

Recent Trends In Lending To Nonbank Financial Institutions

By **Chris van Heerden** (October 24, 2025)

After three quarters of more detailed reporting on bank lending to nonbank financial institutions, we've learned a few things about the loan category: Loans to nondepository financial institutions, or NDFIs, represent the fastest-growing bank lending asset class in 2025, but also exhibit the cleanest credit profile, with the lowest delinquency rate among major bank loan types.

At the same time, two sizable recent bankruptcies serve as reminders of the diversity of counterparties and collateral types included under the NDFI umbrella and, with that, the importance of appropriately tailored due diligence, loan structuring, security and cash control mechanisms.



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Tricolor Holdings LLC — a buy-here, pay-here subprime auto-finance company, together with affiliates including Tricolor Auto Acceptance LLC — **filed** for Chapter 7 bankruptcy on Sept. 10, in the U.S. Bankruptcy Court for the Northern District of Texas, and First Brands Group — an auto-parts supplier — filed for Chapter 11 on Sept. 29 in the U.S. Bankruptcy Court for the Southern District of Texas.

Certain affiliates filed on Sept. 24, and additional affiliates on Sept. 28 and Sept. 29.

In this article, we review NDFI lending trends and credit performance in light of these developments, concluding with a few reminders for practitioners.

Background

Banks first began reporting on loans to NDFIs in 2010, but the information value of the lending category was limited by its catch-all nature. NDFIs, under this single heading, included loans to insurance companies, mortgage lenders, business development companies, real estate investment trusts, marketplace lenders and private funds, among a range of other entities.

In 2024, call reports were updated to require banks with \$10 billion or more in total assets to further group their NDFI exposures into subtypes by loans to (1) mortgage credit intermediaries, (2) business credit intermediaries, (3) private equity funds, (4) consumer credit intermediaries and (5) other nondepository financial institutions.

Limitations

The newly detailed disclosure hinted at potential insight into the size, growth and performance of specific asset classes, such as fund finance, but its usefulness has been somewhat indirect.

Because the NDFI subtypes are organized by counterparty rather than product type, extracting product-specific insights is not possible. Subscription loans, for example, can reasonably be grouped into several of the subtypes (e.g., loans to private equity funds, business credit intermediary or others) and, in the process, mixed in with other loan products.

Aside from this limitation, the first three quarters of more granular reporting by banks has involved significant reclassifications of loans, which means the early data should be handled with care. These reclassifications have affected what loans are included in the NDFI category — a number of banks moved loans previously grouped in commercial and industrial loans into the category, and some were also required to consolidate loans at foreign branches into NDFI.

Banks have also changed how loans are classified within the NDFI subtypes with less reliance on the "other" bucket in more recent quarters. These reclassifications are to be expected as part of the reporting transition phase, and can be controlled for in the future by measuring growth from a more settled point like the most recent quarter.

