

Friend or Foe?

Private Credit in the Banking System

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May 14, 2026



CALIFORNIA
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ASSOCIATION

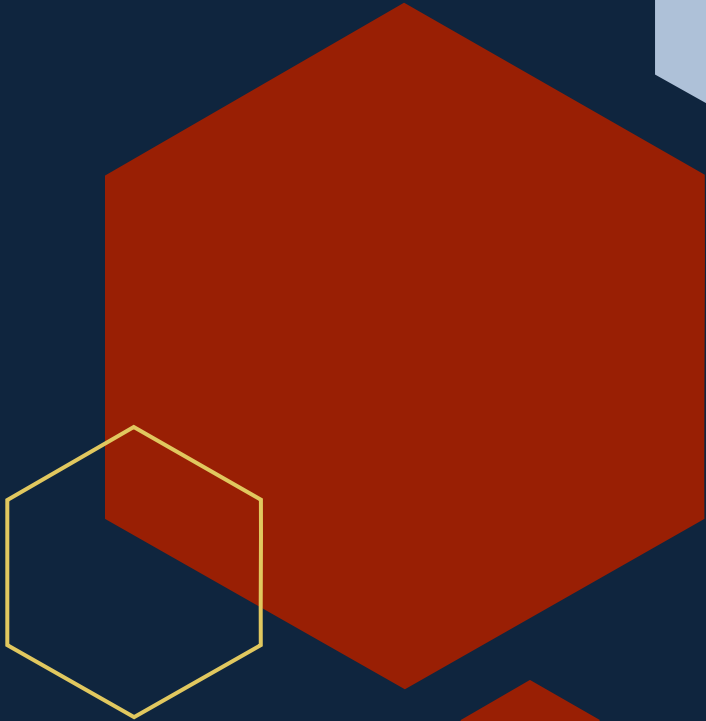
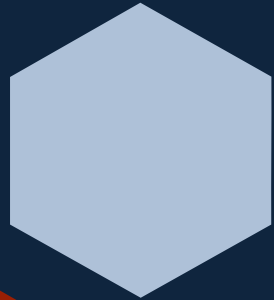




What we'll cover....

- Why should you care?
- What is Private Credit?
- Competition, collaborator, or both?
- Practical take-a-ways

Why should you care about private credit?



What IS "Private Credit"?

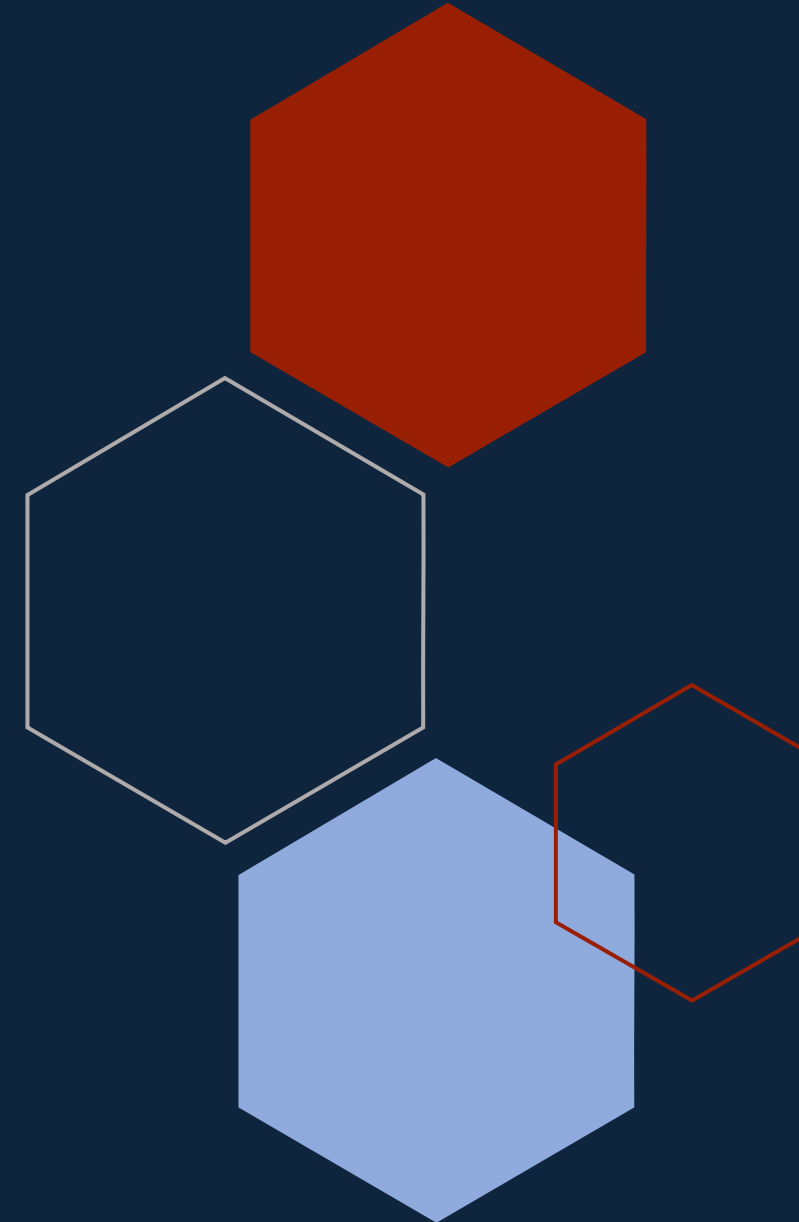
Non-Bank lending to borrowers outside of traditional deposit-funded institutions.

