

Interconnectedness Risk from Bank Lending to Private Credit Funds is Limited

September 2026

The [Committee on Capital Markets Regulation](#) (the “Committee”) is a non-partisan research and advocacy organization with forty-six members drawn from the finance, business, law, accounting, and academic communities.

In recent years, the significant growth of private credit has raised questions about the role of private credit in the U.S. financial system and potential risks.

The Committee has therefore conducted a series of studies on private credit. We are now releasing a major new study examining the scale of U.S. bank lending to private credit vehicles (“[interconnectedness](#)”).

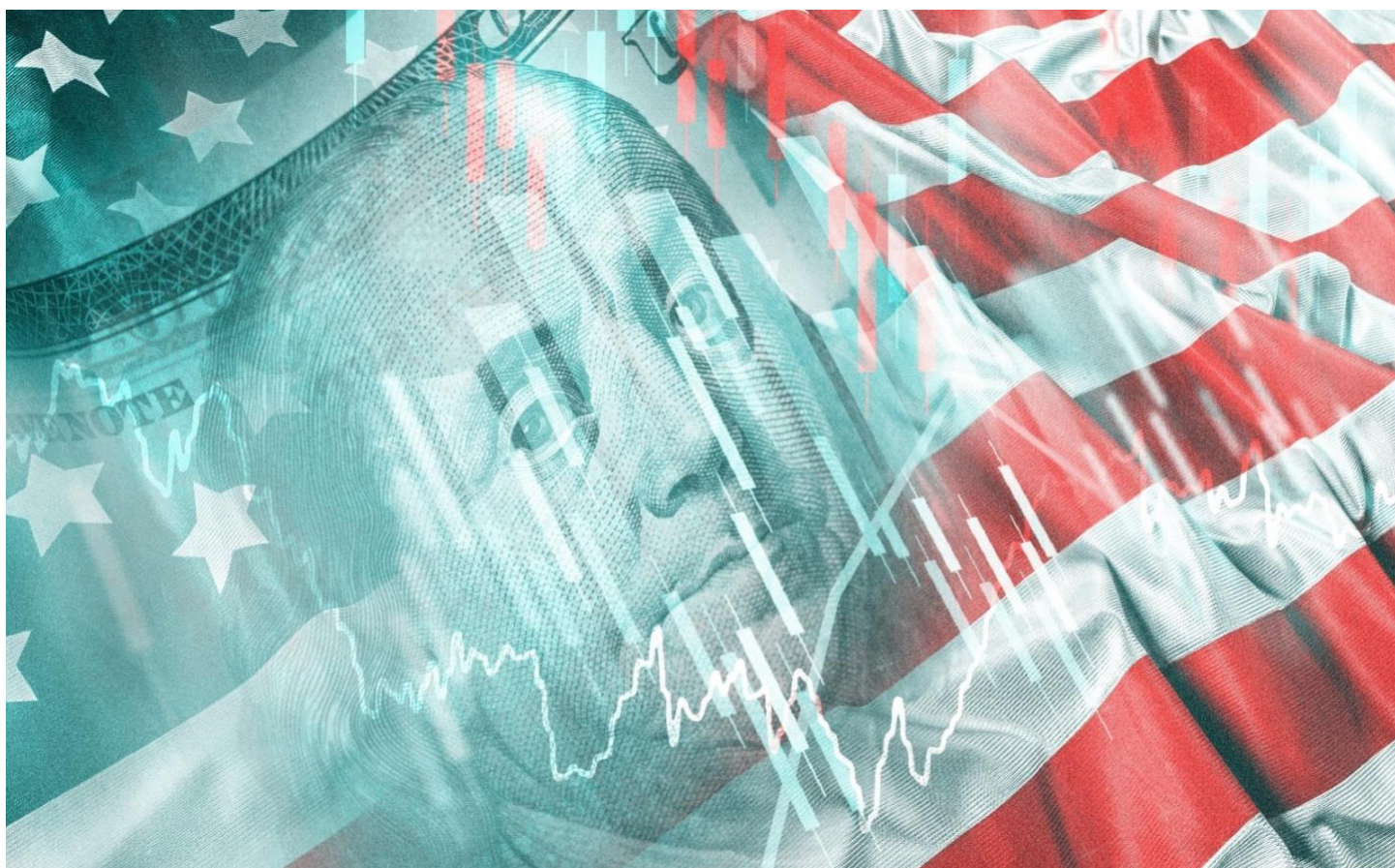
The study compiles data on lending by U.S. banks to private credit vehicles (including private debt funds and business development companies), with data extending from 2016 through 2025.

- **We find that, across the U.S. banking system, exposures to private credit vehicles represent less than 5% of loss-absorbing capital and less than 2% of liquid assets.**
- **We find no statistically significant relationship between a bank’s exposure to private credit and measures of systemic risk.**

Together, these findings indicate that interconnectedness risk from bank lending to private credit is limited relative to bank capital and liquidity and is not associated with higher market-based indicators of systemic risk.

If you have any questions regarding the Committee’s study, please reach out to the Committee’s Executive Director, John Gulliver, at jgulliver@capmksreg.org.

PRIVATE CREDIT & BANK INTERCONNECTEDNESS



SEPTEMBER 2026

The Committee on Capital Markets Regulation (the “Committee”) is an independent 501(c)(3) research organization, financed by contributions from individuals, foundations, and corporations. The Committee’s membership includes forty-six leaders drawn from the finance, business, law, accounting, and academic communities. The Committee Co-Chairs are R. Glenn Hubbard, Dean Emeritus of Columbia Business School, and John L. Thornton, Former Chairman of the Brookings Institution. The Committee’s President is Hal S. Scott, Emeritus Nomura Professor of International Financial Systems at Harvard Law School and President of the Program on International Financial Systems. Founded in 2006, the Committee undertook its first major report at the request of the incoming U.S. Secretary of the Treasury, Henry M. Paulson. Almost twenty years later, the Committee’s research continues to provide policymakers with an empirical and non-partisan foundation for public policy.

The Committee would like to thank the Managed Funds Association for its support of this research.

**Private Credit &
Bank Interconnectedness**

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I. Introduction

The U.S. private credit market has expanded considerably over the past decade, reaching an estimated \$1.8 trillion in assets as of April 2026.¹ Despite this growth, private credit remains modest relative to the broader U.S. corporate credit market, accounting for only 10% of total nonfinancial corporate debt.²

Its rapid growth has nonetheless drawn considerable attention, particularly around the question of whether bank lending to private credit vehicles constitutes a channel of systemic risk.³ In particular, because private credit vehicles borrow from banks to help fund their own lending (“**interconnectedness**”), the question has been raised whether severe losses within a private credit vehicle’s loan portfolio could be transmitted to banks with concentrated exposure.⁴ This study by the Committee on Capital Markets Regulation focuses on this direct-lending channel.

Whether interconnectedness in fact poses a systemic risk to the U.S. financial system requires answering two related empirical questions: (1) How large are U.S. banks’ exposures to private credit vehicles in dollar terms and relative to U.S. banks’ regulatory capital and liquid assets; and (2) Do banks with greater exposure exhibit higher systemic risk than banks with less exposure?

Existing research on these questions is limited. The most relevant study, published by the Federal Reserve in 2025, examines U.S. bank lending to private credit vehicles but is limited to confidential supervisory data covering only thirty to forty of the largest U.S. banking organizations and does not test whether that exposure is associated with elevated systemic risk.⁵ Our study answers both questions using a comprehensive, publicly sourced, and hand-collected dataset of U.S. bank lending to private credit vehicles, spanning nearly all U.S. banks.⁶

¹ PREQIN, *Private Credit: Convergence Unlocks Conviction*, <https://www.preqin.com/solutions/private-credit> (last visited Sept. 8, 2026).

² BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, *Financial Stability Report* at 43 (May 2026), <https://www.federalreserve.gov/publications/files/financial-stability-report-20260508.pdf> (reporting that private credit loans accounted for approximately 10% of total U.S. nonfinancial corporate debt as of the second half of 2025).

³ See, e.g., Isaac Taylor, *Private-Credit Growth Fueled by Banks May Pose Risks*, THE WALL STREET JOURNAL (May 21, 2025), <https://www.wsj.com/articles/private-credit-growth-fueled-by-banks-may-pose-risks-f5b845db>; see also, e.g., Ortenca Aliaj, *Rise in Loans to US Non-Bank Financial Groups Raises Systemic Risk Fears*, FINANCIAL TIMES (May 19, 2025), <https://www.ft.com/content/8da75eba-bf80-4d31-ba49-1a4133e390c0?syn-25a6b1a6=1>; Andrew Ross Sorkin, *The Rules of Investing Are Being Loosened: Could It Lead to the Next 1929*, THE NEW YORK TIMES MAGAZINE (Oct. 13, 2025), <https://www.nytimes.com/2025/10/13/magazine/investing-private-equity-crypto-crash-1929.html>.

⁴ See, e.g., INTERNATIONAL MONETARY FUND, *The Risk and Risks of Private Credit*, Chapter 2 of *Global Financial Stability Report* (Apr. 2024), <https://www.imf.org/-/media/files/publications/gfsr/2024/april/english/ch2.pdf>.

⁵ Jose Berrospide et al., *Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications*, FEDS Notes (May 23, 2025), <https://www.federalreserve.gov/econres/notes/feds-notes/bank-lending-to-private-credit-size-characteristics-and-financial-stability-implications-20250523.html> (hereinafter, “**2025 Fed Study**”).

⁶ We define a “U.S. bank” as an FDIC-insured commercial bank or savings institution that files a quarterly Call Report.

We then test directly whether greater exposure is associated with higher systemic risk, measured using two established market-based indicators: marginal expected shortfall (“MES”) and equity volatility. MES measures a bank’s expected equity losses during a period of severe market-wide stress, and equity volatility measures the degree to which a bank’s stock price fluctuates over time.