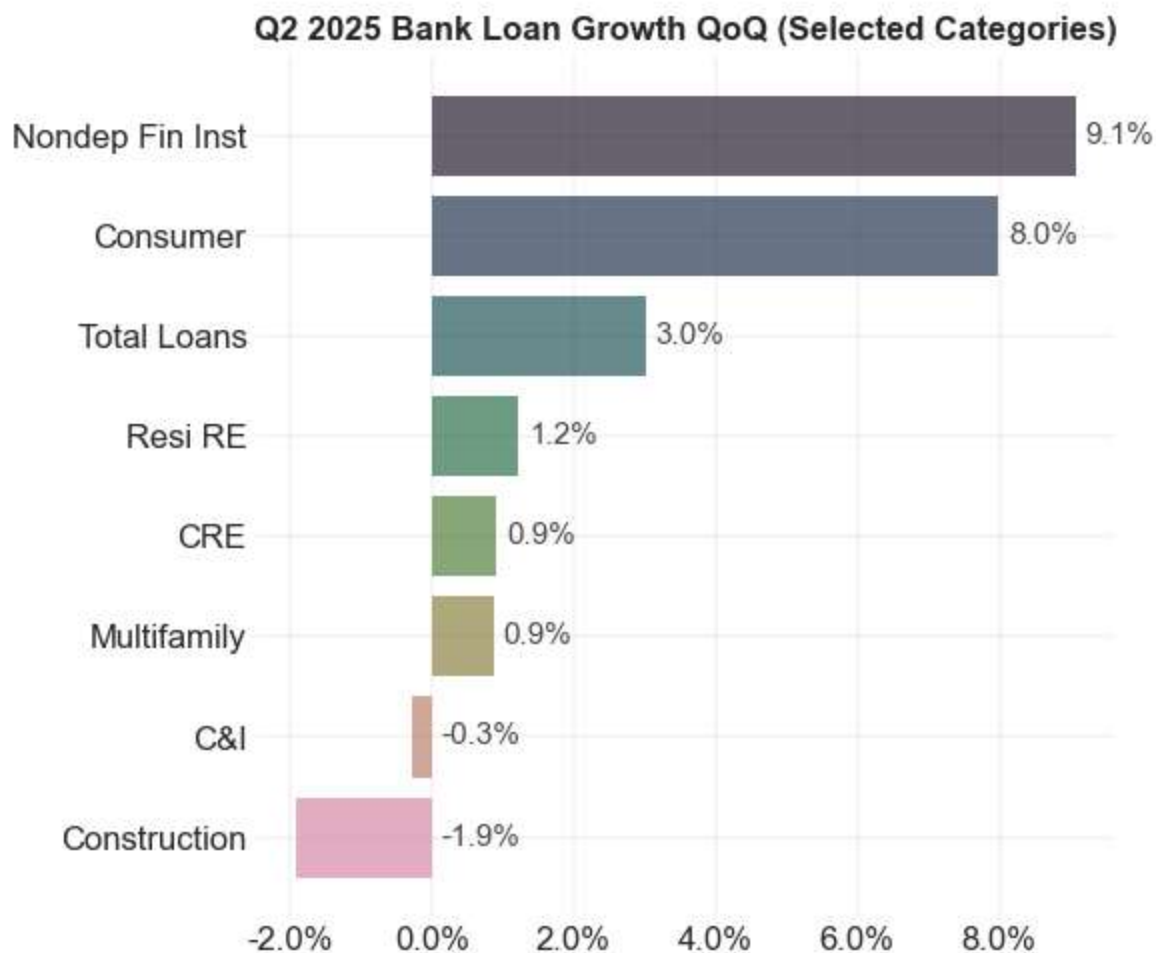
Observations

While NDFI data will not be directly helpful for product-specific analysis, it nonetheless provides insight into the broader ecosystem of bank lending to nonbank financial institutions.

The first observation is that the nonbank lending remains one of the best avenues for sourcing loan growth in 2025. NDFI loans once again topped the list for loan growth among major lending categories in the second quarter of this year.

As Exhibit 1 shows, banks with an NDFI strategy have been able to drive a differentiated loan growth profile.

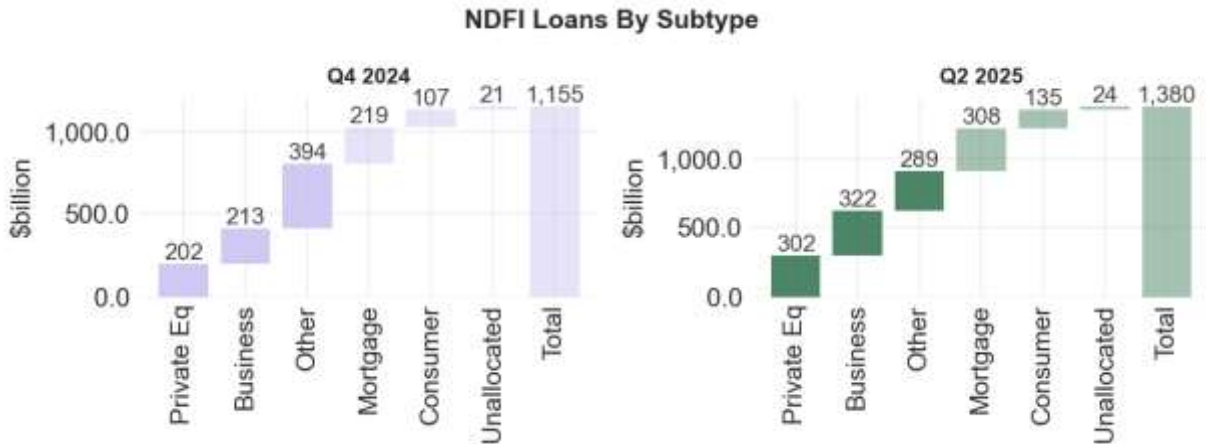
Exhibit 1: NDFI Loan Growth Continues With Subtype Reclassifications Changing Mix



Source: Bankregdata and Cadwalader Wickersham & Taft LLP. We exclude certain specialty lenders from the bank data set.

