

What is going on with the Private Credit Market?

March 25, 2026

There has been a lot of press recently about the Private Credit market, with issues related to perceptions of underlying loans in the software space and the investor base's behavior. This has many wondering whether the recent volatility in the software industry is merely temporary or a precursor to more widespread disruption. Regardless, Alliance Partners (AP”) believes its portfolio is appropriately diversified relative to what is currently impacting the Private Credit market. Additionally, AP believes its capital base (both for Forbright Bank and BancAlliance (BA”) Members) has a different investor composition than most Private Credit investors, with different time horizons and investment outlooks.

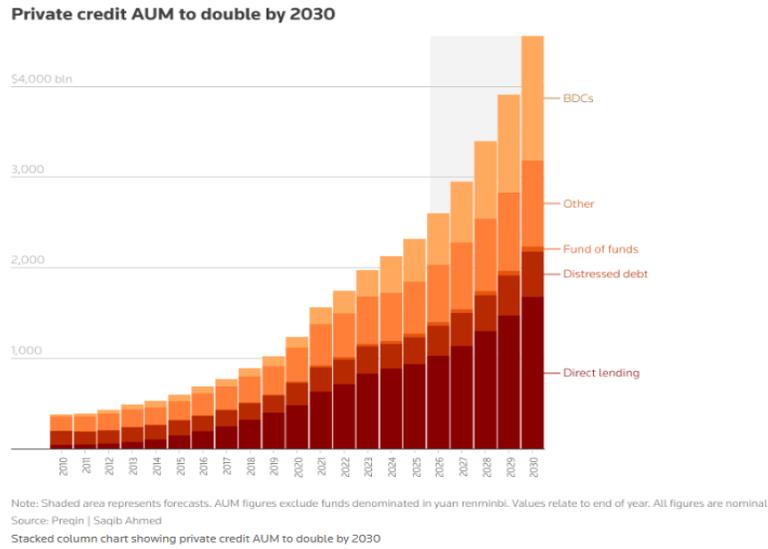
Private Credit Background

The Private Credit universe comprises non-bank lenders that work directly with borrowers to negotiate and originate privately held loans that are not traded in public markets. Often, these Private Credit lenders can provide the entire debt facility to a Borrower. Investors in the Private Credit space usually include financial institutions, such as private equity firms, asset managers, insurance companies, etc. Private credit emerged after the Great Financial Crisis of 2007-2009 and gained steam shortly after the 2013 Interagency Lending Guidance (2013 Guidance”). The 2013 Guidance was intended to provide underwriting recommendations and considerations to regulated financial institutions regarding leveraged loans, but had the consequence of being overly restrictive, leading banks to limit their leveraged lending activities. Since Private Credit lenders are not regulated like banks, they filled the lending void and were able to compete where banks could not – particularly in lending beyond the 6.0x total debt to EBITDA leverage parameter that the 2013 Guidance effectively established. Furthermore, because the Private Credit investor base has a higher return hurdle than traditional banks, Private Credit lenders were willing to grant looser terms in exchange for higher pricing. While this flexibility enabled growth, it also introduced a slight shift away from traditional cash flow discipline. In many cases, underwriting relied more heavily on growth assumptions and enterprise value than on sustainable free cash flow and debt service coverage.

What followed was a boom in the Private Credit Market, which grew from \$~\$400 Billion to ~\$2 Trillion in 2026 and is expected to reach over \$4 Trillion by 2030¹. Traditional banks that