We find that, as of 2025, U.S. banks’ exposure to private credit vehicles through direct lending,⁷ using our broadest measure across our full sample of U.S. banks, reached \$107.0 billion. Of that total, \$98.4 billion originated from banks with assets over \$100 billion – i.e., those required to file FR Y-14 data with the Federal Reserve (“large banks”). This level of exposure is low relative to the capital banks hold to absorb losses. More specifically, total bank lending to private credit represents only 4.58% of common equity Tier 1 (“CET1”)⁸ capital across our full sample of U.S. banks and 7.80% of CET1 capital at large banks. Even a 50% loss given default rate on banks’ private credit exposures, more than double the average loss given default observed over the past decade,⁹ would leave 97% of the U.S. banking system’s and 96% of large banks’ regulatory capital intact.

We also find no statistically significant relationship between greater bank exposure to private credit and either of our two systemic risk measures.

These findings indicate that greater bank exposures to private credit are not significantly associated with either measure of systemic risk we examine, though our analysis does not test every potential channel through which private credit could transmit stress to the banking system.

The remainder of this paper proceeds as follows. Part II provides background on bank lending to private credit vehicles. Part III discusses other channels of bank exposure to private credit and private markets. Part IV reviews the existing literature relevant to bank lending to private credit vehicles and the measurement of systemic risk. Part V describes our data and methodology. Part VI presents our findings on the scale of bank exposure to private credit vehicles. Part VII presents our findings on the relationship between private credit exposure and systemic risk. Part VIII concludes.

⁷ “Direct lending” refers to a bank loan made directly to a private credit vehicle – whether bilateral, syndicated, or revolving – as distinguished from indirect channels of exposure, such as synthetic risk transfers or common borrowers, that do not involve a lending relationship between the bank and the private credit vehicle.

⁸ Under Basel III capital standards, banks are generally required to maintain CET1 capital equal to at least 4.5% of risk-weighted assets, plus applicable buffers. CET1 is the highest-quality form of regulatory capital, consisting primarily of common stock and retained earnings.

⁹ See Ted Berg and Jung Hoon Lee, *Measuring Counterparty Exposures to Private Credit*, OFFICE OF FINANCIAL RESEARCH (Mar. 12, 2026), <https://www.financialresearch.gov/briefs/files/OFRBrief-26-02-measuring-counterparty-exposures-private-credit.pdf> (estimating that loss given default rates on bank lending to private credit vehicles averaged 21% on a value-weighted basis from 2014 through 2024).

II. Bank Lending to Private Credit Vehicles

Private credit vehicles raise capital from institutional investors and use it to lend directly to middle-market borrowers.¹⁰ We define private credit as private debt funds and business development companies (“BDCs”), consistent with the Federal Reserve’s 2025 study.¹¹ BDCs are closed-end investment companies that are significant lenders to small and middle-market U.S. businesses.¹²

Loans may be extended on a syndicated basis, with multiple banks participating in the same facility, or on a non-syndicated basis through a bilateral loan between a single bank and the private credit vehicle.¹³ In either form, the borrowed funds provide private credit vehicles with capital to fund their investment activities in addition to the capital provided by the funds’ investors. Private credit vehicles are typically funded with long-term capital committed by institutional investors, in contrast to banks, which fund a portion of their lending with deposits and other shorter-term liabilities. This distinction is one reason private credit vehicles are less susceptible to runs, forced asset sales, and other channels of financial amplification than banks.

A key distinction in assessing bank exposure to private credit vehicles is between committed and drawn credit. Committed credit is the total amount a bank has agreed to make available to a private credit vehicle under a loan agreement. Drawn credit is the portion of the committed credit the private credit vehicle has borrowed, while undrawn credit is the remaining amount available to be borrowed. Although undrawn commitments do not expose banks to credit losses until funded, they create potential future liquidity obligations and increase credit exposure when drawn. Our analysis therefore focuses on committed credit, which captures both drawn exposure and the contingent liquidity risk of undrawn amounts and therefore presents a more complete picture of potential exposure than drawn credit alone.

We quantify the extent to which bank lending to private credit vehicles has increased over the past several years in absolute terms and relative to bank assets, regulatory capital, and liquid assets. The analysis has systemic risk implications in particular because private credit vehicles are financed in part through bank lending, and their borrowers have historically been concentrated in middle-market companies with limited access to public capital markets, though the borrower base

¹⁰ COMMITTEE ON CAPITAL MARKETS REGULATION, *Examining the Relationship Between Bank Lending and Private Credit* at 4 (Sept. 2025), <https://capmktsreg.org/wp-content/uploads/2025/09/CCMR-Private-Credit-Study-2025.pdf> (describing the private credit landscape, including the distinction between private credit closed-end funds and business development companies).

¹¹ 2025 Fed Study. This definition captures the sub-investment grade, direct lending segment of the private credit market – loans extended through levered, closed-end fund vehicles to middle-market borrowers without regular access to public capital markets. Other definitions of private credit that include investment grade credit to large, rated borrowers do not invite the types of systemic vulnerabilities considered in this study.

¹² 15 U.S.C. § 80a-2(48); *see also* U.S. SECURITIES AND EXCHANGE COMMISSION, *Glossary: Business Development Company (BDC)*, <https://www.sec.gov/resources-small-businesses/glossary#B> (last visited Sept. 8, 2026). Note that certain BDCs have open-end-like features despite being statutory closed-end investment companies.

¹³ Berg and Lee, *supra* note 9, at 6.

has broadened significantly to include larger companies.¹⁴ As such, a sustained downturn in private credit performance could, in theory, transmit losses to banks. Whether those losses would be large enough to meaningfully amplify broader financial market stress is an empirical question. Our study assesses the scale of this channel and whether it is sufficiently correlated with broader market stress to constitute a source of systemic risk.

¹⁴ INTERNATIONAL MONETARY FUND, *supra* note 4, at 54.

III. Other Channels of Bank Exposure to Private Credit and Private Markets

Our focus on direct lending isolates one channel of interconnectedness between banks and private credit funds. The Financial Stability Board (“FSB”) identifies four other channels of interconnectedness between banks and private credit: (i) common borrowers, where banks and private credit funds lend separately to the same companies; (ii) bank investments in senior tranches of private-credit collateralized loan obligations (“CLOs”); (iii) strategic partnerships, including forward-flow arrangements, in which banks originate loans for sale to private credit funds; and (iv) synthetic risk transfers, in which banks transfer to private credit funds the credit risk on loans made to operating companies while retaining those loans on their balance sheets.¹⁵ As we explain below, each of these interconnectedness channels creates an economic exposure different from that created by the direct-lending relationship examined in this study.

1. Common borrowers

When a bank and private credit fund lend separately to the same borrower (i.e., a common borrower), both are exposed to the borrower’s credit risk and may incur correlated losses if the borrower defaults. This differs fundamentally from the direct-lending channel as it does not itself create a credit exposure of the bank to the private credit fund. Rather, the bank and the fund are independently exposed to the same operating company. Assessing this channel therefore requires borrower-level analysis of overlapping bank and private credit exposures, rather than the vehicle-level counterparty analysis conducted here.

We are not aware of an empirical study that examines this full interconnectedness channel. Haque et al. (2026) document substantial overlap between bank and private-credit borrowing, finding that roughly half of the 5,800 private credit borrowers in their sample also borrow from banks.¹⁶ This establishes the potential for common-borrower interconnectedness. The FSB likewise identifies overlapping bank and private-credit exposures as an area for enhanced surveillance.¹⁷ However, Haque et al. do not estimate the potential for correlated losses across a bank’s and a private credit fund’s exposures to the same company.

2. CLO investments

Banks may also gain exposure to private credit by investing in senior tranches of securitized pools of private credit loans known as CLOs. This form of exposure to private credit differs from direct lending because the CLO investment does not create a credit exposure to the private credit fund

¹⁵ See FINANCIAL STABILITY BOARD, *Report on Vulnerabilities in Private Credit* (May 6, 2026), <https://www.fsb.org/uploads/P060526.pdf> (hereinafter, “2026 FSB Study”).

¹⁶ Sharjil Haque, Simon Mayer, and Irina Stefanescu, *Private Debt versus Bank Debt in Corporate Borrowing*, SSRN Paper (Jul. 31, 2026), <https://dx.doi.org/10.2139/ssrn.4821158>.

¹⁷ See 2026 FSB Study at 47-48, Annex 2 (identifying U.S. data limitations and proposing enhanced-surveillance metrics for bank-private credit fund overlaps in corporate portfolios and borrowers financed by both banks and private credit funds).

that originated the underlying loans. The bank's risk depends instead on the performance of the underlying loans and the seniority of the bank's tranche relative to other tranches of the CLO. Assessing this risk requires a separate analysis of each CLO's structure and loss allocation. The FSB estimates that approximately \$155 billion of U.S. private-credit CLOs were outstanding as of October 2025 but does not provide a comprehensive estimate of U.S. banks' holdings of those securities.¹⁸ We are not aware of any empirical study that provides such an estimate, nor of a comprehensive public data source that would permit an analysis of banks' private-credit CLO holdings to be conducted.

3. *Strategic partnerships and synthetic risk transfers*

In strategic partnerships, banks originate loans that private credit funds agree to purchase, shifting the resulting credit exposure to the funds. Synthetic risk transfers similarly move credit risk on pools of bank-originated loans to private credit funds, reducing banks' exposure even where the underlying loans remain on their balance sheets. Both such channels thus transfer credit risk away from banks, in contrast to the direct credit exposure examined in this study. Furthermore, in neither case does the transaction create a direct credit claim by the bank on the private credit fund. Any separate financing that the bank extends to the fund in connection with a strategic partnership or synthetic risk transfer would constitute the direct-lending exposure measured in this study.

We are not aware of any study that comprehensively measures either of these bank-private credit interconnectedness channels. Strategic partnerships, including forward-flow loan sales, are not subject to systematic reporting that would permit their aggregate volume or banks' retained exposure to be measured. And although some studies measure the overall volume of bank assets subject to synthetic risk transfers,¹⁹ none provides an estimate of the portion in which private credit vehicles assume the transferred credit risk.

To the extent banks also hold equity interests in private credit vehicles, those investments create a different form of risk, as banks become directly exposed to changes in the performance of the underlying loans rather than merely facing credit risk from the private credit vehicle itself.

Overall, a broader analysis encompassing all forms of bank interconnectedness and exposure to private credit would address an important but distinct question, although it could also obscure whether direct lending to private credit vehicles, considered on its own, constitutes a meaningful source of systemic risk. Focusing on direct lending allows us to identify the specific risk arising from banks' extension of credit to private credit vehicles themselves, rather than combining economically distinct exposures with different counterparties and loss mechanisms. This focus

¹⁸ 2026 FSB Study at 17.