Within the NDFI dataset, loan grouping has moved around, with less reliance on the "Other" bucket over time, and hopefully arriving at a more stable order going forward. Because banks below \$10 billion in assets are not required to disclose granular subtypes, we aggregate their NDFI exposure into an "Unallocated" category below.

Exhibit 2: Total NDFI Loan Growth Continues With Subtype Reclassifications Changing Mix

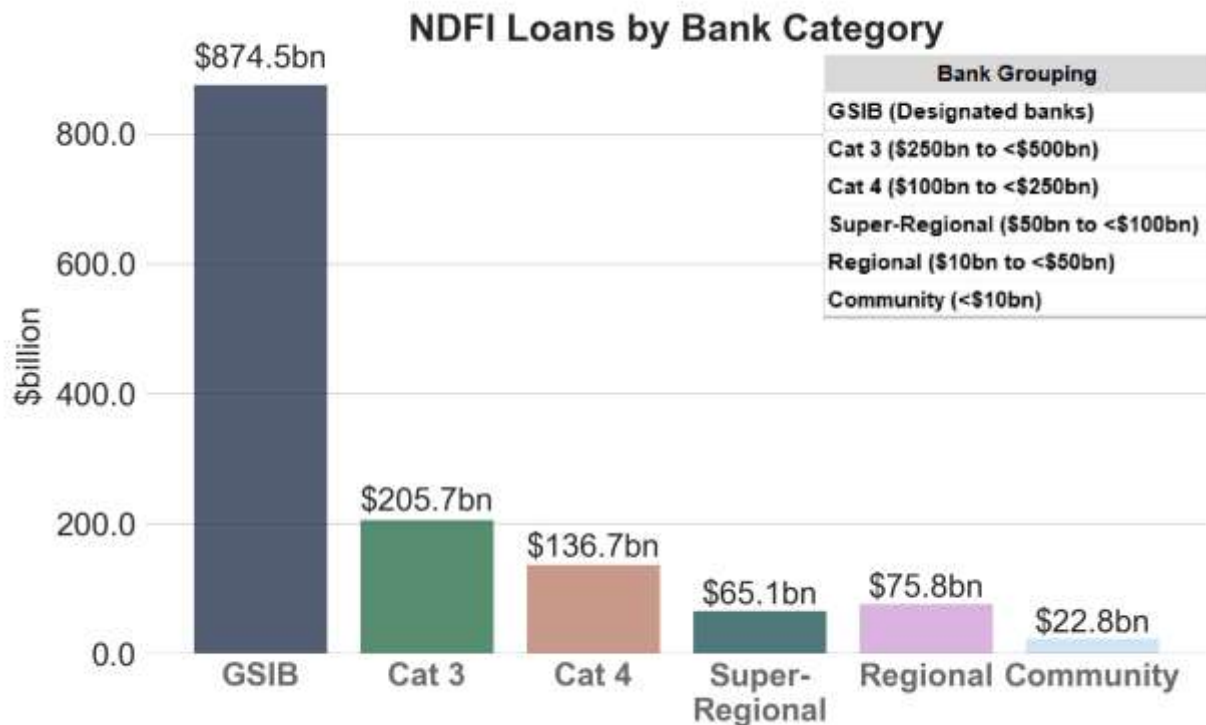


Source: Bankregdata and Cadwalader. Granular NDFI disclosure requirement applies to institutions with \$10 billion or more in total assets. Where subtypes are not reported, we group loans into "Unallocated." We exclude certain specialty lenders.

Large lenders appear to be more natural lenders to the nonbank lending space. The relationship is intuitive: These lenders are better positioned to provide a full suite of capital markets products that are relevant to fund sponsors.