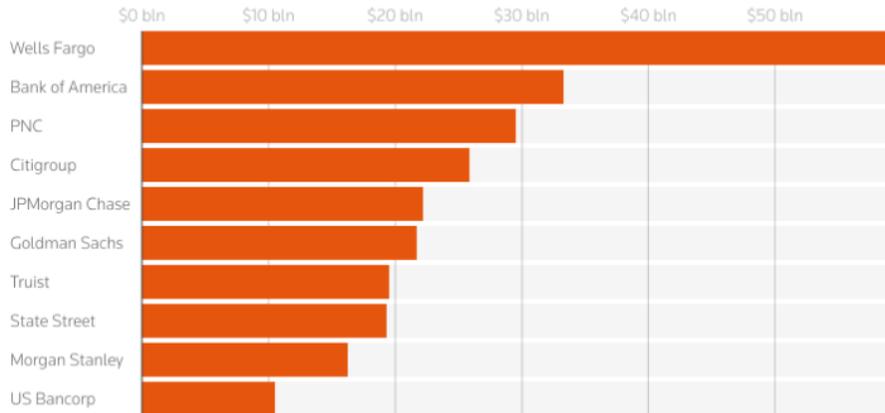
¹ Azhar, Saeed, et al. S “Blue Owl turmoil adds to strain in \$2 trillion US private credit sector.” Reuters. 27 February 2026, <https://www.reuters.com/business/finance/blue-owl-turmoil-adds-strain-2-trillion-us-private-credit-sector-2026-02-27/>

realized they could not compete in the leveraged lending space instead turned to lending directly to the Private Credit lenders themselves by providing warehouse facilities. A recent Moody's report showed U.S. banks had lent nearly \$300 billion to private credit providers as of June 2025².



US banks' private credit loan exposure

US banks had lent nearly \$300 billion to private credit providers, as of June 2025. In addition, banks had a further \$285 billion lent to private equity funds and \$340 billion in unutilized bank lending commitments available to these borrowers.



Note: Mostly includes loans to private credit funds, direct lenders, business development companies (BDCs), finance companies, special purpose entities, collateralized debt obligations and collateralized loan obligations. Also includes loans to non-bank business lenders, such as online marketplace lenders. Data is as of Q2 2025.
 Source: Moody's Ratings | Saqib Ahmed
 Bar chart showing US banks' private credit loan exposure

² Azhar, Saeed, et al. S “Blue Owl turmoil adds to strain in \$2 trillion US private credit sector.” Reuters. 27 February 2026, <https://www.reuters.com/business/finance/blue-owl-turmoil-adds-strain-2-trillion-us-private-credit-sector-2026-02-27/>

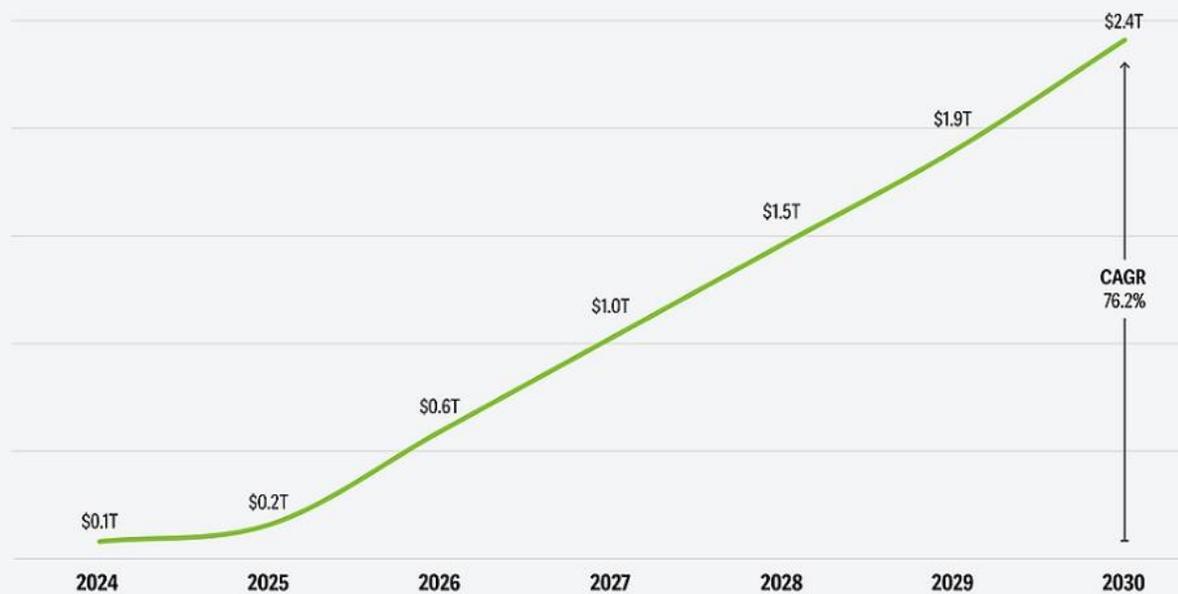
As the Private Credit market continued to grow, U.S retail investors started looking at the asset class³ given its high returns. It is important to note that the retail market typically has a much shorter investment holding periods, whereas banks and institutional fund managers are viewed more as “patient capital”.

