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# The OG of Private Credit: Conjuring a Crisis

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According to Merriam-Webster, *apophenia*, or mistaken pattern recognition, is “the tendency to perceive a connection or meaningful pattern between unrelated or random things.” We see this happen all the time in capital markets.

After the GFC, the usual suspects were rounded up. While sub-prime mortgages were clearly the culprits, leveraged loans and CLOs were also included, though neither contributed to it. The charges – rapid growth, “complexity” and proximity to the banking system – have today put a bullseye around private credit. But the evidence tells a different story.

Historically, systemic crises share two defining features: Size large enough to matter, and direct linkages capable of transmitting losses across the financial system. Private credit, despite its remarkable growth, is not guilty on both counts.

Start with size. Private credit – including BDCs – has about $1.3 trillion in total assets deployed. Sounds significant, but both leveraged loan and high yield bond markets are larger, each at $1.5 trillion. Where are the op-eds on those assets?

Zoom out further and the picture becomes even clearer. Direct lending represents only 3% of total U.S. household and business debt outstanding (see *Chart of the Week*). At the height of the GFC, mortgages alone accounted for 60%. By that measure, private credit remains a rounding error.

Now consider the linkages. Bank exposure to private credit – referred to as “back leverage” – stands at approximately $300 billion. But relative to total bank assets, that is only 1.5%. At the peak of the GFC, subprime assets were nearly 14% of total bank assets. And the structure of these loans also matters. Given loan advance rates are 70-75%, meaningful losses would need to materialize before a bank’s loan book is impaired.

The comparison to 2008 also overlooks the fact that direct lending serves as a release valve public credit. When broadly syndicated loan spreads widen, borrowers migrate to private credit. This played out in 2022 and 2023, when the Fed’s rate hikes and Silicon Valley Bank’s failure effectively closed the BSL and bond markets for business. Private credit filled the void.

The GFC was defined by opacity, embedded leverage throughout the banking system, and an almost complete absence of equity cushions. Beyond regulatory reform that greatly strengthened bank balance sheets, private credit holds significant advantages over bank loans. It sits senior in the capital stack, carries stronger covenant protections, and direct lenders have additional tools to work through stressed credits before they become non-performing.

Today, the size and linkages of private credit are too small to be considered systemic. Next week we explore how private credit’s structural advantages act as a cycle dampener rather than an amplifier.