

Faculti Summary

<https://faculti.net/how-does-bank-lending-to-non-banks-affect-credit-allocation-and-systemic-risk/>

The speaker discusses a paper that examines the growing trend of banks lending significant amounts of credit—over a trillion dollars in the U.S.—to non-bank financial institutions (NBFIs) instead of directly to corporations. This video shift raises concerns about credit allocation and systemic risk, particularly as lending patterns affect which businesses receive funding. Larger, safer corporations are losing access to credit, which is being redirected to smaller, riskier firms, potentially reducing economic activity.

The interconnectedness of banks and non-banks means that financial stress in the non-bank sector can adversely impact banks and the wider economy, creating contagion risks. The paper evaluates the policy implications of regulatory disparities between banks and non-banks, suggesting that more transparency and oversight are needed to mitigate these risks. It emphasizes the need for a balanced regulatory approach as both sectors increasingly interact, highlighting the importance of understanding their exposures and potential impacts on credit availability in the economy.