¹⁹ See BASEL COMMITTEE ON BANKING SUPERVISION, *Synthetic Risk Transfers* (Feb. 17, 2026), <https://www.bis.org/publications/synthetic-risk-transfers>; Prashant R. Babu, Michael Chui, and Costas Stephanou, *The Rise and Risks of Synthetic Risk Transfers*, BIS QUARTERLY REVIEW (Mar. 16, 2026)

permits a more precise assessment of the marginal effect of direct lending on bank capital and liquidity and facilitates comparison with the Federal Reserve's analysis of the same exposure.

Banks also have other exposures to private markets beyond private credit. These may include lending to private equity funds, financing portfolio companies owned by private equity sponsors, and other credit exposures to private-market vehicles and transactions. Although such exposures may raise important financial stability questions, they involve different counterparties and risk-transmission mechanisms from those involved in the bank-to-private-credit lending relationship examined in this study. Evaluating those exposures would entail a broader inquiry into banks' overall private-market activities, which is important but beyond the scope of the specific question on private credit addressed here.

IV. Literature Review

The most relevant research related to this study is Berrospide et al. (2025) (“**2025 Fed Study**”). The study is authored by Federal Reserve economists using confidential supervisory data from the thirty to forty U.S. banks that are required to file Form FR Y-14.²⁰ The study finds that committed credit lines from large U.S. banks to private credit vehicles grew to \$95 billion by the end of 2024.²¹ The study estimates that these committed credit lines represented approximately 7% of the relevant banks’ regulatory capital on average.²² In addition, credit commitments to private credit vehicles represented just 4.1% of the \$2.2 trillion in total bank credit commitments to all nonbank financial institutions.²³ The 2025 Fed Study also finds that banks’ private credit exposures have become more diversified across vehicles over time,²⁴ and that banks’ exposures to private credit vehicles are generally well-collateralized, exhibit low delinquency rates, and often carry investment-grade ratings.²⁵ However, since the study relies on supervisory data submitted only by the largest U.S. banks, it does not cover the broader U.S. banking sector, nor does it examine whether bank-level private credit exposure is associated with elevated systemic risk measures.

A related study by economists at the Treasury Department’s Office of Financial Research (Berg and Lee (2026)) examines confidential Form PF data on private funds and confidential FR Y-14 supervisory data on banks.²⁶ Using the Form PF data, the study estimates that total lending to private credit vehicles as of year-end 2024, including lending from banks and nonbanks, was between \$410 billion and \$540 billion.²⁷ Using the FR Y-14 data, the study estimates \$123 billion of committed bank exposure to private credit vehicles in 2024, compared with the 2025 Fed Study’s estimate of \$95.3 billion based on the same underlying data.²⁸ The difference likely reflects variation in how private credit vehicles are identified. Berg and Lee (2026) acknowledge that “[i]dentifying private credit funds is challenging because the process is manual, resource intensive,

²⁰ 2025 Fed Study.

²¹ *Id.* at Section 1.

²² *Id.* at Section 3.1.

²³ *Id.*

²⁴ *Id.* at Figure 5.

²⁵ *Id.* at Table 1. The Fed’s findings on credit ratings reflect banks’ own internal risk ratings, reported on FR Y-14Q Schedule H.1, rather than public NRSRO bond ratings. The study reports an average internal rating of BBB for both BDC and private debt fund exposures, with 62% of BDC loans and 68% of private debt fund loans rated investment-grade or better as of the fourth quarter of 2024. *See also* Gregor Matvos, Tomasz Piskorski, and Amit Seru, *Private Credit, Balance Sheets and Financial Stability*, NBER Working Paper No. 34991 (Aug. 2026), <https://www.nber.org/papers/w34991> (finding that private credit funds’ equity typically accounts for 65-80% of total assets, compared with approximately 10% for U.S. banks, and that fund lives generally span 8-12 years while the underlying loans typically mature within 2-4 years, so that loan cash flows are typically realized well before a fund reaches liquidation).

²⁶ Berg and Lee, *supra* note 9.

²⁷ *Id.* at 4.

²⁸ *Id.* at 3; 2025 Fed Study at Section 3.

and imperfect.”²⁹ This identification challenge may be addressed in part by future changes to Form PF. In April 2026, the SEC and CFTC requested comment on whether Form PF should include a dedicated private credit section and, if so, whether it should collect information on funds’ financing counterparties.³⁰

Because the 2025 Fed Study covers 12 years of quarterly data, whereas Berg and Lee (2026) examine only a single quarter, we benchmark our estimates against the 2025 Fed Study.³¹ Despite their differing exposure estimates, both studies conclude that banks’ private credit exposures are generally well-collateralized and exhibit favorable credit-risk characteristics relative to other bank lending.³² Neither study, however, examines whether greater bank-level exposure to private credit is associated with higher systemic risk.

Other studies examine bank lending to nonbank financial institutions more broadly, without isolating private credit exposure from private equity exposure. This limitation constrains their usefulness for assessing the private-credit-specific financial stability questions this study addresses. The IMF’s October 2025 *Global Financial Stability Report* estimates that U.S. banks had extended \$497 billion in total committed credit lines to private equity and private credit funds combined as of the second quarter of 2025, based on the public disclosures of 134 U.S. banks.³³ Similarly, Levin and Malfroy-Camine (2025), economists at the Federal Reserve Bank of Boston, use confidential FR Y-14Q supervisory data to examine the thirty-one U.S. banks subject to the 2024 Federal Reserve stress test and estimate that these banks had extended approximately \$300 billion in committed credit lines to private equity and private credit funds combined as of 2023, representing 14% of the banks’ total lending to nonbank financial institutions.³⁴

However, because neither study distinguishes private credit exposure from private equity exposure, neither identifies the scale of bank exposure specifically to private credit vehicles or assesses whether that exposure impacts bank resilience or systemic risk. Although a bank’s broader counterparty exposure may span both strategies, the underlying activities are economically distinct

²⁹ Berg and Lee, *supra* note 9, at 2.

³⁰ SEC & CFTC, Form PF; Reporting Requirements for All Filers, Release No. IA-6959 (Apr. 24, 2026) (requesting comments as part of proposed Form PF amendments).

³¹ Berg and Lee, *supra* note 9 at 3; 2025 Fed Study at Section 1.

³² Berg and Lee, *supra* note 9, at 8; 2025 Fed Study at Section 6.

³³ INTERNATIONAL MONETARY FUND, *Global Financial Stability Report, Shifting Ground Beneath the Calm* at 23 (Oct. 2025), <https://www.imf.org/en/publications/gfsr/issues/2025/10/14/global-financial-stability-report-october-2025>.

³⁴ John D. Levin and Antoine Malfroy-Camine, *Bank Lending to Private Equity and Private Credit Funds: Insights from Regulatory Data* at 2-3, FEDERAL RESERVE BANK OF BOSTON (Feb. 5, 2025), <https://www.bostonfed.org/publications/supervisory-research-and-analysis-notes/2025/bank-lending-to-private-equity-and-private-credit-funds.aspx>.

and present different risk profiles.³⁵ We therefore isolate bank lending to private credit vehicles, consistent with the approach taken in the Federal Reserve’s 2025 study.

The FSB’s May 2026 report on private credit vulnerabilities examines bank lending to private credit funds across multiple jurisdictions.³⁶ For purposes of its report, the FSB adopts a definition of private credit that it expressly states is consistent with both the Federal Reserve’s 2025 study and the IMF’s 2024 *Global Financial Stability Report*, and is thus consistent with the definition used in our report.³⁷ In discussing interconnectedness between U.S. banks and private credit, the FSB reports U.S. bank commitments to private credit funds of less than \$100 billion in 2024, based on Federal Reserve analysis and consistent with the findings of the 2025 Fed Study.

The FSB separately notes that certain private-sector analyses use a broader definition of private credit and therefore produce higher estimates of bank exposure.³⁸ For example, Moody’s reports approximately \$300 billion of drawn U.S. bank loans using a measure that captures lending not only to private credit funds and BDCs, but also to other entities and vehicles, including finance companies, special purpose entities, collateralized debt obligations, collateralized loan obligations, and nonbank business lenders such as online marketplace lenders.³⁹ We use the definition adopted by the Federal Reserve, IMF, and FSB because it is the definition used in regulatory and supervisory analyses and is therefore most relevant to assessing systemic risk through the direct-lending interconnectedness channel examined here.

In summary, the existing literature remains limited in three important respects. First, studies focused specifically on private credit generally cover only thirty to forty of the largest U.S. banks, leaving exposures across the broader banking system largely unmeasured. Second, studies using broader bank samples combine private credit and private equity exposures, limiting their relevance to private-credit-specific questions. Third, no existing study tests whether a bank’s private credit exposure is associated with higher measures of systemic risk.

To address these gaps in the literature, we examine bank exposure to private credit across a broader sample of U.S. banks and directly test whether a bank’s private credit exposure is associated with systemic risk. We employ methodologies developed in the academic research on systemic risk in

³⁵ A further assessment of interconnectedness might also examine bank lending to the private equity sponsors that own or control the portfolio companies financed by private credit vehicles, since a stress event affecting a portfolio company could simultaneously affect the private equity sponsor, the private credit fund, and any bank lender to that fund. That broader mapping of interconnectedness is beyond the scope of this study, which focuses on banks’ direct lending relationships with private credit vehicles.

³⁶ 2026 FSB Study.

³⁷ See 2026 FSB Study at 5 (noting that its definition is consistent with IMF and Fed publications on the topic).

³⁸ *Id.* at 11.

³⁹ MOODY’S, *US Banks’ Private Credit Loan Exposure Nears \$300 Billion* (Oct. 21, 2025), <https://www.moody.com/web/en/us/insights/data-stories/breakdown-of-banks-annual-reporting-on-private-credit.html>

the aftermath of the 2007-2009 global financial crisis, which provide standard tools for measuring an individual financial institution's contribution to systemic risk. In particular, Acharya et al. (2017) develop a systemic risk variable known as "marginal expected shortfall" ("MES"), a measure of an institution's expected equity losses conditional on a severe decline in the broader financial market.⁴⁰ The Bank for International Settlements has identified MES among the leading market-based indicators used by researchers and regulators to assess systemic risk contributions.⁴¹ This study applies MES, together with equity volatility as a complementary market-based indicator, to test whether bank-level private credit exposure is associated with elevated systemic risk.

