

The Next Phase of Private Credit, Bank – Direct Lending Partnerships

As private credit matures, disciplined underwriting, strong governance and bank-direct lending partnerships are shaping long-term performance.

Private credit has grown from a niche financing solution into a core component of the capital markets, but the asset class is often discussed as though every manager pursues the same strategy and faces the same risks. In reality, recent market developments have highlighted a far more important distinction: outcomes are increasingly being driven by manager discipline, portfolio construction, and alignment of interests rather than by the asset class itself.

As private credit matures, the firms best positioned to perform through a cycle will be those with rigorous underwriting standards, strong governance, and the patience to prioritize credit quality over asset growth. Bank-direct lending partnerships can be particularly powerful in this environment because they combine the sourcing advantages of a leading bank with the long-duration capital, and risk management expertise of an experienced private credit manager.

“Periods of market adjustment tend to expose the difference between credit that was designed for stability and credit that relied on favorable conditions,” says Walt Hill, Co-Portfolio Manager of TCW Steel City.” Experience matters, and as the market changes and private credit matures, this distinction is becoming increasingly relevant.”

Private Credit Through a Capital-Structure Lens

At its core, private credit and banks’ commercial loans are not that different. Both loan products leverage the contractual protections of being senior secured, floating rate, and have covenant protections. Capital preservation and limiting losses are the keys to success for these portfolios. For decades, private lenders had a niche, operating outside the bounds of traditional bank lending in what was a relatively small market.

The global financial crisis dramatically accelerated the growth of private credit due to new regulatory constraints put on the banking industry. After that, many banks didn’t have the credit appetite to expose themselves to certain kinds of lending, despite the ongoing demand for senior secured lending. Long-duration, non-bank capital increasingly stepped in where traditional banks couldn’t, particularly for sponsor-backed or highly leveraged transactions.

Distinguishing Credit Performance, Vehicle Design, and Flows

A useful way to evaluate recent headlines is to separate three different issues: borrower credit quality, fund or vehicle liquidity, and manager portfolio construction. Those risks can overlap, but they are not the same. As it stands right now, fundamentals across the middle market have remained relatively stable. Elevated interest rates and reduced liquidity have slowed down spending and M&A activity, but leverage levels and cash-flow performance are still largely within expectations.

Some recent corporate failures have been cited in broader discussions about credit discipline, but they are not necessarily representative of the core private-credit market. More important for private credit is the dispersion now emerging among managers based on underwriting quality, sector exposure, documentation, and vehicle structure. Many portfolios that were concentrated in higher-growth, sponsor-favored sectors or relied on strong exit markets and multiples are facing challenges. This is why it's important to evaluate private credit as the intersection of assets, structure, and flows.

The Role of Bank-Direct Lending Partnerships

Bank-direct lender partnerships can improve the efficiency and reach of middle-market finance. Their greatest promise lies not in moving risk outside the banking system, but in combining complementary institutions: a bank's relationships and product capabilities with a direct lender's long-duration capital and structuring expertise. The strongest partnerships will expand borrower choice without subordinating independent underwriting to origination volume.

TCW Steel City ("Steel City"), a collaboration between PNC Bank and TCW Private Credit, reflects this approach.

"PNC contributes deep client relationships and origination reach, and TCW contributes long-duration capital and experience managing private credit funds and portfolios. The combination also leverages a longstanding, complementary and disciplined underwriting approach," says Mark Gertzof, Co-Portfolio Manager of TCW Steel City.

"For borrowers, the value proposition is straightforward: if a company can access private-credit execution while preserving its banking relationship and broader banking products, that is a hard combination to beat," he said.

The collaboration centers on five principles:

1. Differentiated deal flow matters. Diversification across sponsored and non-sponsored borrowers can improve the opportunity set, reducing dependence on a single channel and limiting portfolio overlap;

2. Origination breadth is valuable only when paired with selectivity;
3. Senior secured status is only meaningful when supported by a mix of predictable cash flow, collateral, covenants, and documentation;
4. Governance must be designed for downside scenarios, not just new-deal approval; and
5. Long-term risk-adjusted performance matters more than deployment volume.

The evolution of bank-direct lender partnerships reflects a broader transformation in financial intermediation. Banks are unlikely to abandon the middle market, and private credit is unlikely to replace the banking system. Instead, the market is developing an ecosystem in which origination, capital provision, risk retention and borrower services can be supplied by different, increasingly connected, institutions.

“The key to success with bank-direct lending partnerships is alignment,” adds Hill. “Combinations built on fee referrals or disparate economic incentives and risk profiles will contain an ever-present tension between the partners that will get tested in times of distress. Steel City was designed with principles to avoid those issues, so it is durable, consistent, and scalable. Like our underwriting approach we designed this business to withstand all types of business conditions.”

That connectivity can make credit markets more resilient by expanding the sources of capital available to businesses. It can also create new vulnerabilities if leverage, incentives and underlying exposures are not transparent. The winners will therefore not simply be the institutions with the largest balance sheets or the most capital to deploy. They’ll be the ones who combine sourcing scale with independent credit judgment, disciplined structures, aligned governance and the ability to manage loans through an entire cycle.

“The objective in this business does not change: return of principal comes first,” adds Gertzof. “A partnership adds value when it exceeds the capabilities of the participants individually. This combination expands the originations and capital available, and it does so without relaxing credit standards.

Bottom line

The strategic rationale is sound, but execution determines whether a bank-direct lender partnership is a genuine origination advantage or simply another source of leverage and spread compression. The institutions that differentiate themselves will be those that remain disciplined when others chase market share, maintain alignment when incentives are tested, and continue to prioritize return of capital before return on capital. For borrowers, investors, and lending partners alike, a focus on unique origination, credit underwriting and deal execution is what ultimately creates durable value.

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