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

Here are five key points summarizing the video:

1. **Increased Bank Credit to Non-Banking Financial Institutions (NBFIs)**: There has been a significant rise in bank credit flowing into the non-banking sector, particularly highlighted by the fact that in the US, bank lending to NBFIs has exceeded one trillion dollars. This trend is not limited to the US but is also notable in Europe and emerging economies.

2. **Impact on Credit Allocation**: The paper indicates that as banks shift their credit from larger, older, and safer corporates to smaller, younger, and riskier borrowers associated with non-banks, this affects the overall credit availability for certain corporates, ultimately leading to a reduction in their capital investments and real economic activity.

3. **Systemic Risk Implications**: The interconnectedness of banks and non-banks poses systemic risks, as financial stress in the non-banking sector, which is less regulated than banks, can have contagion effects on banks and the broader economy, leading to a reduction in credit availability.

4. **Regulatory Effects on Lending Decisions**: The paper discusses how regulatory changes, such as modifications in risk weights for non-banks, influence banks' lending strategies. Banks might increase their credit to non-banks, detracting from their credit to corporate borrowers, particularly if they had no prior exposure to non-banks.

5. **Policy Recommendations**: The findings suggest the need for greater transparency in the linkages between banks and non-banks to better understand their exposures. Additionally, there is a call for reevaluating the regulatory framework for banks and non-banks to address the disparities and potential risks arising from the current regulatory landscape, ensuring both sectors are adequately supervised.