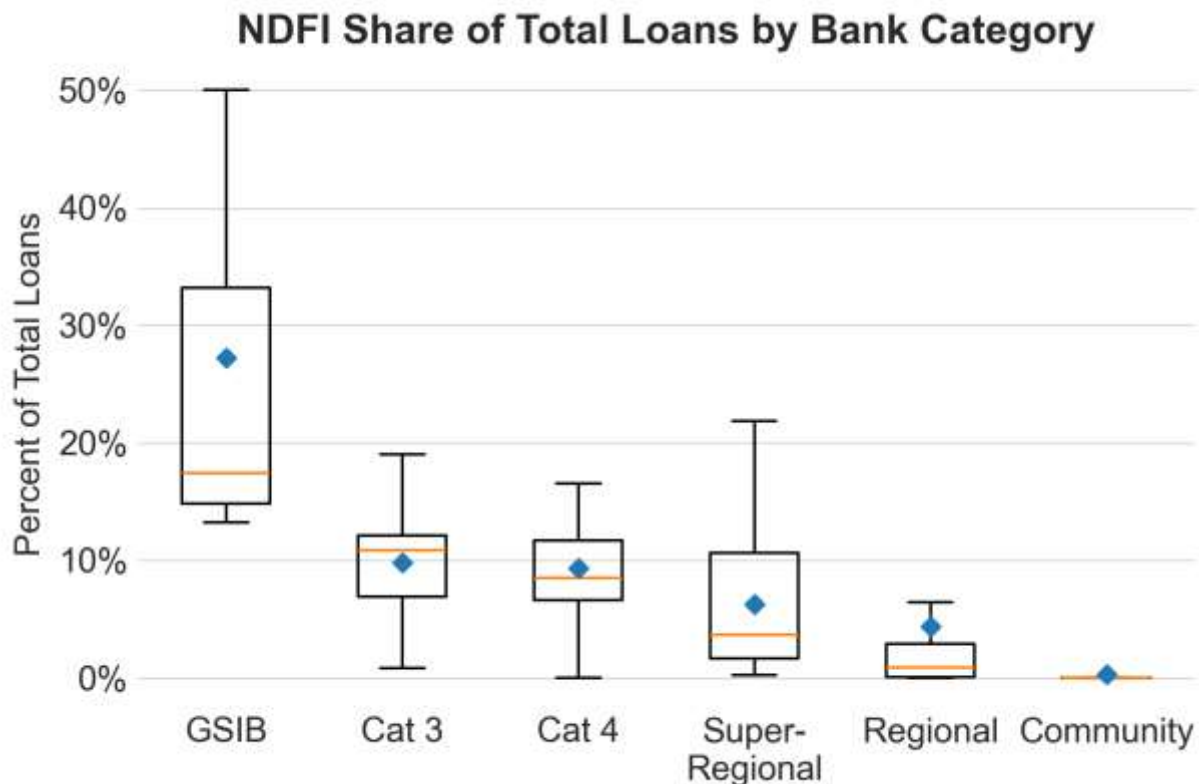
Rising sponsor concentration in the fundraising market has also translated to larger facility sizes, which work better on large balance sheets. Global systematically important banks allocate a higher share of total loan exposure to NDFIs than other banks.

Exhibit 3: NDFI Loans Naturally Fit Large Lenders



Source: Bankregdata and Cadwalader.

Exhibit 4: NDFI Loans Make Up a Larger Share of Loan Books for Large Lenders



Source: Bankregdata and Cadwalader.

Framing NDFI Loan Growth

Growth in NDFI loans in part reflects a trend toward an outsourced lending model.[1] In this model, the bank becomes a wholesale capital provider to a private lender. There are compelling reasons for banks to embrace this approach.

Cost Efficiency

In the outsourced model, the bank makes one loan to a nonbank lender such as a private credit fund, while the underlying collateral may consist of a diversified pool of loans that the private lender sources. This simplifies the resource allocation for the bank because the underlying loans are originated and administered by the private lender.

Structural Alignment

Banks typically attach at a senior secured level, taking the senior-most tranche of risk on a pool of loans while controlling collateral quality by structuring eligibility criteria and representations and warranties, and covenants into the loan documents.

Capital Optimization

In lending to a private lender, a bank can structure for securitization treatment, which may be more capital-efficient than directly holding a pool of loan exposures.

Origination Flexibility

Leverage lending activity by banks is subject to interagency guidance on leveraged lending and focused regulatory scrutiny through the shared national credit review program.

Supervisory examinations, stress testing and risk-sensitive regulatory capital requirements further shape bank leverage lending. Private lenders are not similarly constrained. In a private credit partnership, a bank can lend at a senior secured level while gatekeeping eligible collateral, and structure loan tenure to allow for review at renewal.