The increasing participation of retail-oriented capital in private credit has introduced shorter investment horizons and liquidity expectations that may not naturally aligned with the underlying asset class.

Figure 1

US retail investors’ allocations to private capital is expected to grow exponentially in the United States by 2030

Projected AUM, US\$



Source: Deloitte Center for Financial Services analysis.

Deloitte Insights | deloitte.com/insights.com

³ Vallejo, Carolyn. “What’s Going on With Private Credit?” Middle Market Growth. 18 March 2026, <https://middlemarketgrowth.org/whats-going-on-private-credit/>

The Emergence of AI

A popular acquisition target of Private Equity buyout firms has been software companies, which, due to their recurring revenue streams, commanded premium valuation multiples at times in excess of 15x EBITDA (and therefore required more debt to facilitate acquisitions). In the absence of traditional banks, Private Credit lenders were willing to extend generous terms to consummate these transactions. Until recently, most software companies were viewed by lenders as having high free cash flow characteristics, which included being “asset lite”, having “sticky” customer bases, and high customer retention rates. Therefore, it was believed that these companies could handle higher than typical debt levels relative to other industries.

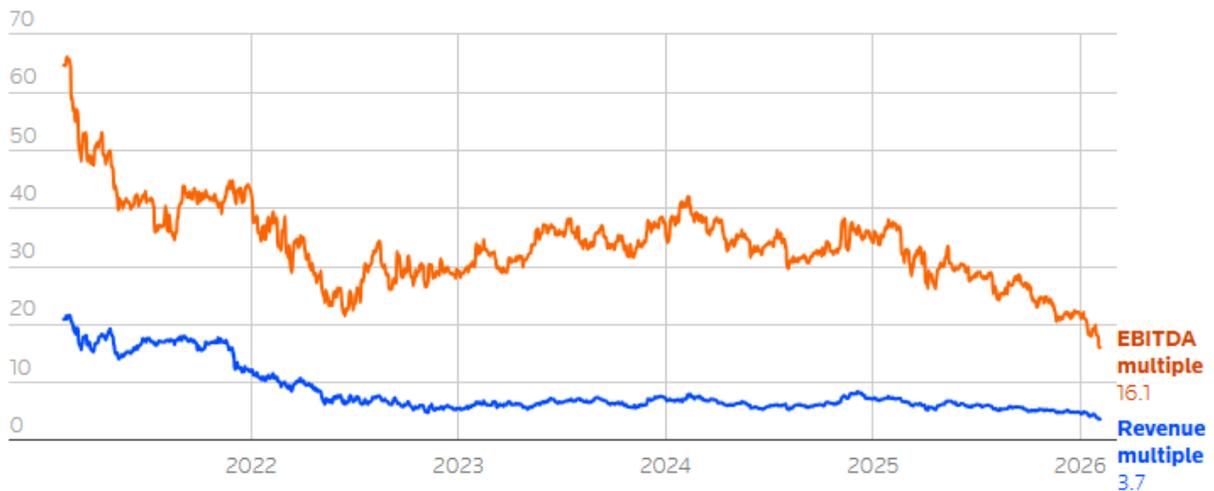
As Artificial Intelligence (AI) has made significant technological advancements over the past decade, many investors are now examining the value proposition of certain software companies and questioning their once lofty purchase prices.

