STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

Bank Lending, NBFIs, and the Changing Architecture of Credit

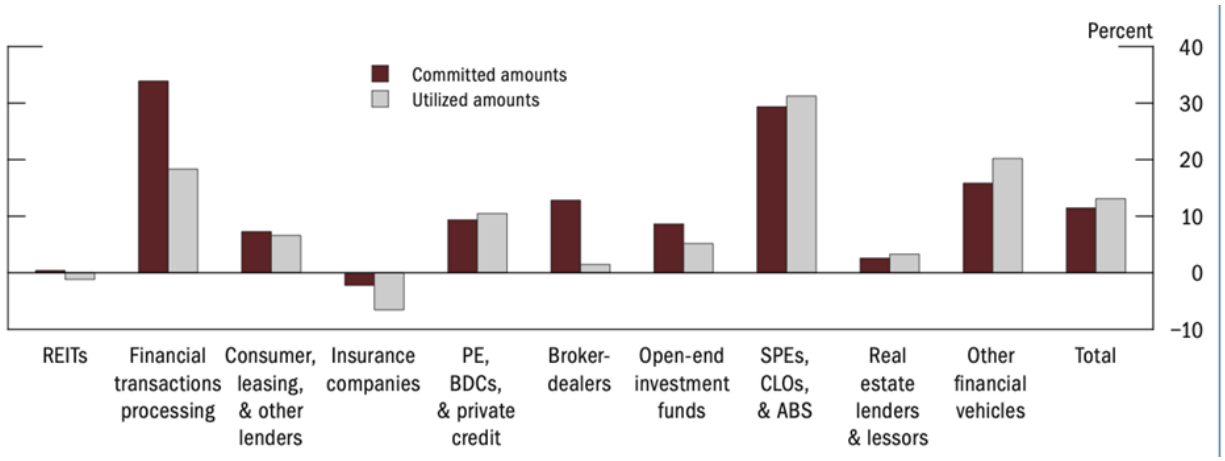
December 11, 2025

Bank Lending, NBFIs, and the Changing Architecture of Credit

Elen Callahan
Head of Research
203.512.0503

The Federal Reserve's November Financial Stability Report highlighted the expanding role of banks in financing nonbank financial intermediaries (NBFIs). In its section on Leverage in the Financial Sector, the Fed notes that "bank lending to other financial entities continued to grow at a robust pace," with total credit commitments to NBFIs—a measure that includes both the loans already funded and the undrawn credit lines, liquidity facilities, and other binding commitments that banks stand ready to provide—rising to $2.5 trillion in the first half of 2025. A substantial portion of this growth reflects increased bank lending to special-purpose entities (SPEs), CLO and ABS vehicles, private equity funds, BDCs, and private-credit lenders. Together, these relationships form an increasingly interconnected system in which bank credit supports origination, aggregation, securitization, and investment activities across the nonbank landscape.

Bank Credit Growth was Strongest for Special Purpose Entities, Collateralized Loan Obligations, and Asset-backed Securities between 2024:Q2 and 2025:Q2



Source: Federal Reserve Board, Form FR Y-14Q (Schedule H.1), Capital Assessments and Stress Testing.

The Fed's own classification of NBFIs help illustrate the range of these relationships. One group, that includes SPEs, CLOs, and ABS vehicles, are bankruptcy-remote entities used to warehouse loans, pool assets, or issue securitizations. These entities rely on banks for short-term financing that keeps origination pipelines moving. Another broad group labeled "other financial vehicles"—which include mortgage REITs, specialty finance companies, and structured credit funds—depend on bank credit to finance loan aggregation or market-based strategies. A third group, composed of private equity funds, BDCs, and private-credit funds, depend on subscription lines, NAV facilities, and term loans from banks to manage working capital and investment flows. When viewed together, these categories show how much lending and investment now takes place outside of banks, even as banks remain central in supporting these activities.

This aligns with findings from the July 2025 study from the Board of Governors and NY Fed titled "Shifting Dynamics in Bank Funding of NBFIs: The Rise of Credit Lines," which documents a major structural shift in how banks support NBFIs. Since 2012, on-balance-sheet bank funding to NBFIs fell—from approximately $2.4 trillion to $1.7 trillion—while off-balance-sheet credit lines more than doubled and now amount to roughly 3 percent of U.S. GDP. These credit lines serve as liquidity backstops in normal conditions, but during stress events they may be drawn simultaneously, creating a channel for stress to move through the system.

Academic scholars Viral V. Acharya, Nicola Cetorelli, and Bruce Tuckman note this shift in their NBER working paper—highlighted at the Federal Reserve Bank of Atlanta's 2025 Financial Markets Conference. As the table illustrates, functions that once sat squarely inside the banking system—such as corporate and mortgage lending, ABS and CLO origination, short-term funding, and even contingent liquidity provision—are now increasingly conducted by NBFIs. Banks no longer perform these activities directly to the same extent; instead, they finance and support them through warehouse lines, subscription credit facilities, collateralized lending, and other market-based mechanisms. In this structure, nonbanks now carry out activities once dominated by banks, while banks are linked through these nonbank credit flows through off-balance sheet commitments and funding channels. The result is a system in which credit intermediation is shared across both sectors.