In advancing this outsourced lending model, banks in the U.S. are increasingly forming strategic partnerships and co-lending arrangements with private credit funds. These can involve the bank originating loans and then selling a portion of the loans to a private credit fund or placing the loans into a joint securitization structure.

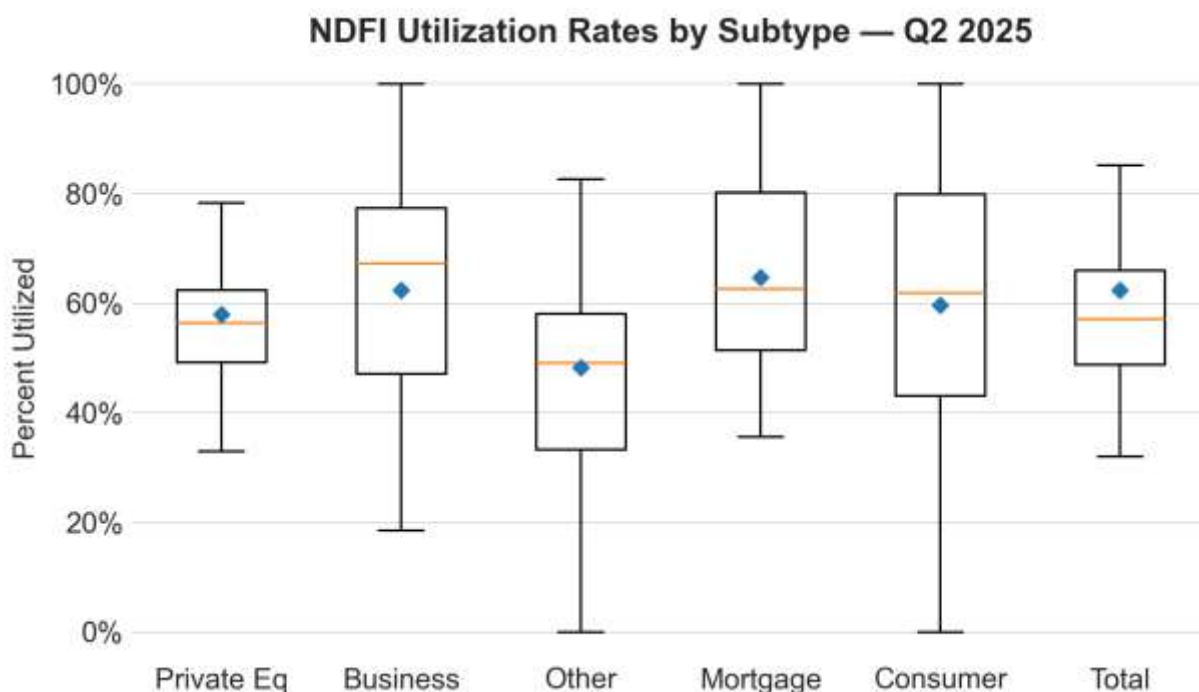
Alternatively, the bank co-lends alongside a private credit fund with the understanding that the private credit fund's portion — or even the bank's retained portion — may eventually be securitized. While configurations vary, these partnerships all service the cost efficiency, structural alignment, capital optimization and origination flexibility motivations listed above.

Utilization

NDFI loan disclosures include undrawn commitments, which offer an opportunity to look into loan utilization. Once again, the data organization by counterparty type rather than product type imposes limitations because most of the subtypes will include a wide range of instruments.

The private equity bucket, which is more likely to consist of revolving loans and where fund finance loans likely make up a large share, shows a relatively tight utilization grouping centered around a 51% mean.

Exhibit 5: NDFI Utilization Rates Are Clouded by Mixed Instrument Groupings



Source: FDIC Research Information System and Cadwalader. Cert-level utilization = $\text{outstanding} \div (\text{outstanding} + \text{unused})$. Each CERT counts equally, not balance-weighted. The data includes banks with undrawn facilities (utilization = 0). Subtype coverage skews to larger filers given call report granularity rules.

Loan Performance

The rapid growth in NDFI loans continue to garner attention in many quarters. Some concern may reflect a lack of understanding of the impact of loan reclassifications on the sector, particularly around the implementation of the new disclosure standards in the fourth quarter of 2024. These reclassifications lead to overstated growth as loans that were previously classified elsewhere have been moved into the category.

Loan performance for the sector is the cleanest nonperforming rates among major bank lending categories. The nonperforming loan rate (delinquencies of more than 90 days plus nonaccrual loans) stood at 10 basis points at the end of the second quarter.