⁴⁰ Viral V. Acharya et al., *Measuring Systemic Risk*, 30(1) THE REVIEW OF FINANCIAL STUDIES 2 (2017).

⁴¹ Gabriele Galati and Richhild Moessner, *Macroprudential Policy – A Literature Review* at 17, BANK FOR INTERNATIONAL SETTLEMENTS Working Paper No. 337 (Feb. 2011), <https://www.bis.org/publ/work337.pdf>

V. Dataset Construction

Constructing a comprehensive sample of bank lending to private credit vehicles requires manual collection and aggregation of data across multiple sources. Bank lending to private credit can take the form of both syndicated and non-syndicated loans with the private credit borrower being either a private debt fund or a BDC.⁴² Our data collection process entails collecting data on syndicated loans, which include loans to both private debt funds and BDCs, and collecting separate data on loans to BDCs, which include both syndicated and non-syndicated loans. We then combine the datasets to construct a broader dataset of bank lending to private credit vehicles.

1. Syndicated loan data

We use Datastream’s syndicated loan database to identify syndicated loans in which a U.S. bank serves as lender and the borrower is a private debt fund or BDC over the period from 2016 through 2025. Datastream compiles syndicated loan data from multiple sources, including borrower SEC filings and other public sources, as well as information provided by loan arrangers and other lenders. As such, its coverage does not rely on voluntary reporting by banks.⁴³ For each syndicated loan, we identify the individual bank members of the lending syndicate and the loan amount allocated to each lender. Our resulting syndicated loan dataset includes 1,055 loans.

2. BDC loan data

BDCs are required to disclose their borrowing arrangements in publicly available SEC Form 10-Q and 10-K filings.⁴⁴ We examine all Forms 10-Q and 10-K filed by BDCs from 2022 through 2025, beginning with the first year in which the SEC required BDCs to report this information in a machine-readable format. Because comparable BDC data is not available before 2022, our BDC dataset consists of four years rather than ten.

For each BDC, we construct an annual loan-exposure measure by averaging its reported exposure across the four quarters of the year. Because some BDC filings report only drawn amounts, we estimate total commitments using the average draw rate among BDCs that report both drawn and committed amounts. The 2025 Fed Study applies a similar approach.⁴⁵ Using drawn amounts alone would systematically understate exposure and make those observations inconsistent with our commitment-based measure. Our approach instead uses observed draw rates from the same BDC

⁴² See Berg and Lee, *supra* note 13.

⁴³ Gregory J. Cohen et al., *The U.S. Syndicated Loan Market: Matching Data*, Finance and Economics Discussion Series 2018-085, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (2018), <https://doi.org/10.17016/FEDS.2018.085>.

⁴⁴ Anna T. Pinedo, Brian Hirshberg, and Shayda Milani, *Business Development Company Guide for Capital Markets*, MAYER BROWN LLP (May 2022), <https://www.mayerbrown.com/-/media/files/perspectives-events/publications/2022/05/business-development-company-guide-for-capital-markets.pdf>.

⁴⁵ See 2025 Fed Study.

population, although it assumes similar draw rates among BDCs that report both amounts and those that do not. Our resulting BDC loan dataset includes 5,963 BDC loans.

3. *Combined dataset*

To construct our broadest measure of bank lending to private credit vehicles, we combine the syndicated loan dataset with the BDC loan dataset. However, we cannot add the two datasets because syndicated loans to BDCs appear in both datasets and would therefore be double counted. To eliminate this overlap, we combine the BDC loan dataset with only syndicated loans to private debt funds. The resulting combined dataset provides our broadest measure of U.S. bank lending to private credit vehicles from 2022 through 2025. As noted above, the combined dataset does not capture non-syndicated lending to private debt funds, which may partially explain the 10% gap between our estimates and the Federal Reserve’s findings, as discussed below. Moreover, the BDC exposures reflect annual averages of quarterly loan amounts rather than year-end amounts.

4. *Balance sheet measures*

Since the same dollar amount can represent differing risk levels depending on the bank’s available capital and liquidity, the absolute dollar level of bank lending to private credit vehicles does not reveal the significance of the exposure to the bank. We therefore also collect three bank-level metrics from quarterly call reports from 2016 through 2025: total assets, common equity Tier 1 (“CET1”) capital, and total liquid assets.

Scaling exposures by total assets measures their size relative to the bank’s balance sheet. From a systemic risk perspective, however, the more relevant questions are whether a bank has sufficient capital to absorb potential credit losses and sufficient liquidity to meet funding demands during periods of stress.⁴⁶ Accordingly, scaling by CET1 measures exposure relative to the bank’s core loss-absorbing capital and therefore its capacity to absorb credit losses, and scaling by liquid assets measures exposure relative to the bank’s available liquidity, including future drawdowns on committed funding.

⁴⁶ See, e.g., BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, *Interagency Supervisory Guidance on Stress Testing for Banking Organizations with Total Consolidated Assets of More Than \$10 Billion* (May 14, 2012), <https://www.federalreserve.gov/frs/guidance/interagency-supervisory-guidance-on-stress-testing-for-banking-organizations-with-total-consolidated-assets-of-more-than-10.htm>.

VI. Bank Exposure to Private Credit Vehicles

This part presents our findings on the scale of U.S. bank lending to private credit vehicles from 2016 through 2025 for syndicated lending and from 2022 through 2025 for BDC lending and for the combined sample of syndicated and BDC lending. The analysis reports results for all U.S. banks in our sample and separately for large U.S. banks. As noted above, large banks are defined as FR Y-14 reporting banks, consistent with the Federal Reserve’s 2025 study.⁴⁷ Reporting both samples provides a comprehensive picture of the aggregate bank exposures while separately highlighting the firms that account for the majority of lending to private credit vehicles and are therefore most relevant from a systemic risk perspective.

1. Syndicated lending

As illustrated in **Table 1**, total syndicated lending across all U.S. banks in our sample to private credit vehicles was \$90.8 billion as of the end of 2025, with large banks constituting \$77.4 billion (85.2%) of that total.

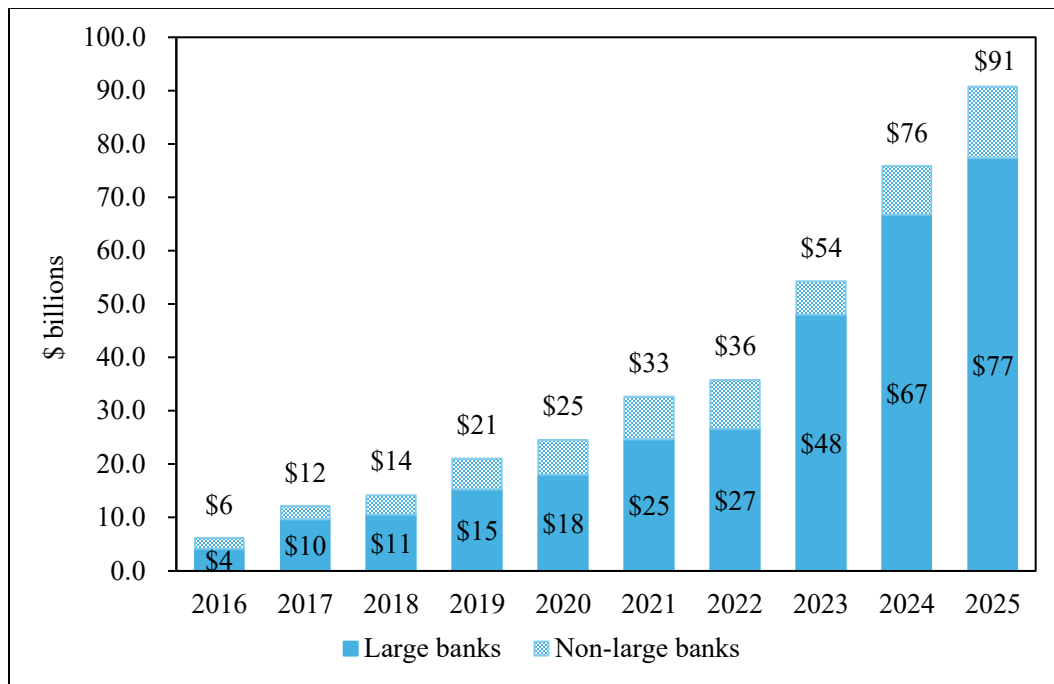
Table 1: Bank Exposure to Private Credit Through Syndicated Lending

	All Banks (2025)	Large Banks (2025)
Lending (\$ billions)	\$90.8	\$77.4
Lending / Assets	0.35%	0.52%
Lending / CET1	3.89%	6.14%
Lending / Liquid Assets	1.50%	1.68%

As illustrated in **Figure 1**, syndicated lending to private credit vehicles has increased over the last decade. Total U.S. bank exposure increased from \$6.2 billion in 2016 to \$90.8 billion in 2025, while large-bank exposure increased from \$4.1 billion to \$77.4 billion over the same period. Over that period, the U.S. private credit market grew from \$302.2 billion in 2016 to \$1.45 trillion in 2025, an increase of approximately \$1.15 trillion. Syndicated bank lending therefore increased from approximately 2.1% to 6.3% of the size of the private credit market. One factor likely contributing to this increase was the 2018 statutory change that doubled the maximum leverage permitted for BDCs and thus increased BDCs’ capacity to borrow from banks.⁴⁸