According to Goldman Sachs researcher Matthew Martino, “The concern is that if AI agents become the primary interface for executing work, traditional platforms could be relegated to passive data stores. That could erode their pricing power and strategic relevance, which is why their stock prices have fallen. Martino cited an analysis by Goldman Sachs Research portfolio strategists that suggests investors now expect software companies to grow more slowly. At their recent peak, software stock valuations implied a 15-20% medium-term (2028) revenue growth rate. Valuation multiples that are now much lower correspond to an expected growth rate of just 5-10%⁴.”

⁴ Which Software Companies Will Benefit from AI? Goldman Sachs. 18 February 2026.
<https://www.goldmansachs.com/insights/articles/which-software-companies-will-benefit-from-ai>

This impact on perceived future valuation would imply that historical acquisitions may have been inflated.

Sliding valuation multiples for listed software companies



Note: Median 12-month forward enterprise value multiples for constituents of the BVP Nasdaq Emerging Cloud Index, excluding Palantir Technologies

Source: LSEG Datastream, Breakingviews calculations | N. Unmack | February 5, 2026



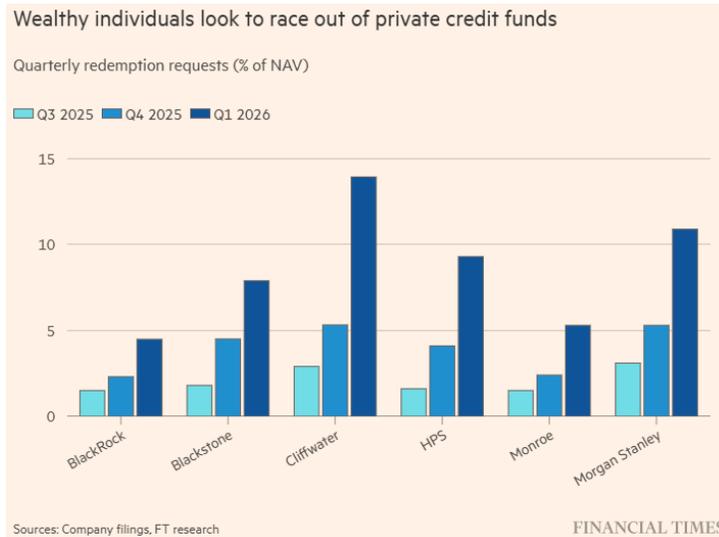
Mismatch of Expectations

The short-term holding periods of retail investors with private debt have caused a mismatch of expectations that led retail investors to retreat as underlying software valuations are questioned. The most notable redemption story thus far is Blue Owl Capital, which elected to sell \$1.4 Billion of assets in its portfolio so it can return capital to investors and pay down debt.⁵ Other investors have since increased their redemptions, which has had a negative impact on certain asset manager share prices.

While the Private Credit market is largely illiquid, Reuters reports that, The company [Blue Owl] said it is receiving 99.7% of par value on the loans, meaning it is very close to their original value. That price is also the same level where Blue Owl marks the assets on its

⁵ Azhar, Saeed, et al. S “Blue Owl turmoil adds to strain in \$2 trillion US private credit sector.” Reuters. 27 February 2026, <https://www.reuters.com/business/finance/blue-owl-turmoil-adds-strain-2-trillion-us-private-credit-sector-2026-02-27/>

books, a process that has come under scrutiny in the past year as both retail and institutional investors demand more transparency from managers of assets outside traditional stocks and bonds⁶.”



⁶ Azhar, Saeed, et al. S “Blue Owl turmoil adds to strain in \$2 trillion US private credit sector.” Reuters. 27 February 2026, <https://www.reuters.com/business/finance/blue-owl-turmoil-adds-strain-2-trillion-us-private-credit-sector-2026-02-27/>

*Past performance is not indicative of future results.

How Bad Can Defaults Get?

With the AI revolution currently reshaping the market, defaults are expected to rise. UBS recently raised some eyebrows when it projected that Private Credit defaults could go as high as 15%. It should be noted that that is their “worse case” scenario and not their “base case”⁷. This compares to Morgan Stanley which has the projected default number at 8%, driven by Private Credit portfolios concentrated in software in the range of ~20%.⁸

It should be noted though that not all software companies will be impacted. Orlando Bravo, founder of Private Equity firm Thoma Bravo, was recently quoted as saying some software names, however, took “unjustified” hits from the sell-off and are “phenomenal businesses that are actually going to be big winners in the agentic era.”⁹

How Exposed Are Banks?

