loans are also subject to both liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) regulation, which makes long-duration CRE assets more expensive to hold than Treasury-backed or readily securitized exposures.<sup>6</sup> Additionally, the OCC and FDIC's thresholds of 100% of capital for construction loans and 300% for total CRE loans trigger enhanced supervisory review.<sup>7</sup> Many regional banks approach these thresholds quickly, limiting their ability to expand CRE exposures even when asset quality is strong.

These regulatory reforms appear to have transformed the economics of CRE lending for banks. While credit demand returned, the composition of lenders supplying that credit shifted and set the stage for private credit's rise.

### The rise of private credit

From 2010 to 2021, global interest rates were historically low: US 10-year Treasury yields averaged 2.3%, investment-grade corporate spreads hovered near 120 basis points (bps), and many pension funds had overall return targets between 6% and 7%.<sup>8</sup>

Conditions created an opportunity for business growth, but with banks stymied by rigorous regulatory requirements, private CRE credit, which is not subject

to the same regulatory requirements including CECL, offered an alternative: floating-rate income, collateral-backed downside protection, and yield premiums over public fixed income. This combination drove institutional capital into private credit funds, growing from \$40 billion in 2010 to \$100 billion by 2015 and over \$250 billion by 2024, or 9% of the CRE lending market from 2015 to 2019 to approximately 13.5% currently.<sup>9</sup>

Private credit lenders can specialize where banks face constraints: lease-up risk, redevelopment and capital expenditure programs, re-tenanting or repositioning strategies, rising interest

rate financing gaps, and/or sponsor-dependent value creation. They can stay flexible, offering structured mezzanine tranches, stretch senior loans, preferred equity overlays, and whole-loan packages, which banks rarely provide under post-GFC regulations.

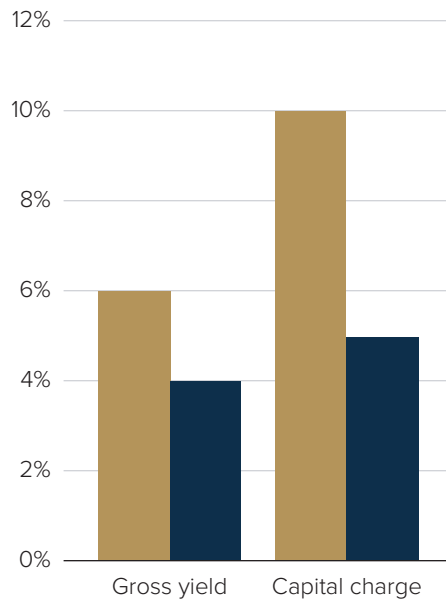
However, despite private lending's growth, banks remain central to the CRE ecosystem — often through partnerships rather than direct competition. **2** provides a simple example comparing nominal yield, regulatory capital charge, and capital-adjusted returns for a transitional CRE whole loan versus a senior A-note participation.

**2**

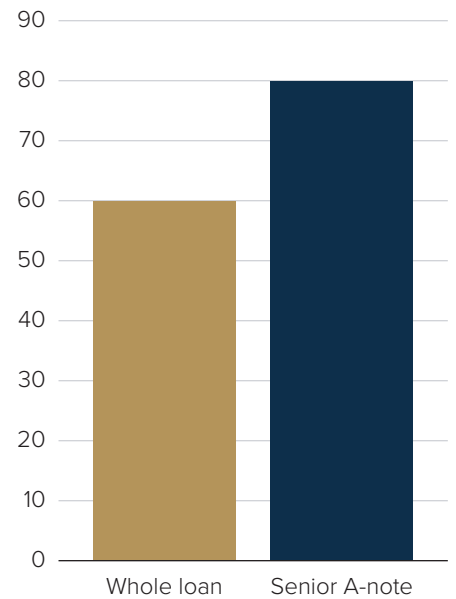
### Senior A-note participations can enhance bank capital efficiency

A bank may achieve a higher RWA-adjusted return by holding a 4% senior A-note vs. a 6% whole loan, as structural subordination results in lower risk weights. By doing so, they can participate in CRE credit without carrying the full regulatory cost of business-plan risk on the balance sheet.

**CAPITAL EFFICIENCY COMPARISON**



**RETURN ON CAPITAL (INDEX)**



■ Whole loan ■ Senior A-note

Assumptions: Whole loan yield of 600 bps with approximately 10% economic capital requirement; senior A-note yield of 400 bps with approximately 5% capital requirement. Capital-adjusted return is presented as an index reflecting relative return per unit of regulatory capital.

Hypothetical example is presented for informational purposes only.

