

# The 2025 Outlook for Private Credit

## Key takeaways from 2024

- > The Prudential Regulation Authority completed its thematic review of private equity-related financing activities. This identified a number of gaps in banks' risk management frameworks that control their aggregate PE sector exposures. As a result, the PRA mandated that banks need to take certain measures, including better use of group-wide data aggregation tools, stress testing capabilities and consolidated management information reporting processes. Banks were required to undertake a gap analysis and report their findings to the PRA, with plans for remediation, by 30 August 2024. We do not expect the regulatory focus on private credit to reduce any time soon.
- > Motor finance commissions have generated huge interest, following a series of UK court findings that these were unlawful where not properly disclosed to borrowers. In October, the Court of Appeal's decision in Johnson, Wrench and Hopcraft [2024] EWCA Civ 1282 sent shockwaves through the market and raised the prospect that commissions paid in connection with other lending products might be unlawful. We have seen interest from lenders looking to finance law firms and claims management companies bringing claims against motor finance providers. Conversely, firms holding pools of such assets have been considering their exposures. In April 2025, all eyes will be on the UK Supreme Court, when it considers whether to overturn the Court of Appeal's decision. Much remains uncertain, but these developments may lead to the FCA imposing a market-wide redress scheme.

## Outlook for 2025

2024 was markedly impacted by a number of significant elections (in the UK and globally) and interest rate and inflation expectations. Looking ahead through 2025, the outlook is more bullish:

- > The global private credit markets are expected to continue growing rapidly, driven by lower interest rates, declining default risks, and solid economic strength, particularly in the US and Europe.
- > Conversations indicate increased deal activity both in terms of deployment of private credit and fund raising activity by credit funds.
- > The private credit market continues to evolve and is a diverse and complex market. The choice of lending vehicles continues to diversify; one example being the rise of rated feeders as a vehicle for insurance companies to invest in private credit. This is reflected in our own deal experience: we have worked with specialist and household-name lenders, debt funds, institutional investors, and high net worth individuals across different asset classes.
- > Hot topics for 2025 vary by sector and focus, but are likely to include: levels of control exercised by back leverage providers, control of EBITDA (more specifically EBITDA add backs), movement of assets between funding arrangements, cash leakage, and the importance of servicer/servicer risk.

# Legal watchlist for 2025

- > Litigation relating to motor finance commissions and the potential spillover into other asset classes.
- > Continued regulatory focus on NBFIs.
- > FSB consultation report on leverage in NBFIs – window for responses closes 28 February with the final report to follow.
- > For fund and asset managers (and providers of finance to "loan originators"): AIFMD II.
- > The introduction of simplified reporting templates for European private securitisations and potentially other reforms to the EU and UK securitisation frameworks as a result of EU Commission consultation exercises.

We will monitor developments and identify changes that could impact your business. If you want to hear more, please speak to us.

## 2024 Deal highlights

- > Specialist lender on multiple funding lines, including both uncommitted and wholesale revolving credit facilities, to non-bank finance providers in a range of sectors/products including consumer, real estate, SME, and tax and R&D credits.
- > Private credit team of an investment manager on a funding line to a group providing merchant terminals, card and payment processing services to the SME sector.
- > Originator on a mortgage loan purchase agreement with private debt funds providing up to £35 million for eligible mortgage loans.
- > Originator on a forward flow loan purchase agreement with a building society providing up to £25 million for eligible bridging, refurbishment and refinance mortgage loans.
- > US-based debt fund on providing a \$40 million term loan financing to a pan-European orthodontics business.
- > UK alternative lender on the acquisition of a portfolio of buy to let loans.



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