According to the Financial Times, bank Private Credit exposure is between \$410 Billion and \$540 Billion¹⁰. While this sounds like a large number, it pales in comparison to other U.S. financial assets (see bright red circle in second chart below)¹¹.

According to the Financial Times:

Banking assets come to \$33 Trillion and NBFi assets weight in at \$94 Trillion. Taking any impairment on the \$540 Billion of private credit exposure would not be fund. Moreover, financial interconnections are weird, wacky, and non-linear. But the exposure – in isolation – doesn't really look big enough to bring down the financial system even if things go horribly *horribly* wrong.

⁷ Nangle, Toby. “Catastrophising credit?” Financial Times. 25 February 2026.

<https://www.ft.com/content/62d922c9-bac8-4de5-bda9-55bfc29919bc>

⁸ Ismail, Rene and Graffeo, Emily. “Morgan Stanley Sees Private Credit Default Rates Reaching 8%” Bloomberg. 16 March 2026. <https://www.bloomberg.com/news/articles/2026-03-16/private-credit-default-rates-to-reach-8-morgan-stanley-says?embedded-checkout=true>

⁹ Murti, Lola. “Orlando Bravo says some software names hit by AI deserve a valuation cut” CNBC 17 March 2026. <https://www.cnbc.com/2026/03/17/orlando-bravo-software-ai-valuation-cut.html>

¹⁰ Nangle, Toby. “Who cares if private credit goes kaput?” Financial Times. 18 March 2026. <https://www.ft.com/content/742edb09-a856-41ad-aea6-207862cfd952>

¹¹ Nangle, Toby. “Who cares if private credit goes kaput?” Financial Times. 18 March 2026. <https://www.ft.com/content/742edb09-a856-41ad-aea6-207862cfd952>

Pick a number, any number

Studies of private credit counterparty exposure

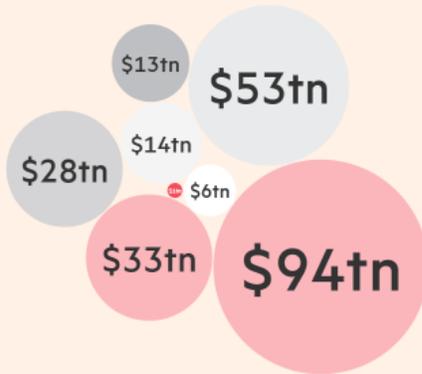


FINANCIAL TIMES Source: OFR † Moody's global survey of 32 banks; †† business credit intermediaries; ††† excludes BDCs
Moody's and Temple studies in 2023; Call reports, Fed study and OFR data 2024; FSR 2021.

Putting things in perspective

US financial assets, split by economic function

■ Bank & NBFI private credit exposure
 ■ Central Bank
 ■ Deposit-taking Corporations
■ Insurance corporations
 ■ NBFI
 ■ OFIs
 ■ Pension funds
 ■ Public financial institutions



FINANCIAL TIMES

Source: FSB, OFR

How are AP and BA Positioned?

AP and BA currently have limited exposure to the forces currently impacting the Private Credit Market for several reasons.

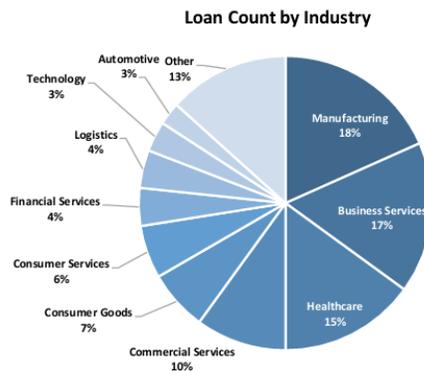
Limited Software Concentration in Portfolio

There is currently limited software concentration in the BA Portfolio. In fact, there are only three borrowers that are dedicated providers of software products to their customers.