## As CRE values continue adjusting to a higher interest rate environment, refinancing gaps are widening across multiple property types. Many loans originated between 2018 and 2021 now face markedly different debt-service dynamics.

While banks may benefit from low-cost deposits, diversified funding, and reputational and regulatory credibility, private lenders can benefit from committed capital with duration matching, flexibility to underwrite transitional risks, and the ability to rapidly deploy capital.

Providing leverage to a private lender, whether through note-on-note financing, warehouse lines, or senior participations, is an efficient capital allocation strategy for banks because it enables them to maintain exposure to CRE credit while optimizing their regulatory capital position. At the senior level, banks can capture a predictable spread on a credit-enhanced position, improving return on risk-weighted assets (RWA) and supporting concentration management — in other words, they can participate in CRE credit without carrying the full regulatory cost of business-plan risk on balance sheet.

From a systemic perspective, banks extending leverage to private lenders also enhances overall market liquidity while allowing them to specialize in the portions of the capital stack where they maintain a comparative advantage. Many private lenders may be better positioned to underwrite execution risk and manage milestone-driven business plans, while banks retain senior exposure aligned with their regulatory and funding profile.

As CRE values continue adjusting to a higher interest rate environment, refinancing gaps are widening across multiple property types.<sup>10</sup> Many loans

originated between 2018 and 2021 now face markedly different debt-service dynamics.<sup>11</sup> The combination of lower valuations, reduced leverage availability from regulated banks, and stricter underwriting standards has created a structural shortfall between existing loan

balances and proceeds available under current market conditions.<sup>12</sup> **3** shows that the refinancing gap is especially pronounced in office, transitional multifamily, and older industrial assets requiring capital expenditures or repositioning.

As banks tighten advance rates and debt-yield requirements, more refinancing demand should shift to private lenders that can underwrite business-plan execution and variable cash flows.

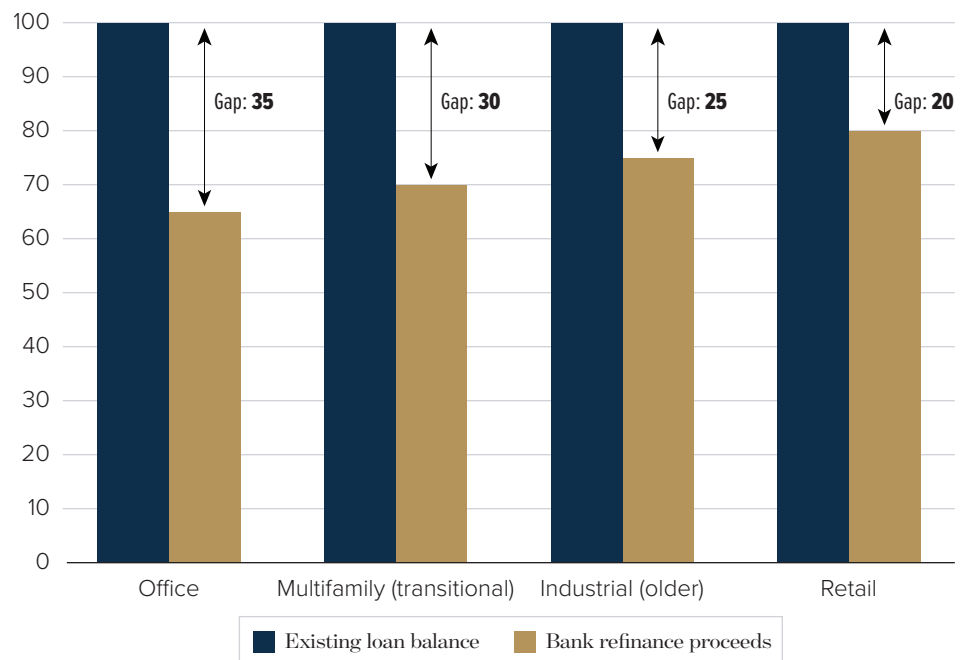
These refinancing pressures also increase the prevalence of transitional

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#### Refinancing gaps are widening across multiple property types

In a rising interest rate environment, many loans originated between 2018 and 2021 are facing different debt-service dynamics. The refinancing gap, typically filled by private credit lenders, is pronounced in office, transitional multifamily, and older industrial assets.

##### INDEXED LOAN VALUE



Notes: Existing loan balances indexed to 100 for comparability. Bank refinance proceeds reflect current underwriting standards observed in 2024–2025. Remaining gap represents capital typically filled by private credit lenders. PCCP illustrative analysis.

