

Banking and Finance Law Daily Wrap Up, FINANCIAL STABILITY— Senators urge regulators to address emerging risks in private credit markets, (Dec. 8, 2025)

Banking and Finance Law Daily Wrap Up

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The lawmakers expressed concerns that the increasingly interconnected nature of banks and nonbank lenders could exacerbate credit risks.

Citing the recent bankruptcies of Tricolor Holdings, a subprime auto loan lender, and First Brands, an auto parts supplier, Sens. Elizabeth Warren (D-Mass.) and Jack Reed (D-R.I.) [called on](#) banking regulators to take immediate action to ensure the resiliency of the banking system. Over the past few months, large banks have reported more than a billion dollars of losses on just a handful of poorly underwritten commercial loans, the Senators wrote in a Dec. 4, 2025, [letter](#) sent to Federal Reserve Vice Chair for Supervision Michelle Bowman, Comptroller of the Currency Jonathan Gould, and Acting Federal Deposit Insurance Corporation Chairman Travis Hill. “This is likely just the tip of the iceberg in terms of toxic loans lurking on bank balance sheets,” they added.

In the letter, the Senators urged the agencies to cease deregulatory efforts and staff cuts, and instead focus on the following five actions to strengthen the resilience of the banking system.

1. **Special Supervisory Review:** Agencies should review corporate credit risks at all banks with \$50 billion or more in assets and deploy supervisory authorities to contain and mitigate these identified risks.
2. **Activate the Countercyclical Capital Buffer (CCyB):** The Fed should activate the CCyB to ensure big banks strengthen their financial cushions as risks build in the financial system.
3. **Finalize Basel III Endgame:** Agencies should finalize a package of capital requirements that would strengthen financial cushions for Wall Street’s risky speculative trading activities.
4. **Finalize Wall Street Executive Compensation Limits:** Banking agencies should work with the Securities and Exchange Commission, Federal Housing Finance Agency, and National Credit Union Administration to limit executive bonus packages that incentivize short-term risk taking over long-term safe and sound operations.
5. **Stress Test Private Credit Market:** Agencies should encourage Treasury Secretary Bessent to conduct a stress test that evaluates the size, scale, scope, interconnectedness, and mix of activities of the private credit market in the United States to allow policymakers to design safeguards to limit potential damage from the US private credit market.

The Senators requested a written response by Dec. 19, 2025, on the agencies’ action plans, including an explanation of any decisions they do not intend to take. If there are additional actions you are taking to strengthen the resilience of the banking system, please list them in your response, the Senators wrote.

Interconnectedness of nonbank sectors to broader banking system. The Senators highlighted that bank loans to nonbank financial institutions, such as asset management firms, private credit funds, and private equity funds have risen to about 10% of total bank loans outstanding, from approximately 3 percent a decade ago. U.S. banks have \$1.2 trillion in loans outstanding to nonbank financial institutions, they noted, with approximately \$300 billion lent to private credit funds and \$285 billion lent to private equity funds. In addition, the eight most systemic U.S. banks have provided almost \$3 trillion in credit to hedge funds to finance their risky bets in capital markets.

Nonbank financial institutions face lighter oversight than banks, and as the Tricolor and First Brands blowups demonstrate, they may perform less rigorous due diligence and adhere to weaker loan underwriting standards. “The fact that Tricolor, First Brands, and other corporate credit losses are occurring after years of exuberance and loan growth – and exhibit poor underwriting – suggests there may be structural problems that are only beginning to rear their ugly head,” the Senators noted.

Moreover, the Senators added, bank loans to nonbank financial institutions are often secured by the nonbank’s loans to businesses or consumers. If a nonbank’s underlying loans sour, it may be unable to pay off its own debt. Banks may then be stuck with the weak loans, which served as collateral, the Senators warned. Any stress in the shadow banking sector will ultimately impact the banking sector, they added. Banks have also faced direct competition from these same shadow banks, especially in the private credit market, the Senators observed, and this competition may have resulted in a “race to the bottom in recent years.”

Emerging risks in consumer, broader loan markets. “It’s not just corporate credit markets that are starting to crack. The share of consumer debt in delinquency recently climbed to its highest level since the first quarter of 2020,” the Senators observed, highlighting that mounting consumer debt pressure appears to be concentrated among younger households. The rise in delinquencies also tracks a weakening in consumer spending by lower-income households, they added.

In addition, U.S. banks “reported a 66% increase in the total value of commercial real estate (CRE) loan modifications over the last [year.]” Banks have roughly \$2 trillion in CRE loans, including commercial mortgages on office buildings, multifamily homes, and retail buildings. These exposures have exhibited signs of stress in recent years following the pandemic, they added.

“Your agencies are in the process of cutting bank examination staff, limiting examiners’ authority, allowing banks to load up on more debt and deplete their financial cushions, and loosening other post-2008 financial crisis safeguards at the worst possible moment,” the Senators stated, adding that “American taxpayers, families, and small businesses will once again suffer the consequences” of these deregulatory activities.

Companies: First Brands; Tricolor Holdings

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