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The Banking Business Model and Why Private Lending Is Here to Stay



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When most people think about banks, they picture checking accounts, branches, and fees. In reality, the primary engine of bank profitability is much simpler: net interest income (“NII”). In 2025, more than half of JPMorgan Chase's $182 billion in revenue came from NII, the amount of interest the bank earned on loans and investments and what it paid depositors and other funding sources. **At its core, banking is a spread business.**

Consider a commercial real estate example.
A bank originates a $12 million multifamily loan at 5.5%, generating $660,000 of annual interest income. It funds the loan primarily with deposits and other borrowings costing about 3.0%, or $360,000 annually. The $300,000 difference is the bank's NII, equal to a 2.5% net interest margin (“NIM”).

A 2.5% return on assets may not sound compelling given the credit, interest-rate, liquidity, and operating risks involved. That’s because it’s not. But suppose the bank supports the $12 million loan with $11 million of deposits and other liabilities and only $1 million of shareholder equity. The $300,000 of net interest income is now earned on just $1 million of equity. Before operating expenses and credit losses, that is a 30% return on equity.

This is why a modest spread can become a powerful business model. A 2.5% return on assets becomes a 30% return on equity at roughly 12-to-1 leverage. Not coincidentally, that’s the same leverage ratio JPMorgan Chase utilized as of year-end 2025 ($4.4T Assets v. $362B Stockholders’ Equity).

Leverage magnifies profits but it also magnifies losses. The Global Financial Crisis showed how quickly falling collateral values and deteriorating credit quality can impair shareholder capital.

Regulators responded with stricter capital requirements, liquidity standards, stress testing, concentration guidance, and greater scrutiny of commercial real estate and construction lending.

The goal was to protect depositors and reduce systemic risk. The practical effect was to push banks toward the safest, most predictable loans. Stabilized multifamily, fully leased industrial, grocery-anchored retail, investment-grade tenants, and lower-leverage permanent loans fit more comfortably on a regulated balance sheet. Construction, lease-up, transitional assets, recapitalizations, and value-add business plans often do not.

That retreat created an opportunity.

The Rise of Private Lending

Over the past two decades, private lending has evolved from a niche strategy into a critical component of the commercial real estate capital markets. Debt funds have grown from approximately 3% of the market in 2013 to roughly 14% today. This is more than a temporary reaction to one credit cycle. It reflects a structural reallocation of lending activity from traditional depository institutions to private capital providers.

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CRE Financing Market Share

Lender Profile	2003	2013	2026
Debt Funds / Private Lending	~0%	3%	14%
Commercial & Regional Banks	60%	53%	38%
Others (Life Cos., CMBS, Agencies)	40%	44%	48%

Source: Federal Reserve, Trepp

Bank Constraints, Private Lending Opportunities

Regional and community banks, once a primary source of middle-market commercial mortgages, now face three enduring constraints:

- Regulatory concentration constraints. Federal banking regulators closely monitor institutions with elevated CRE and construction exposure. Banks approaching supervisory thresholds must allocate more capital, limit new originations, or allow existing loans to run off.
- Extension fatigue. Many lenders continue to manage legacy loans originated when interest rates were lower and property values were higher. Refinance shortfalls and stressed coverage ratios can require fresh equity before a conventional refinancing can close.
- Funding costs and liquidity. Deposits have become more rate-sensitive, while liquidity requirements consume balance-sheet capacity. Higher funding costs can pressure NIM and reduce the appeal of adding new, longer-duration CRE loans.

Importantly, this evolution is not simply a story of banks losing market share. Increasingly, banks and private lenders operate as partners. Banks can provide warehouse lines, note financing, and other forms of back leverage to private lenders, retaining lower-risk senior exposure while private lenders originate, structure, and manage the underlying loans. The result is a more specialized and interconnected lending ecosystem.

Buchanan Mortgage Holdings: Filling the Gap Since 2013

When Buchanan established its private lending platform in 2013, the commercial real estate debt market was still absorbing the regulatory aftershocks of the Global Financial Crisis. While market conditions have changed over the past 13 years, the structural void that gave rise to the platform has persisted and expanded.

Buchanan's strategy was built around four durable themes:

- Regional and community bank retrenchment. Bank failures, consolidation, and tighter oversight constrained regional balance sheets and reduced the supply of predictable bridge and construction financing for middle-market sponsors.

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- The flight-to-quality lending gap. Banks, life companies, and securitized lenders increasingly favored stabilized assets and highly predictable cash flows, leaving fewer options for properties requiring lease-up, repositioning, or business-plan execution.
- The premium for speed and certainty. Time-sensitive borrowers often need a lender capable of underwriting complexity and closing efficiently. Private lenders can earn premium pricing by delivering flexibility and execution certainty when regulated lenders cannot.
- The refinancing and maturity wave. A large volume of legacy CRE debt must be refinanced in a higher-rate, lower-value environment, creating capital shortfalls and a need for new financing solutions.

> “As long as there remains a difference between the loans banks prefer to make and the financing borrowers actually need, private lending will continue to play an increasingly important role in commercial real estate capital markets.”

Conclusion

Construction lending has become a particularly durable niche. High Volatility Commercial Real Estate (“HVCRE”) capital treatment and tighter internal risk limits have made many regional banks less interested in ground-up and major value-add financing. Buchanan's heritage as an owner, operator, and developer provides a practical advantage in evaluating construction risk, lease-up execution, repositioning plans, and the underlying real estate.

That experience allows Buchanan Mortgage Holdings to focus on quality borrowers, strong locations, and hard-asset collateral while pursuing opportunities that many traditional lenders find difficult or uneconomic to originate. Rather than replacing banks, Buchanan often occupies the space their leverage and regulatory obligations prevent them from serving efficiently.

Private lending emerged because regulators required banks to become more conservative lenders. As banks concentrated on lower-risk, lower-rate opportunities, a growing segment of the market still needed flexible capital, creative underwriting, and speed of execution. That gap created one of the most significant shifts in commercial real estate finance over the last two decades. At Buchanan, we believe that shift is not cyclical. It is structural. As long as there remains a difference between the loans banks prefer to make and the financing borrowers actually need, private lending will continue to play an increasingly important role in commercial real estate capital markets.



Chris Cervisi

Senior Vice President

Chris Cervisi is responsible for leading the debt investment team on behalf of Buchanan Mortgage Holdings (BMH) which includes sourcing, structuring, and underwriting bridge and construction loans. Chris has over 15 years of equity and debt experience across the major property types. Prior to joining Buchanan, he worked at Jupiter Holdings LLC where he was focused on acquisitions and asset management.



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Trevor Schuesler is responsible for leading Buchanan Street’s Investor Relations team as it relates to outreach, marketing, fundraising, reporting, and overall client management process. Mr. Schuesler has 16 years of experience in the investment industry, working as both a capital allocator and capital raiser for asset managers, family offices, and investment consultants.

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