Commercial/Corporate

- Middle-Market
- Cash Flow / Leverage Lending
- Venture Lending
- Asset Backed / Asset Based Lending
- Project Finance
- Commercial Real Estate

Consumer

- Subprime: Auto and Mortgage
- Unsecured
- Student Loan
- Novel: BNPL, EWA





How did private credit come about?

How did private credit get this big?

Why is everyone talking about private credit?

1. Regulatory pressure to move risk out of the banking system
2. Institutional/Investor Demand for Yield
3. Growth in Private *Capital* overall (equity and debt)
4. Borrower Demand

Private Credit and Banks

Where do they Compete?



Essentially Everywhere

Middle Market Lending

Leverage Lending

Venture Lending

Direct and Syndicated

CRE Lending

Consumer Lending

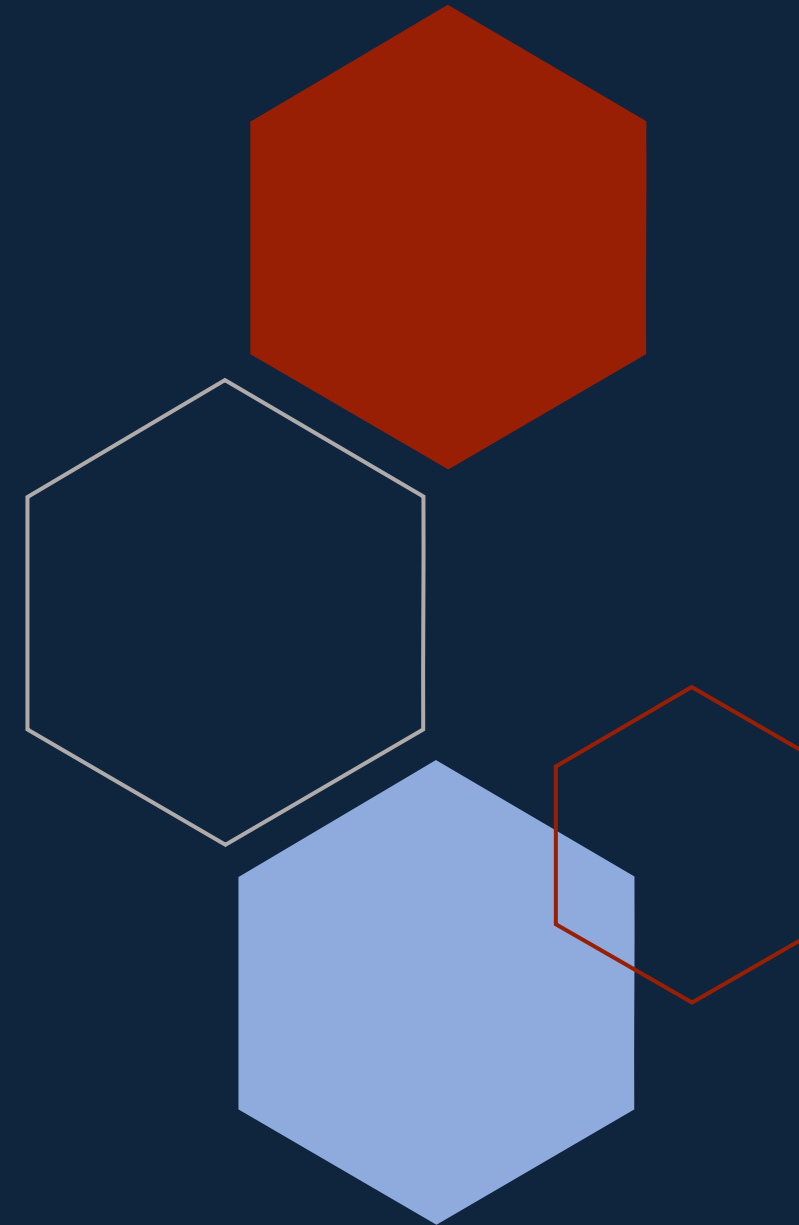
But who has the advantage?

Banks:

- Relationships
- Lower Funding Costs
- Cross-sell

Private Credit:

- Speed
- Flexibility
- Less regulatory friction



Where can banks and private credit work together?

1. Direct lending to private credit providers
 - a. Fund Finance/Subscription Lines/Capital Call
 - b. Net Asset Value (NAV)/Lender Finance
2. Participations
 - a. First Out vs. Pari-Passu
3. Deposits, Payments, and Treasury Management
 - a. Sponsor, Fund/Lender, SPE, Fund Investments
4. Loan Servicing

Other Considerations

- Capital
- Risk Management
- Counterparty
- Regulatory





Practical Take-Aways

- Banks that understand the evolving landscape and choose to engage can create new and diverse revenue streams.
- It's no longer of "will" private credit prove disruptive to banks, it's now "how" can your bank position itself for the potential advantages.
- Risk management doesn't fundamentally change, but the complexity adds additional dimensions.

Private Credit and Banks

Questions or Comments?





Who We Are

Founded in 2025, Hyperion Risk Management is an independent regulatory advisory and consulting firm. We are former bank regulators and commercial bank executives with broad and deep credit risk management experience that uniquely positions us to advise bank management and boards of directors on evolving credit risk management and bank regulatory concerns. With Hyperion you gain the benefit of 75+ years of experience by working directly with the firm's principals throughout each engagement.





Thank you!

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