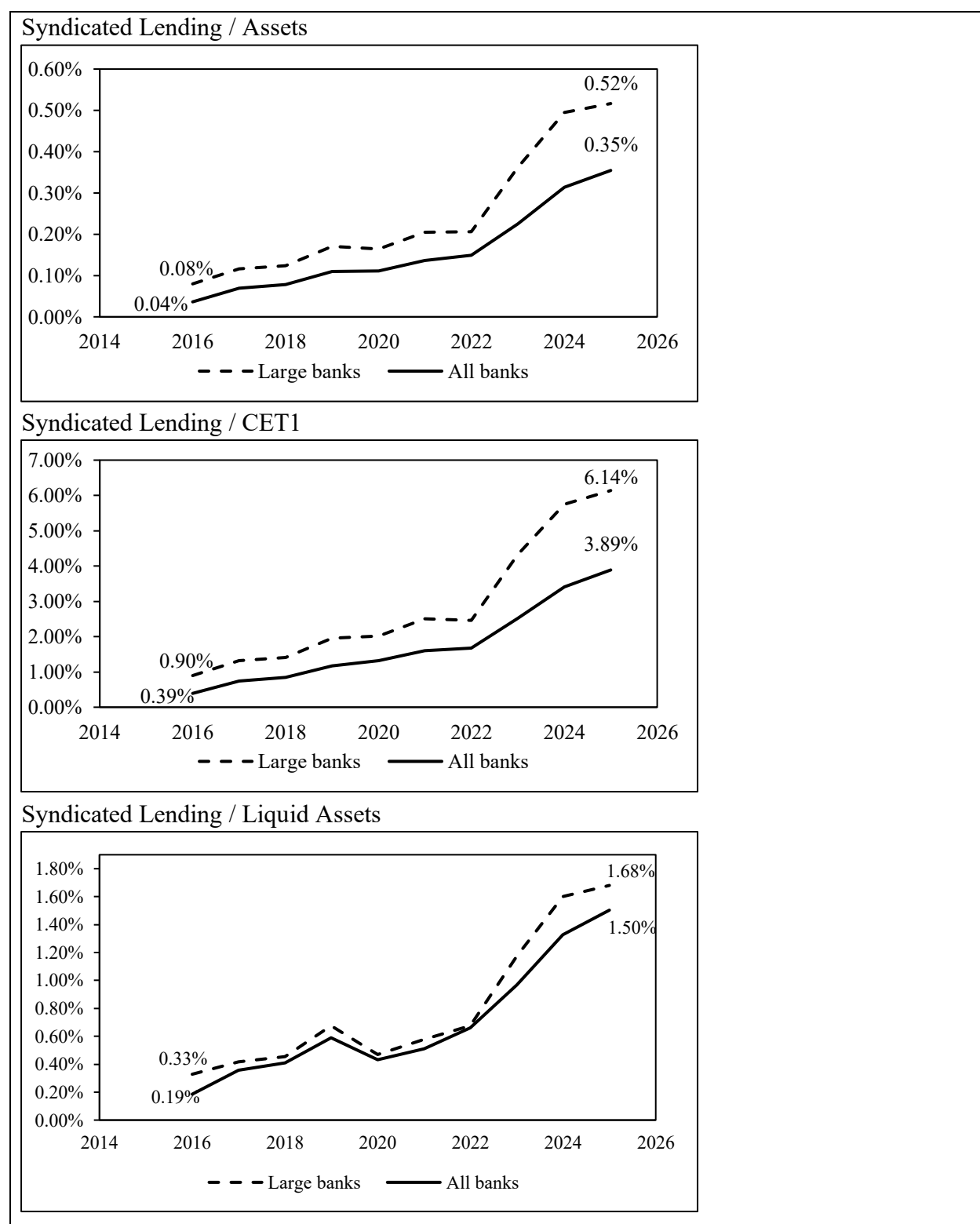
⁴⁷ 2025 Fed Study.

⁴⁸ Small Business Credit Availability Act, Pub. L. No. 115-141, div. S, tit. VIII, § 802(a), 132 Stat. 348, 1138 (2018) (codified as amended at 15 U.S.C. § 80a-60(a)); *see also* 2025 Fed Study (showing that BDC leverage increased materially following the 2018 statutory change).

Figure 1: Trend in Syndicated Lending Exposure

Accordingly, syndicated lending as a percentage of total assets, regulatory capital, and liquidity also increased over the past decade. **Figure 2** illustrates these trends from 2016 through 2025 for all U.S. banks and for large banks. Syndicated lending as a percentage of total assets grew from 0.04% in 2016 to 0.35% in 2025 across all U.S. banks and grew from 0.08% to 0.52% for large banks over the same period. As a percentage of CET1, syndicated lending grew from 0.39% in 2016 to 3.89% in 2025 across all banks and from 0.90% to 6.14% for large banks over the same period. As a percentage of liquid assets, syndicated lending grew from 0.19% in 2016 to 1.50% in 2025 for all banks and from 0.33% to 1.68% for large banks over the same period.

Figure 2: Trends in Syndicated Lending as a Percentage of Total Assets, CET1, and Liquidity



2. BDC lending

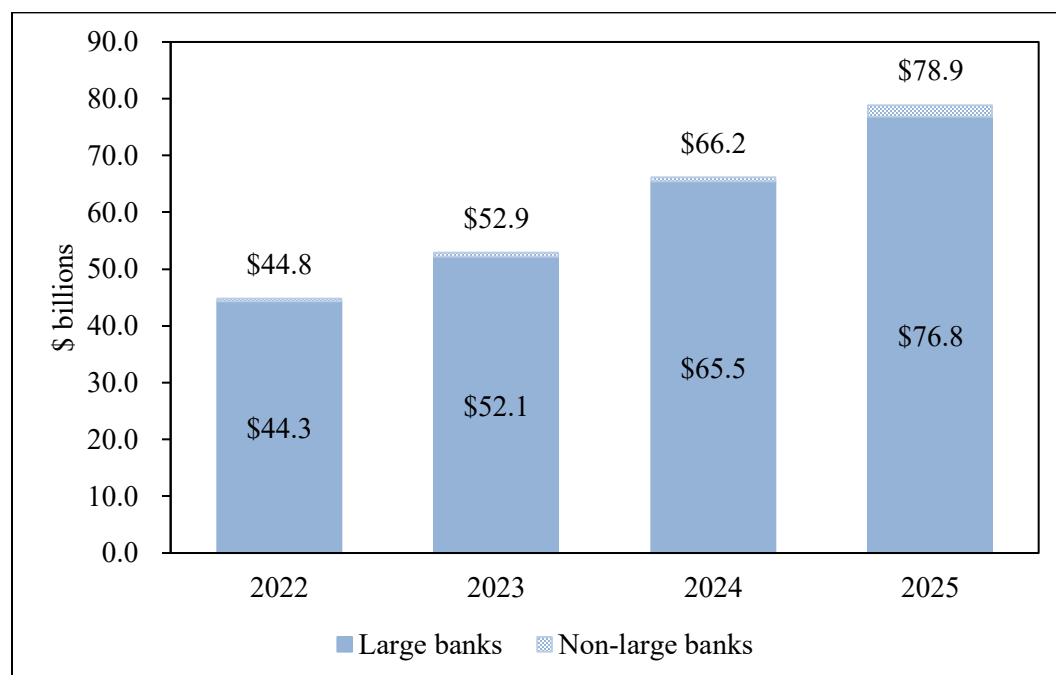
As illustrated in **Table 2**, total BDC lending across all U.S. banks in our sample was \$78.9 billion as of the end of 2025, with large banks constituting \$76.8 billion (97.4%) of that total.

Table 2: Banks' Exposure to BDCs

	All Banks (2025)	Large Banks (2025)
Lending (\$ billions)	\$78.9	\$76.8
Lending / Assets	0.31%	0.51%
Lending / CET1	3.38%	6.09%
Lending / Liquid Assets	1.31%	1.67%

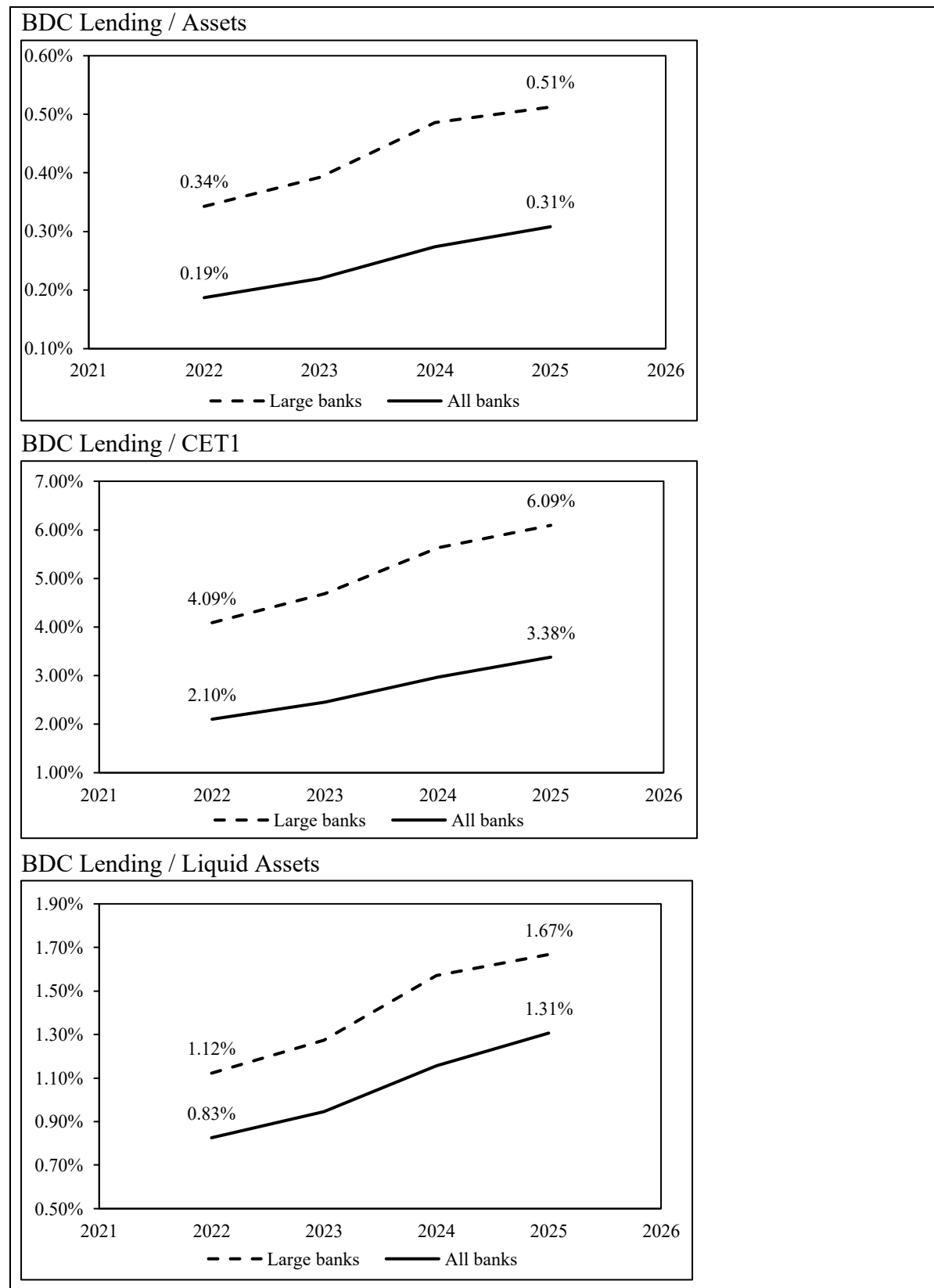
As illustrated in **Figure 3**, bank lending to BDCs increased over the last four years. Total U.S. bank exposure increased from \$44.8 billion in 2022 to \$78.9 billion in 2025, while large-bank exposure increased from \$44.3 billion to \$76.8 billion over the same period.