Reflection of a Broader Transformation of Role of Banks

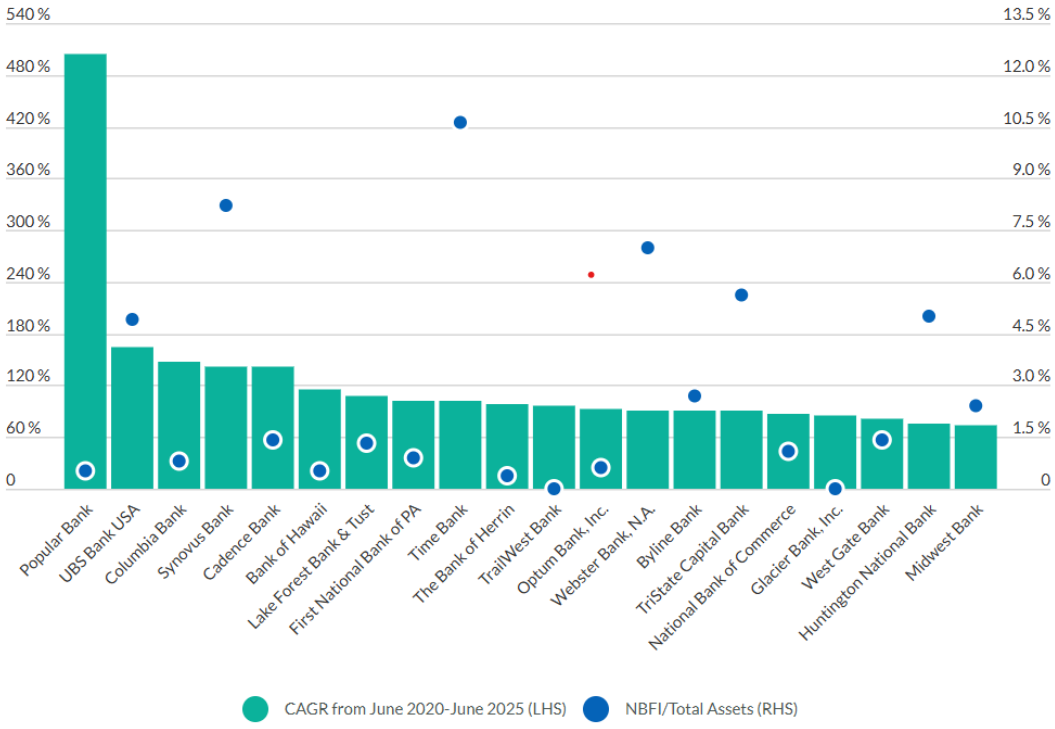
Activities Historically Within the Banking System	Transformation	Activities Spread Across Banks and NBFIs
• Corporate loans • Mortgage loans	Loans and Mortgages Loans shift from being made and held by banks to being made by NBFIs with collateralized or senior financing provided by banks.	• Banks make senior loans to private credit companies. • Banks make collateralized loans to mortgage REITs. • Banks hold senior tranches of MBS and CLOs.
• Mortgage, CLO, and other ABS origination • Acquisition/LBO financing • Mortgage servicing	Activities Using Short-Term Funding Activities that require short-term funding transform from being conducted and funded by banks to being conducted by nonbanks and funded by banks.	• Banks offer warehouse financing to nonbank mortgage, CLO, and other ABS originators. • Banks make short-term loans to private equity companies, including subscription finance lines and loans. • Banks sponsor CP or directly lend to nonbank mortgage servicers.
• Credit lines to nonfinancial businesses • OTC bilateral derivatives	Contingent Funding While the footprint of NBFIs has grown relative to that of banks, banks retain responsibility for providing contingent funding in the form of credit lines to the NBFI sector.	• Banks provide credit lines to NBFIs to be drawn down during periods of stress. • Banks bear mutualized counterparty risk as derivative clearinghouse members and provide credit lines to NBFIs to meet margin requirements.

Source: Banks and the Rise of Nonbanks in Credit Markets, Federal Reserve Bank of Atlanta, 2025 Financial Markets Conference Policy Session: The Rise of Nonbanks in Credit Markets, May 19, 2025

Bank-level data reflect this trend. In an October 2025 report, Fitch examines the phenomenon from the perspective of individual institutions and finds that NBFI exposure is rising most rapidly among mid-sized regional banks. For institutions with **$10–$250 billion in assets**, lending to NBFIs expanded at **roughly 35% per year**, far outpacing the industry-wide growth rate of **about 11%**.

Fitch underscores the risk implications of this shift. "The growing interconnectedness between banks and NBFIs is reshaping how credit, liquidity, and counterparty risk flow through the financial system. As exposures grow—especially among mid-sized regional banks—robust risk management and scenario-based stress testing become increasingly important, particularly amid rapid growth and potentially concentrated exposures," writes Julie Solar, Group Credit Officer, from the North America Financial Institutions group at Fitch Ratings.

Smaller Banks Growing Loans to NBFIs More Quickly Than Larger Peers



LHS - Left-hand side. RHS - Right-hand side. Data not adjusted for any acquisitions. Source: Fitch Ratings, S&P Capital IQ

Taken together, these developments highlight important considerations for policymakers, investors, and market participants. As liquidity commitments play a larger role in linking banks and NBFIs, stress in nonbank channels can transmit more quickly through funding facilities and contingent exposures, making these dynamics increasingly relevant to how supervision evaluates where and how credit is created today. Additionally, U.S. credit markets will continue to shift in ways that broaden both opportunities and interdependencies as nonbank channels continue expand, underscoring the importance of understanding the risks and benefits of these linkages.