Europe, the next frontier in asset-based finance

Banks in Europe – much like those in the US – are stepping away from many types of lending. Driven in part by stricter regulatory requirements, the retreat is expanding the opportunity set in private asset-based finance, a $ 6.3 trillion and growing market that provides much of the financing for the real economy.

By *James Sackett*

Loans are often underpinned by thousands of collateralized assets, from residential and commercial property to cars and personal healthcare expenses. When incorporated into investment portfolios, these assets typically offer steady and continuing interest income and may help investors diversify exposure to direct corporate lending, a core private credit strategy that generates income through corporate cash flows.

Europe's market is not as deep or standardized as its North American counterpart. Data quality, commercial dynamics, and cultural and legal landscapes differ by country and require differentiated solutions (see Figure 1).

The good news: market fragmentation creates inefficiencies, and informed investors and managers familiar with local jurisdictional nuances may be able to capitalize on them and potentially enhance returns.

Checking in on European consumers

There's another bright side to the market's fragmented nature: its complexity reduces competition and provides barriers to entry for less-established participants. But with euro-area growth sluggish, is now the time to lean into residential and consumer lending?

It's a fair question – and one that also applies to the US market. But we think it misses the bigger picture: the lending landscape in Europe varies from country to country, and for investors with jurisdictional expertise, we think there are plenty of opportunities to uncover value across geography and asset types.

Conservative borrowers, stronger credit quality

Even in countries where economic growth has been slow or stagnant, residential and consumer asset performance has been strong throughout the economic cycle, with low levels of defaults across residential and consumer asset classes.

Also, European borrowers tend to be more conservative, with higher average credit scores than those of borrowers in the US. This may be partly because European borrowers with mid-level or low credit scores often borrow less than similar US borrowers.

FIGURE 1: A TALE OF TWO CONTINENTS - ASSET-BASED FINANCE MARKET

	North America	Europe
Size	$3.6 trillion	$1.2 trillion
Key Geographies	2	20+
Legal Regime	Relatively Standardized • Creditor friendly	Heterogeneous • Credit protections vary by asset class
Data Quality and Depth	High Quality • Strong historical data	Mixed • Lack of historical data • Less consistency across jurisdictions, asset classes
Capital-Market Penetration and Execution	High • Multiple issues across asset classes • Deep investor base • Consistent pricing	Low • Thinner supply, investor base • Differentiated structures • Inconsistent pricing
Specialty Finance Lenders	Highly Competitive • Scaled businesses with high origination volume • Specialization by asset class	Less Competitive • Smaller businesses, lower origination volume • More product innovation

Source: Integer Advisors and AllianceBernstein (AB), as of December 31, 2024

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In our view, European loans’ more conservative profiles and consistent performance create an attractive dynamic for investors. European asset classes may have a high degree of operational or underwriting complexity, but this often means they generate additional yield potential without a commensurate increase in risk.

The bottom line: investors in Europe typically get paid for the complexity of transactions, not the credit risk.

Navigating the market: tourists need not apply

But diverse legal regimes, data quality and cultural habits also make it easier to get things wrong. That makes asset-based finance one slice of Europe where it’s not advisable to be a tourist. Deciding where to focus and how to approach each opportunity requires a strong grasp of jurisdictional differences. What works in the UK, Europe’s deepest and most advanced market, may not work in Germany. And it’s possible that neither approach will work in the Netherlands.

In some countries, for example, it can take as long as a decade before a lender is able to take possession of a residential property once a borrower defaults. This makes investment expertise across jurisdictions, loan originators and asset classes essential – and it’s something that US-only investors may lack.

Mapping the opportunity in Europe

The ability to invest across asset classes and sectors is important, too. That’s different from the US, where a deeper market makes it easier to specialize. In our view, blending exposure to residential, commercial and consumer debt may afford the best chance of generating stable and consistent returns.

For example, banks in many countries are years behind their US counterparts in exiting portfolios of residential loans where borrowers have been delinquent or in default but have since restarted payments. But regulators’ capital charges are more punitive in Europe, and high interest rates are adding to borrowers’ stress. This is creating opportunities for private investors to acquire, modify and service these assets.

Other opportunities across countries and asset types may include:

- Residential development loans in countries with structural housing shortages, such as the UK, Netherlands, and Ireland.
- Small and mid-sized commercial mortgage loans that carry punitive capital charges for banks.
- Point-of-sale loans to finance critical healthcare services, such as replacement dental surgery. Many national health systems struggle with staff shortages, patient backlogs and inadequate funding.

In these cases and others, strong loan sourcing and underwriting capabilities are essential. Doing both well requires analyzing nonbank loan platforms and originators’ lending activity and underwriting philosophy. Take healthcare: does the provider subsidize the cost of financing for the treatment to make it more affordable? If so, that may increase treatment volume and raise the quality of the loans.

From a big-picture perspective, an increasingly restrictive regulatory environment on both sides of the Atlantic suggests that nonbank lending growth will persist. The euro area may benefit from increased fiscal spending on infrastructure and defense while tariffs and other policies in the US are raising concerns about stagflation and growth. In our view, a global approach gives investors the best chance of boosting return potential and credit diversification. ■

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SUMMARY

European banks are reducing lending due to stricter regulations, creating growth opportunities in private asset-based finance.

Asset-backed loans provide steady income and diversification.

Europe’s fragmented market offers inefficiencies that savvy investors can capitalize on.

European borrowers have conservative profiles and strong credit quality.

Expertise across jurisdictions is essential due to varying legal systems.

Opportunities exist in residential, commercial, and consumer debt, especially in housing, healthcare, and small commercial loans.