

Financial Meltdown Fears Don't Warrant Private Credit Regs

By **James Deeken** (May 5, 2026)

Recent withdrawals from business development companies have given new life to theories that the growth in private credit poses a risk to the financial system similar to what was posed by the mortgage crisis in 2008. These assertions are grabbing some headlines, but any argument that the private credit markets pose the same risk to the financial system that subprime mortgages did in 2008 is a questionable comparison.



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The subprime crisis partly occurred because the commercial banks put an excessively large amount of capital into one risky asset class in the residential real estate market. In contrast, private credit is diversified with loans to several different industries and, in many cases, different countries, with a number of private credit fund managers even running multiple lines of funds that focus on different industries or different geographic regions.

Any calls for, or questions about, new regulations would need to be carefully considered and not automatically linked to the subprime crisis as a comparison.

One central problem with the mortgage crisis was that it tied up bank balance sheets and made it impractical to lend. Private credit is different, as fund managers lend out of different funds with effectively multiple balance sheets. If one fund has a bad balance sheet, that does not prohibit another or successor fund under common management from lending.

In the current private credit market, lenders make loans and allocate capital to where they believe that it will generate the highest returns. It doesn't mean they are always right, but it does mean that, by their own volition, they are making what they believe to be good investment decisions.

The actions by private credit lenders are not monolithic. Some lenders may pass on a deal that others will underwrite. Some will be willing to underwrite the same deal but at higher interest rates and potentially lose the deal to the lender who may be willing to lend at lower interest rates.

The result of individual and differentiated decision-making is that loan portfolios and related risks are diversified. In the private market, there is no collective action where lenders act in unison to make one type of loan to a certain subset of borrowers.

The opposite happened in the run-up to the financial crisis in 2008. Large banks invested large amounts into subprime mortgages — as they were collectively encouraged, some would say pressured, to do so by the federal government — on the theory that the resulting influx of capital into the residential markets would make housing more accessible to more Americans.

That theory did not work perfectly, but that is not the point. The point is that with private credit, there is no government influence, at least currently, that encourages or forces private credit lenders to make loans that they otherwise may not wish to make after considering the potential risks and rewards of a loan. Unlike what happened in the financial crisis, a private credit lender has no external pressure or reason to make a loan that it

views to be too risky in relation to the potential reward.

Recent business development company withdrawals also don't force a private credit lender to make risky loans. To the extent they have any impact — and much of the impact is limited by slow-pay provisions — they would be expected to have just the opposite impact of leading lenders in that space to conserve cash assets or transfer loan assets to other private credit parties that move in as replacement lenders.

Lastly, it is easily lost in the news media reports about risk, but even though debt can be risky, it is generally safer than equity. When I was a bond trader, my boss often said: "If a company gets in trouble, the debt holders get paid before the equity holders."

So, where is all this fear headed? Fears will likely be increasingly used to make arguments that private credit, or as the regulatory advocates like to call it, shadow banking, needs new and more intensive regulations. However, any regulatory effort should tread lightly. Part of the impetus for new regulation comes from competitors of private credit lenders that have their own ulterior reasons for playing up the prospect of a crisis and advocating for regulation.

Private credit has played an important role in the market over the past decade, filling the lending void left by retracted commercial bank lending in the wake of Dodd-Frank Act regulation. The ability of private credit lending to emerge and fill that gap has helped provide needed financing to businesses and create jobs while furthering competition.

Any attempt to rein in private credit could have unintended consequences, and run the risk of creating a vacuum in the debt capital markets and a reduced money supply. The government does try at times to reduce the money supply, usually in efforts to control inflation. There, the policy is careful and deliberate.

In contrast, unintended contractions in the money supply caused by regulation or other government policy run the risk of furthering contracted growth or even a recession. It is hard to find any modern example where an unintended contraction in the money supply has produced a good result.

Claims of financial system risk caused by private credit, as well as claims of a need for increased regulation, can be considered, but they should be viewed with beady and careful eyes.

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