From banks to nonbanks: macroprudential and monetary policy effects on corporate lending

Discussion for “2025 CEMLA/Dallas Fed FS Workshop”

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Disclaimer

The views expressed here are my own and do not necessarily reflect the views of anyone at the Federal Reserve Bank of Richmond or the Federal Reserve System.

The Paper in One Slide

- Data: syndicated loans; MP and macroprudential shocks for 22 countries

- MP shocks ↘ lending from banks in syndicate; ↗ from nonbanks
- Macroprudential shocks also ↘ for banks; do nothing for nonbanks
- MP shocks don't seem to affect firm-level outcomes (employment, etc.) but macroprudential shocks do (no nonbank offset)

- Effects stronger when syndicate has banks w/poor fundamentals

My Interpretation: Monetary Policy Shocks

- Increase in policy rates drive deposits away from banking sector (DSS 2017: banks have low deposit betas; depositors substitute away to MMFS, etc.)
- These funds end up in the hands of nonbanks who can replace banks (in syndicated loans, mortgage market, BNPL fintechs, etc.)

- This offset explains why firm-level outcomes don't change much

My Interpretation: Macroprudential Shocks

- If capital requirements increase, banks either raise capital (very costly) or cut lending
- Limited scope to lend to nonbanks; who don't offset contraction

- Thus, de-leveraging at the bank level leads to de-leveraging at the firm level
- Weaker banks more affected by new capital requirements; have to adjust more

Suggestion 1: Specification

- Not sure how to interpret firm-quarter FEs with syndicated loans
- Elliot et al 2025: *"borrower-quarter fixed effects...are, except for rare cases, equivalent to loan package fixed effects..."*
- This might be equivalent to looking at within-syndicate shares! Why not do that directly?

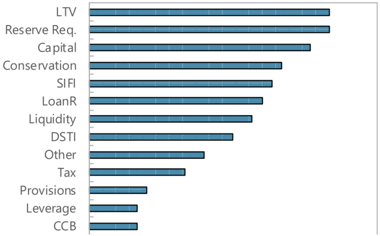
Suggestion 2: Relationships

- Paper studies role of relationships (past loans)
- But syndicate members mostly depends on the lead arranger; no strong link between other lenders and firm
- Maybe it's about lead-nonbank ties?

Question 3: Heterogeneity

- Tarullo (2015): *"activities often grouped under the heading shadow banking are not monolithic... it is essential to disaggregate the various activities that fall under the loose term shadow banking"*
- Are there differences within nonbanks? Can we try to open up this category?
- Are all macropru policies the same? Maybe distinguish capital requirements?

Figure 2. Prevalence of Use b



Open Question 1: Does Macropru Attenuate MP?

- Do larger nonbank sectors make monetary policy more or less effective?
- Contemporaneously, interaction of shocks suggests *more* effective
- But adding macroprudential rules reallocates lending to nonbanks, which then makes MP less effective on the next MP shock
- Can we test this? (eg: which countries reigned in inflation faster?)

Open Question 2: Contemporaneous implications

- What's the predicted effect on lending of joint expansionary MP-Macropru shocks?

Federal Reserve plans to reduce banking supervision staff

Proposal highlights Trump administration's push to deregulate financial industry

Claire Jones in Washington

Published OCT 30 2025 35

The Federal Reserve's top banking supervisor plans to shrink the Washington-based board's regulatory staff by 30 per cent, amid a push by the Trump administration to deregulate the financial sector.

Michelle Bowman, the Fed's vice-chair for supervision, on Thursday unveiled a proposal to lower the headcount of the central bank's supervision and regulation department from 500 to roughly 350 employees by the end of 2026.

[...] The regulatory changes the Fed is considering could enable banks to lower their capital ratios enough to offer borrowers an additional $2.6tn in lending capacity, according to consultancy Alvarez & Marsal.

Financial Times, Oct. 30 2025

Conclusion

- Very interesting paper; quite relevant given current macropru shocks!
- External validity: can we extrapolate to other loan types; can we combine internal and external margins?
- Policy implications on macropru policies: Aim for *fewer* shocks? broader rules that also encompass nonbanks?

Thank you!