Figure 3: Trend in BDC Lending Exposure



BDC lending as a percentage of total assets, regulatory capital, and liquidity also increased over the past four years. **Figure 4** illustrates these trends from 2022 through 2025 for all U.S. banks and for large banks. BDC lending as a percentage of total assets grew from 0.19% in 2022 to 0.31% in 2025 across all U.S. banks and grew from 0.34% to 0.51% for large banks over the same period.

As a percentage of CET1, BDC lending grew from 2.10% in 2022 to 3.38% in 2025 across all banks and from 4.09% to 6.09% for large banks over the same period. As a percentage of liquid assets, BDC lending grew from 0.83% in 2022 to 1.31% in 2025 for all banks and from 1.12% to 1.67% for large banks over the same period.

Figure 4: Trends in BDC Lending as a Percentage of Total Assets, CET1, and Liquidity

3. Combined syndicated and BDC lending

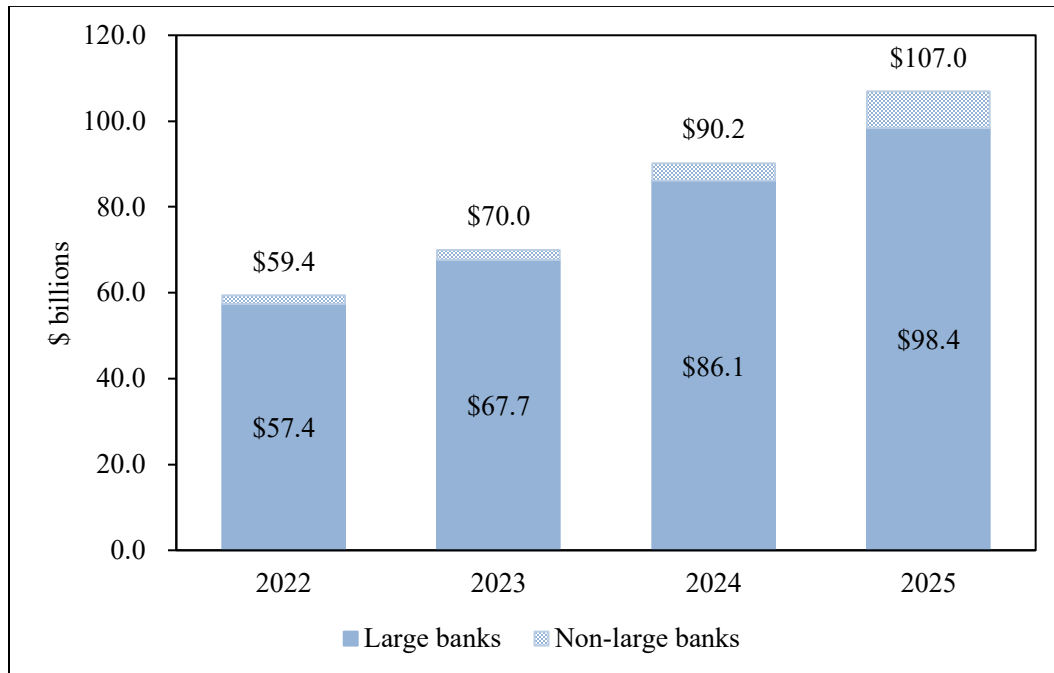
We combine our data on syndicated lending to private debt funds with our BDC lending data to produce a broader measure of bank exposure to private credit vehicles. As illustrated in **Table 3**, combined lending across all U.S. banks in our sample was \$107.0 billion as of the end of 2025, with large banks constituting \$98.4 billion (92.0%) of all lending.

Table 3: Combined Bank Exposure to Private Credit Vehicles

	All Banks (2025)	Large Banks (2025)
Lending (\$ billions)	\$107.0	\$98.4
Lending / Assets	0.42%	0.66%
Lending / CET1	4.58%	7.80%
Lending / Liquid Assets	1.77%	2.14%

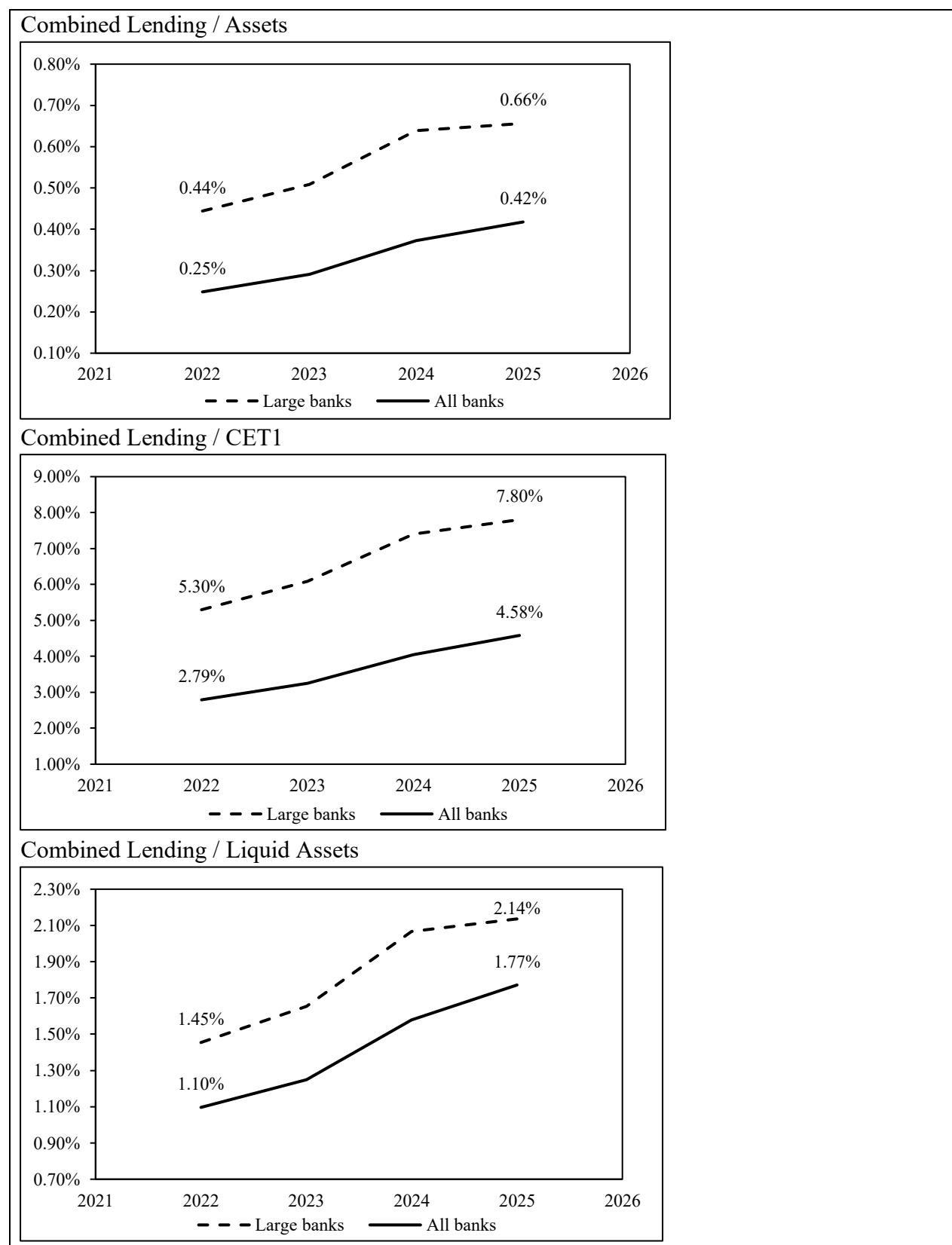
Bank exposures to private credit are relatively modest on average, at 4.58% of CET1 across all banks in our sample and 7.80% for large banks. The median exposure for all banks is 3.0% of CET1, while the 90th and 95th percentiles are 20.1% and 21.3%, respectively, meaning that only 10% of banks that lend to private credit vehicles have exposure above 20.1% of CET1, while only 5% have exposure above 21.3%. Moreover, these higher relative exposures are not concentrated among the largest banks. Banks above the 90th percentile have average assets of \$72.3 billion, compared with \$299.3 billion for banks below that threshold. For banks above the 95th percentile, average assets are \$111.0 billion, compared with \$285.6 billion for banks below it. Thus, the upper tail of exposure does not appear concentrated among the largest banks. Part VII below also directly tests whether banks with greater exposure exhibit elevated systemic risk and finds no statistically significant relationship.

As illustrated in **Figure 5**, total bank lending to private credit vehicles has increased over the last four years. Total U.S. bank exposure increased from \$59.4 billion in 2022 to \$107.0 billion in 2025, while large-bank exposure increased from \$57.4 billion to \$98.4 billion over the same period.