Commercial Portfolio – Summary by Industry

AP is focused on maintaining a diversified portfolio. Key industry sector concentrations are:

- Manufacturing – 18%
- Business Services – 17%
- Healthcare – 15%
- Commercial Services – 10%



Note: Leveraged loans as of 12/31/25. The chart above includes certain loan types that are not offered through BancAlliance (e.g., covenant-lite loans offered through AP Asset Management, which are available to BancAlliance members that execute separate documentation).

Limited Initial Leverage Governed By Risk Acceptance Criteria (RACs”)

The BA Board has set RACs for AP to offer loans to BA. Those RACs include the leverage governors below:

- Maximum Senior Leverage: Up to 5.0x
- Maximum Total Leverage: Up to 6.5x

Furthermore, many BA members have leverage limits that are more restrictive than the ones set by the BA Board. Because many software companies had leverage multiples in excess of the governors listed above, they were not underwritten by AP or offered to BA.

Investor Profile

All active BA Members are regulated financial institutions when they commit to and fund a loan offered by AP. AP (the Registered Investment Advisor to BA) is a wholly owned subsidiary of Forbright Bank.

Both AP and BA Members typically hold loans on their balance sheet to maturity and are not active traders of loans. Additionally, AP and BA Members are invested in individual loans and understand the limited liquidity associated with middle-market loans, which typically often have only a few lenders (as opposed to a broadly syndicated loan). This compares to Private Credit funds that may cater to retail investors and invest in pools of loans, which can then provide redemptions to those investors on a pre-negotiated time-based basis. This characteristic of “patient capital” is the antithesis of what is being observed by retail asset managers.

Future Outlook

While software valuations are under pressure, AP believes the fundamental issues relate to companies previously underwritten with sky-high growth forecasts. In fact, the current market volatility has provided a potential buying opportunity for affected companies when underwritten with lower growth expectations.

A recent Wall Street Journal article commented on some complex software platforms being difficult to replace:” Such platforms run mission-critical tasks like payroll and IT management, and require deep subject-matter expertise that goes well beyond the actual coding of the software itself¹²”

AP will continue to underwrite opportunities in the software space, maintaining its underwriting standards and scrutinizing the underlying business model given the changing technological landscape.

Certain mission-critical software platforms remain durable, particularly those embedded in core business operations. However, underwriting these credits today requires greater emphasis on:

¹² Gallagher, Dan. “AI Won’t Kill the Software Business, Just Its Growth Story” Wall Street Journal. 4 February 2026. https://www.wsj.com/tech/ai/ai-wont-kill-the-software-business-just-its-growth-story-05673e07?gaa_at=eafs&gaa_n=AWetsqe6ZYMt-a0Xwen43vE_w4lnTrI-y_FrYmrwncvHjoytTiwBwy-7OyvKo02Ux4%3D&gaa_ts=69c28d39&gaa_sig=dmat-E3iuRkjt8E-X0FTAg7VGS9vVp-UvQgSMYAHlY7KQFY7Ontg6BLrP1d0yNtbdsmsqswWE2xW-cmGklYRshQ%3D%3D

- Revenue durability
- Customer retention dynamics
- True free cash flow conversion

Conclusion

The growth of AI will likely disrupt the old economy and certainly may impact many industries. However, the biggest impact is currently being seen in the software sector, where loans that were previously underwritten at lofty valuations have seen a decline in future earnings expectations. Private Credit portfolios are significantly exposed to the software sector, largely due to the consequences of the 2013 Guidance. As a result, many investors are attempting to reallocate their funds given the perceived risk.

In contrast, a cash flow lending approach—long practiced by banks—generally remains appropriate for navigating periods of uncertainty. By emphasizing moderate leverage, strong coverage, and durable earnings, bank lenders should be better positioned to deliver relatively more consistent credit outcomes across cycles.

AP continues to advocate for a diversified portfolio and currently has limited software exposure. Additionally, BA's RAC Policy has helped ensure that AP has avoided companies with high leverage that is driven by significant growth expectations at underwriting. Middle market loans are typically a buy and hold asset class, which generally fits with the investment criteria and philosophy of banks including those that are members of BA.