Sources: Mortgage Bankers Association, Federal Reserve, NAIOP, CBRE.

business plans, even for assets that were previously considered stabilized. Many sponsors are engaging in re-tenanting, value-add capital programs, operating-model changes, and adaptive reuse to realign properties with shifting market demand. Often, banks are less able to finance these execution-dependent strategies directly on their balance sheets. On the other hand, private credit lenders are generally structurally positioned to evaluate and fund business-plan risk through bespoke covenants, milestone-driven draw structures, and subordinated capital tranches.

This leads us to conclude that higher interest rates and evolving property fundamentals magnify the importance of bank-private credit partnerships: banks maintain senior exposure aligned with their regulatory profile, while private credit platforms provide the transitional capital required to bridge borrowers through repositioning and stabilization. This interdependence may become particularly more important during periods of repricing and operational adjustment.

## Implications, risks, and outlook

Diversification of lender types reduces systemic vulnerability. With more than \$1.2 trillion in CRE loans due to mature between 2024 and 2027,<sup>13</sup> a single lender type cannot absorb this volume. A multi-channel ecosystem is essential for preventing systemic refinancing distress, in our view necessitating the role of private credit lenders.

Several long-term forces may deepen the bank-private credit partnership. As CRE values adjust to higher interest rates, refinancing gaps widen, and transitional business plans become more common, private credit becomes more critical. Even incremental Basel III

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‘endgame’ provisions will reinforce the shift toward senior risk. For these reasons, we believe private credit has become a strategic allocation, not a temporary solution.

The evolving cooperative model, however, carries risks. The new structures have the potential to cause liquidity issues during a market downturn. Banks provide needed capital to private real estate lenders, who then provide that capital and liquidity to the commercial real estate market. If bank capital becomes less available as a result of a market downturn, origination activity of private real estate lenders would be limited and the liquidity of the larger commercial real estate market would be negatively affected.

Additionally, regulators may look through the structure to the whole loan financing. If this occurs, it may eliminate or minimize the capital efficiency of the strategy and remove one of the main benefits for banks.

Lastly, a loan workout scenario carries the risk of competing or diverging objectives between the banks and the private real estate lenders. This ultimately could prolong loan workouts and resolutions which may negatively impact the banks, returns for a private real estate lender’s investors, or outcomes for the borrowers.

We believe today’s cooperative, multi-channel CRE credit system appears stronger, more resilient, and more adaptive than the bank-centric model

that preceded it. Further, this interdependent lender ecosystem will remain a cornerstone of CRE capital formation for decades to come, especially as the market navigates refinancing pressures, interest rate normalization, and structural shifts across property sectors. 

<sup>1</sup> US Government Accountability Office. 2024. “Commercial Real Estate: Trends, Risks, and Federal Monitoring Efforts.” GAO-24-107282, September 24.

<sup>2</sup> Federal Deposit Insurance Corporation. 1998. “1997 Annual Report.” August 31.

<sup>3</sup> Office of the Comptroller of the Currency. 2013. “Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule.” *Federal Register* 78 (198), October 11.

<sup>4</sup> Federal Deposit Insurance Corporation. 2019. “FDIC Supervisory Insights — Fall 2019.” *Supervisory Insights* 16 (1).

<sup>5</sup> Trepp. 2025. “Overall Rate Inches Back Up, but Office Retreats Again.” *CMBS Delinquency Report*, December 30.

<sup>6</sup> Federal Reserve Bank of St. Louis. 2024. “Commercial Real Estate in Focus.” *On the Economy*, May 30.

<sup>7</sup> Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation. 2006. “Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices.” *OCC Bulletin* 2006-46, December 6.

<sup>8</sup> Federal Reserve Bank of St. Louis. 2026. “Market Yield on US Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis (DGS10).” Federal Reserve Economic Data, accessed February 12.

<sup>9</sup> McKinsey & Company. 2024. “The Next Era of Private Credit.” September 24.; Cohen, C., C. Ferreira, F. Natalucci, and N. Sugimoto. “Fast-Growing \$2 Trillion Private Credit Market Warrants Closer Watch.” International Monetary Fund, April 8.

<sup>10</sup> Navin, K. 2024. “Commercial Real Estate in Focus.” Federal Reserve Bank of St. Louis, May 30.

<sup>11</sup> Mason, T. 2025. “Commercial Real Estate Maturity Wall: \$950B in 2024, Peaks in 2027.” *S&P Global Market Intelligence*, August 19.

<sup>12</sup> Houlihan Lokey. 2024. “CRE Debt Market Update, October 2024.”; Navin (2024).

<sup>13</sup> MSCI. 2025. “Capital Trends: US Big Picture, August 2025.”

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