Figure 5: Trend in Combined Lending Exposure

Total combined lending as a percentage of total assets, regulatory capital, and liquidity also increased over the past four years. **Figure 6** illustrates these trends from 2022 through 2025 for all U.S. banks and for large banks. Combined lending as a percentage of total assets grew from 0.25% in 2022 to 0.42% in 2025 across all U.S. banks and grew from 0.44% to 0.66% for large banks over the same period. As a percentage of CET1, combined lending grew from 2.79% in 2022 to 4.58% in 2025 across all banks and from 5.30% to 7.80% for large banks over the same period. Finally, as a percentage of liquid assets, combined lending grew from 1.10% in 2022 to 1.77% in 2025 for all banks and from 1.45% to 2.14% for large banks over the same period.

Figure 6: Trends in Combined Lending as a Percentage of Total Assets, CET1, and Liquidity



4. *Comparison to the 2025 Federal Reserve Study*

Our combined lending measure is our broadest and most comprehensive estimate of U.S. bank exposure to private credit vehicles. Because the 2025 Fed Study provides similar estimates with respect to the banks in its sample, we compare our combined estimates against the Fed’s findings for 2024, the most recent year covered by their study. Our estimates of bank exposure relative to regulatory capital are close to those in the 2025 Fed Study, which estimates exposure of approximately 7% of regulatory capital,⁴⁹ versus our estimate of 7.4%. Moreover, for 2024, the Federal Reserve estimates total large-bank exposure of \$95.3 billion,⁵⁰ compared with our estimate of \$86.1 billion, a gap of less than 10%, which may partly reflect non-syndicated lending to private debt funds, a category our combined dataset does not capture. This alignment suggests that our methodology, based on publicly available data sources, reliably approximates the results the Federal Reserve derived from confidential supervisory data. This also points to the key advantage of our approach: Because our dataset covers all U.S. banks and is not limited to the thirty to forty largest U.S. banks examined in the 2025 Fed Study, we can estimate private credit exposure across the entire U.S. banking system.

5. *Stress scenario analysis*

Although banks’ combined exposure to private credit vehicles has grown rapidly in recent years, assessing the systemic risk implications of this growth requires evaluating not only current exposure levels but also the potential impact of a severe stress scenario. We therefore conduct a static stress-scenario analysis under the conservative worst-case assumption that all bank loans to private credit vehicles default. We then apply a range of loss given default (“**LGD**”) assumptions, which specify the portion of the value of each defaulted loan that constitutes a loss to the bank, and calculate the resulting effects on banks’ regulatory capital. We consider five LGD scenarios: (i) 21% and (ii) 32%, reflecting the Federal Reserve’s supervisory estimates of LGD on bank loans to private credit funds and BDCs, calculated on a value-weighted and equal-weighted basis, respectively;⁵¹ (iii) 45%, reflecting the Basel Committee’s standard supervisory LGD assumption for loans to private credit vehicles;⁵² (iv) 50%, a severe stress scenario more than double the

⁴⁹ 2025 Fed Study at Section 3.1.

⁵⁰ *Id.* at Section 3.

⁵¹ Berg and Lee, *supra* note 9, at 6-7 (reporting average loss given default of approximately 21% on a value-weighted basis and 32% on an equal-weighted basis for bank loans to private credit funds and BDCs, based on Federal Reserve Y-14 supervisory data).

⁵² BASEL COMMITTEE ON BANKING SUPERVISION, *CRE32: IRB Approach: Risk Components for Each Asset Class* at ¶ 32.6 in *The Basel Framework*, BANK FOR INTERNATIONAL SETTLEMENTS, https://www.bis.org/basel_framework/chapter/CRE/32.htm (last visited Sept. 8, 2026) (assigning a 45% loss given default to senior claims on banks, securities firms, and other financial institutions not secured by recognized collateral under the Foundation Internal Ratings-Based approach).

average value-weighted LGD observed over the past decade;⁵³ and (v) 75%, a more extreme LGD scenario.

Table 4: Stress Scenario Analysis

LGD Scenario	All Banks Dollar Loss (\$B)	All Banks % of CET1 (lost)	All Banks % of CET1 (remaining)	Large Banks Dollar Loss (\$B)	Large Banks % of CET1 (lost)	Large Banks % of CET1 (remaining)
21%	\$22.5	0.96%	99.04%	\$20.7	1.64%	98.36%
32%	\$34.2	1.47%	98.53%	\$31.5	2.50%	97.50%
45%	\$48.2	2.06%	97.94%	\$44.3	3.51%	96.49%
50%	\$53.5	2.29%	97.71%	\$49.2	3.90%	96.10%
75%	\$80.3	3.44%	96.56%	\$73.8	5.85%	94.15%

As illustrated in **Table 4**, even under the most severe scenario considered—a complete default of all bank lending to private credit vehicles combined with a 75% LGD—the resulting loss would represent only 3.44% of CET1 capital across all U.S. banks and 5.85% of CET1 capital at large banks. Thus, the banking system would retain more than 96% of its regulatory capital, while large banks would retain more than 94%. Under the Federal Reserve’s supervisory LGD estimates, the capital impact would be substantially smaller, constituting 0.96% of CET1 capital on a value-weighted basis and 1.47% of CET1 capital on an equal-weighted basis across all U.S. banks. These results indicate that, even under a hypothetical and exceptionally severe stress scenario, the resulting losses would remain far below levels that could threaten the solvency of the U.S. banking system.

We next consider the potential liquidity implications of this exposure by assuming a sudden, and highly improbable, full drawdown on banks’ committed lending to private credit vehicles. Because our data do not consistently distinguish drawn and undrawn amounts, we compare total commitments with liquid assets, even though only the undrawn portion would create an incremental funding need in a full-drawdown scenario. Under this severe assumption, combined lending to private credit vehicles represents only 1.77% of liquid assets across all U.S. banks and 2.14% of liquid assets at large banks as of 2025, leaving more than 98% of liquidity available for all U.S. banks and more than 97% of liquidity available to large banks. This highly unlikely worst-case scenario assumes that every private credit vehicle simultaneously draws its entire undrawn commitment – an event with no historical precedent in this market. Notwithstanding the unprecedented severity of this scenario, the resulting liquidity needs stemming from banks’ private credit lending would constitute a small percentage of the banks’ liquid assets. Thus, the liquidity

⁵³ Berg and Lee, *supra* note 9, at 7-8.

strength of U.S. banks would not be threatened by a sudden drawdown on committed loans to private credit vehicles. In a financial crisis, of course, banks could also face losses and liquidity demands from other parts of their balance sheets, which may trigger broader liquidity stress.

Taken together, our stress-scenario results show no evidence that growing bank exposure to private credit vehicles poses a systemic risk concern. Even under exceptionally severe assumptions regarding both default and loss severity, and even assuming a full drawdown of banks' combined exposure, the resulting impact on bank capital and liquidity would not threaten the solvency or liquidity of U.S. banks.

We acknowledge that these aggregate results may not fully capture concentrated exposures at individual banks or the effect of simultaneous demands on capital and liquidity arising from other sources of stress. However, our analysis is not intended to model such a bank-wide stress event, but rather to isolate the marginal capital and liquidity impact attributable specifically to banks' private credit exposures.

6. Context for LGD assumptions

Our stress-scenario analysis shows that exposures to private credit vehicles would not significantly impair bank solvency or liquidity. Furthermore, actual losses stemming from such a stress scenario would likely be very small. Even the lowest LGD assumed in the stress analysis, 21%, represents a highly improbable downside scenario rather than a plausible minimum. Given the senior-secured structure, collateral coverage, and loss-absorbing cushions typical of bank loans to private credit vehicles, together with historical losses on the underlying corporate loans in the private credit portfolio, we estimate the LGD on a typically structured facility may instead be close to zero.

Bank loans to both BDCs and private debt funds generally benefit from substantial loss-absorbing protection that limits bank losses. BDCs may not incur debt exceeding 67% of assets, ensuring an equity cushion of at least 33%.⁵⁴ Most operate well below that limit, as the Federal Reserve estimates that BDC equity averaged 47% of assets in 2024.⁵⁵ Accordingly, the average BDC's loan portfolio would need to lose more than 47% of its value before its bank lender incurred any loss.

Bank loans to private debt funds are similarly protected by loan-to-value limits that vary by facility type. A typical net-asset-value ("NAV") facility, secured by the value of the fund's investment portfolio, has a loan-to-value ratio of 30%,⁵⁶ implying a 70% loss-absorbing cushion. A typical asset-based lending ("ABL") facility, secured by a designated pool of the fund's underlying loans or other assets, has a loan-to-value ratio of 65%,⁵⁷ implying a 35% cushion. Thus, depending on

⁵⁴ BDCs may not exceed a statutory leverage ratio of 2:1 debt-to-equity (a 150% asset-coverage ratio), the maximum permitted under the Small Business Credit Availability Act of 2018 amending Section 61(a) of the Investment Company Act of 1940.

⁵⁵ 2025 Fed Study at Figure 4.

⁵⁶ 2026 FSB Study at 14.

⁵⁷ *Id.*

the facility type, a private debt fund's portfolio would generally need to lose 35% to 70% of its value before the bank incurs any loss.

Historical loss data confirm the practical significance of these cushions. LGDs on the underlying private credit loans have generally ranged from approximately 30% to 44%,⁵⁸ but those losses are absorbed first by the private credit vehicle's loss-absorbing cushion before reaching the bank lender. **Table 5** applies the upper end of that historical range to representative BDC and private debt fund structures. None of the resulting bank-loan LGDs reaches the 21% minimum used in our stress analysis, and the implied LGD for a typically levered BDC is zero.

Table 5: Implied LGDs on Bank Loans to Private Credit Vehicles

PC Vehicle	Portfolio loss	Loss-absorbing cushion	Implied LGD
BDC - typical leverage	44%	47%	0%
PD fund - NAV facility	44%	70%	0%
PD fund - ABL facility	44%	35%	14%
BDC – maximum statutory leverage	44%	33%	16%

Thus, even if the underlying portfolio loses 44% of its value, the bank incurs no loss on a typically levered BDC or private debt fund financed through a NAV facility. Even for a BDC operating at the statutory leverage limit, the implied LGD is only approximately 16%, well below the 21% minimum assumed in our stress analysis.