The strong credit performance for the group may reflect the short tenure and built-in collateral eligibility control mechanisms. Low delinquencies can also be a function of less seasoning, and newer loans should naturally be expected to show lower delinquencies than more mature portfolios.

Exhibit 6: NDFI Loan Performance

| Category | 30-89 Days Past Due (\$mm) | 90+ Days Past Due (\$mm) | Nonaccrual (\$mm) | Nonperforming Loans (\$mm) | Total Delinquent Loans (\$mm) | Total NDFI Loans (\$bn) | NPL Rate | Delq Rate |
|----------------|----------------------------|--------------------------|-------------------|----------------------------|-------------------------------|-------------------------|----------|-----------|
| G5IB | 481.0 | 7.0 | 465.0 | 472.0 | 953.0 | 874.5 | 0.05% | 0.11% |
| Cat3 | 41.3 | 0.0 | 43.1 | 43.1 | 84.4 | 205.7 | 0.02% | 0.04% |
| Cat4 | 132.9 | 0.5 | 366.6 | 367.0 | 499.9 | 136.7 | 0.27% | 0.37% |
| Super-Regional | 42.2 | 4.4 | 202.2 | 206.6 | 248.8 | 65.1 | 0.32% | 0.38% |
| Small Regional | 2.2 | 0.0 | 125.9 | 126.0 | 128.1 | 75.8 | 0.17% | 0.17% |
| Community | 7.0 | 1.3 | 167.4 | 168.7 | 175.7 | 22.8 | 0.74% | 0.77% |
| Total | 706.5 | 13.2 | 1,370.2 | 1,383.4 | 2,089.8 | 1,380.4 | 0.10% | 0.15% |

Source: Bankregdata and Cadwalader, Wickersham & Taft LLP.

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Important Reminders

While sector-level credit trends have been benign, the recent Tricolor and First Brands bankruptcies served up important reminders for lenders in the NDFI space. These included the following.[2]

Due Diligence

Diligence should be tailored to the specific originator and asset class, with expanded file reviews for higher-risk platforms.

Collateral must be verified through lien searches and reconciliations across facilities, supplemented by anomaly detection to flag aging gaps and mismatched remittances.

Site Visits

Site visits, operational walkthroughs and independent third-party reviews, i.e., specialized consulting or valuation advisory services, should be considered in the underwriting process.

Contract Protections

Representations and warranties should confirm the absence of prior liens or double pledges and the enforceability of receivables.

Covenants should require corporate separateness and adherence to servicing standards.

Remedies should address systemic breaches, not merely isolated defects, and include robust indemnity and repurchase mechanics.

Audit and inspection rights should be broad, with lender discretion over scope and frequency.

Custody and Control

An independent custodian is preferable, with clear evidence of possession or control to perfect liens.

Procedures should govern loan-file check-in, check-out and exception reporting.

Cash should move through lockboxes or controlled accounts, with triparty sweep arrangements to ensure proceeds reach secured lenders.

Dual-control or dominion triggers should activate when performance deteriorates.

Warehouse and Servicer Oversight

Borrowing-base certificates should be designed to surface red flags, enforce strict eligibility tests and support timely margining.

Trustee and backup-servicer reports should be reviewed regularly to catch data mismatches.

Cash-application practices should be monitored, with triggers for reconciling items, unusual adjustments or sweep delays.

Bankruptcy Considerations

Secured-creditor recoveries ultimately depend on lien perfection and collateral value.

Key risks include fraudulent-transfer challenges, preference actions and lien avoidance where interests were not properly perfected.

Conclusion

Bank approaches to lending to nonbank financial institutions have varied widely in terms of overall engagement and subsector focus.

The ability of NDFI business units to help drive differentiated loan growth at an institutional level, combined with the clean credit performance of NDFI loans to date, provide compelling reasons for continued focus on the sector.

At the same time, recent events have emphasized the importance of reviewing processes and documents to be responsive to particular borrower and collateral profile.

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[1] For a deeper dive into bank balance sheet lending compared to this outsourced model see Sergey Chernenko, Robert Ialenti, and David Scharfstein, Bank Capital and the Growth of Private Credit (working paper, March 27, 2025).

[2] For a more fulsome discussion see, [Seeing Red Flags in Tricolor: A Colorful Lesson on Collateral Interests](#).