Reaching a 21% LGD would require portfolio losses far beyond the historical range of 30% to 44%. A typical BDC with 47% equity would need to lose approximately 58% of its entire portfolio, while a private debt fund financed through a NAV facility would need to lose approximately 76%. Broad losses of this magnitude across a diversified portfolio composed predominantly of senior-secured loans would represent exceptionally unlikely outcomes.

Comparisons with other lending products provide additional context for the conservatism of the 21% LGD assumption. **Table 6** shows average recovery rates and LGDs on several other types of

⁵⁸ See CLIFFWATER LLC, *Q3 Report on U.S. Direct Lending* (2023), <https://www.bdc.com/docs/Cliffwater2023Q3ReportonUSDirectLending.pdf> (reporting that recovery rates on defaulted loans in the Cliffwater Direct Lending Index are consistent with senior secured loan recovery rates generally, which have averaged close to 70%); see also J.P. MORGAN, *Credit Watch: Private Credit Uncovered – Feeling More Mainstream by the Day* (Aug. 7, 2025) (reporting, based on KBRA DLD Index data, a trailing-twelve-month implied recovery rate of 55.6% (LGD of 44%) on sponsored deals – the segment most comparable to typical BDC holdings).

credit products, including senior-secured bank loans, senior-unsecured corporate bonds, and credit-card debt.

Table 6: Average Recovery and LGD Rates across Lending Categories

Credit Product	Average Recovery Rate	Average LGD
Underlying PC portfolio loans ⁵⁹	56%-70%	30%-44%
Senior-secured bank loans ⁶⁰	60%-70%	30%-40%
Senior-unsecured corporate bonds ⁶¹	40%-52%	48%-60%
Unsecured credit-card debt ⁶²	15%	85%

These benchmarks exceed the implied LGDs of 0% to 16% for the typical bank loans to private credit vehicles shown above in **Table 5**. This is consistent with the senior-secured position, collateral coverage, and structural protections common to bank financing of private credit vehicles. Accordingly, a 21% LGD is already an unlikely and severe assumption, with the 32%, 45%, and 50% scenarios more extreme still.

⁵⁹ *Id.*

⁶⁰ Lynn Shibut and Ryan Singer, *Loss Given Default for Commercial Loans at Failed Banks* at 18, FDIC Working Paper Series (Oct. 10, 2015), <https://archive.fdic.gov/view/fdic/11956> (citing MOODY'S, *Corporate Default and Recovery Rates, 1920-2010* (Feb. 28, 2011)).

⁶¹ *Id.*; Itamar Drechsler et al., *Credit Card Banking*, FEDERAL RESERVE BANK OF NEW YORK Staff Report No. 1143 (Aug. 2026), https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1143.pdf.

⁶² Drechsler et al., *supra* note 61, at n. 28.

VII. Systemic Risk Analysis

We test whether a bank's private credit exposure is associated with elevated systemic risk by regressing two measures of systemic risk—MES and equity volatility—on each bank's private credit lending as a percentage of total assets, controlling for CET1 capital and liquid assets and including bank and year fixed effects. The first measure, MES, captures the expected decline in a bank's equity value conditional on a severe downturn in the broader financial market. Thus, MES reflects a bank's vulnerability to industrywide financial stress and its potential to amplify such stress in financial markets, separate from its risk under ordinary market conditions.⁶³ The second measure, equity volatility, captures the degree to which a bank's stock price fluctuates over time. Elevated equity volatility can signal that investors perceive a bank to be more fragile or more exposed to shocks that could undermine confidence in the broader financial system.⁶⁴

We estimate this model using our combined lending dataset covering 2022 through 2025. To test whether bank-level exposure to private credit vehicles is associated with elevated systemic risk, we estimate panel regressions of the form:

$$SystemicRisk_{it} = \beta_1 \cdot PrivateCredit_{it} + \beta_2 \cdot CET1_{it} + \beta_3 \cdot LiquidAssets_{it} + F.E. + \alpha + \varepsilon_{it}$$

where the dependent variable, *SystemicRisk*, is one of two market-based measures of systemic risk for bank *i* in year *t*.

Consistent with the systemic risk literature, we compute MES using each bank's daily equity return data, measuring the average return on a bank's equity on the days with the most severe declines in a broad financial-sector equity index, and we compute equity volatility as the annualized standard deviation of each bank's daily equity returns within the year.⁶⁵ Both measures are calculated at an annual frequency to align with the annual frequency of our private credit exposure data.

The explanatory variable of interest, *PrivateCredit*, is each individual bank's lending to private credit vehicles as a percentage of the bank's total assets. The model includes bank fixed effects to account for time-invariant differences across banks (e.g., a bank's business model or geographic focus) and year fixed effects to account for aggregate shocks common to all banks (e.g., interest-rate cycles). We also control for each bank's CET1 capital ratio and liquid assets ratio, consistent with prior research linking these time-varying bank characteristics to systemic risk measures.⁶⁶ Standard errors are clustered at the bank level. Because MES and equity volatility require daily stock price data, the test is limited to publicly traded banks. The resulting panel comprises 199 bank-year observations over 2022–2025, which is comparable to the size of the Federal Reserve's

⁶³ See Acharya et al., *supra* note 40.

⁶⁴ See, e.g., Inga Chira, Jeff Madura, and Ariel M. Viale, *Bank Exposure to Market Fear*, 9(4) JOURNAL OF FINANCIAL STABILITY 451 (2013).

⁶⁵ See Acharya et al., *supra* note 40.

⁶⁶ *Id.*

sample – and is likely weighted toward larger, more heavily traded banks that account for a substantial share of the aggregate private credit exposure reported in Part V.

Table 7: Regression Results

	<i>MES</i>	<i>Equity Volatility</i>
<i>PrivateCredit</i>	0.0149	0.2574
Std. error	[0.0306]	[0.2517]
<u>Control variables</u>		
CET1	-0.013	0.103
Liquid assets	-0.020	0.010
Constant	0.032***	0.328***
Bank fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
R-squared	0.748	0.916
No. of observations	199	199

*10%, **5%, and ***1% significance

As shown in **Table 7**, the coefficients on *PrivateCredit* (0.0149 for MES and 0.2574 for equity volatility) are not statistically significant, providing no affirmative evidence that greater bank-level exposure to private credit is associated with higher systemic risk. Even setting aside the lack of statistical significance, the estimated magnitude of any potential relationship between private credit exposure and systemic risk is economically negligible. MES measures a bank's expected stock price drop on days when the financial sector experiences its most severe declines. Our regression estimate indicates that a one-percentage-point increase in private credit lending relative to total assets – for example, an increase from 1% to 2% of assets – is associated with a 0.0149-percentage-point increase in MES. Thus, for a bank that would otherwise be expected to experience a 3.00% equity loss on stress days, the regression estimate implies an expected loss of approximately 3.015%. The 95% confidence interval ranges from a 0.045-percentage-point reduction to a 0.075-percentage-point increase in MES. Thus, even at the upper bound, the same bank's expected stress-period equity loss would increase only from 3.00% to 3.075%.

The likely economic effect suggested by our analysis is even smaller because private credit lending grew by substantially less than the hypothetical one-percentage-point increase considered above. Between 2022 and 2025, aggregate lending increased by 0.17 percentage points of total assets across all banks and by 0.22 percentage points among large banks. Even applying the upper bound

of the 95% confidence interval, an increase of that size would raise a bank's expected stock price loss by only 0.013 to 0.017 percentage points (e.g., from 3.00% to 3.013%).

At the exposure levels observed in our data, our results indicate that losses transmitted through the direct bank-lending channel examined here would be unlikely, by themselves, to impair bank solvency.

Our systemic risk results are also consistent with the broader private credit literature. The 2025 Fed Study finds that banks' credit exposures to private credit vehicles are generally well-collateralized, have low delinquency rates, and often carry investment-grade ratings – features that should reduce loss severity under stress, thereby moderating systemic risk implications.⁶⁷ While we do not independently assess the characteristics of private credit loans, the Federal Reserve's findings provide further evidence that the risk of significant losses on a bank's private credit exposure is low. In addition, a substantial majority of private credit funds rely primarily on funding structures that limit exposure to sudden funding withdrawals and liquidity pressures that could spill over to bank lenders.⁶⁸

We also note that there is another channel for systemic risk distinct from interconnectedness, referred to as “contagion,” whereby the failure of one bank undermines confidence in the banking system, triggering rapid withdrawals from other banks.⁶⁹ However, our findings give no indication that private credit exposures are a likely cause of bank failures or a likely vehicle for contagion in the event a bank fails. Although our empirical analysis does not directly examine contagion, this conclusion is consistent with several structural features of private credit vehicles that limit contagion concerns. Private credit vehicles are financed primarily with long-term capital and face limited redemption risk. Moreover, banks' exposure to these vehicles is modest, diversified, and often collateralized, while also maintaining regulatory capital and liquidity buffers against potential losses and funding drawdowns. The U.S. banking regulatory structure also includes mechanisms, particularly the Federal Reserve's lender-of-last-resort authorities, specifically designed to contain contagion.

⁶⁷ 2025 Fed Study at Table 1, Figure 5.

⁶⁸ COMMITTEE ON CAPITAL MARKETS REGULATION, *supra* note 10, at 21 (noting that private credit funds are not subject to runnable liabilities and are typically financed through long-term, locked-up capital commitments from institutional investors).

⁶⁹ See generally Hal S. Scott, *Connectedness and Contagion: Protecting the Financial System from Panics*, THE MIT PRESS (2016).

VIII. Conclusion

This study examines two empirical questions: how large are U.S. banks' exposures to private credit vehicles, and are banks with greater private credit exposure more susceptible to systemic risk? On the first question, we find that U.S. bank lending to private credit vehicles is growing but remains low relative to the capital and liquidity banks hold to absorb losses. Aggregate combined lending to private credit vehicles reached \$107.0 billion in 2025 across nearly all U.S. banks, representing 4.58% of CET1 capital system-wide and 7.80% of CET1 capital at large banks. On the second question, we find no statistically significant relationship between a bank's private credit exposure and either of two established measures of systemic risk: MES or equity volatility. We acknowledge that our analysis does not test every channel through which private credit could transmit stress to the banking system. However, our findings indicate that bank exposures to private credit are manageable relative to banks' capital and liquidity and are not significantly associated with the market-based risk measures examined in this study.

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