The Dark Side of Shadow Credit Intermediation

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Why does shadow credit intermediation exist?
Why should we be concerned?
What have we learned?
What should we worry about now?
Why does shadow credit intermediation exist?

Source: Ashcraft, Adrian, and Cetorelli (2013)
Why should we be concerned?

- Regulatory arbitrage
- Neglected risks
- Funding fragilities
- Leverage cycles
- Agency problems
What went wrong?
Asset-backed commercial paper
What went wrong?  Money market mutual funds

Figure 5: U.S. Money Market Fund Assets by Fund Type

Prime

Government

Tax-free

Source: Moneyfundanalyzer  Note: Shaded area September 16 - October 21
What went wrong?
Tri-party repo
What went wrong?
Government Sponsored Agencies

FHLB Advances outstanding

Non-FHLB vs FHLB Libor panel bid

Source: Ashcraft, Bech, and Frame (2008)
What went wrong?
Credit Derivatives

Credit Derivatives, Notional ($billions)
What to worry about now?
Agency Mortgage REITs

- Remaining amREITs
- (5th) ARMOUR Residential REIT Inc.
- (4th) CYS Investments Inc.
- (3rd) Hatteras Financial Corp.
- (2nd) American Capital Agency Corp.
- (1st) Annaly Mortgage Magement Inc.
What to worry about now?
Reinsurance

This figure reports life and annuity reinsurance ceded by U.S. life insurers to affiliated and unaffiliated reinsurers. Reinsurance ceded is the sum of reserve credit taken and modified coinsurance reserve ceded.

What to worry about now? Leveraged Lending

Share of new-issue institutional loan allocations by investor type

Covenant-lite volume

Source: S&P Capital IQ LCD

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What to worry about now?
Chinese Shadow Banking

**China: Bank Credit and Total Financing Growth**
Percent, y/y

- Total financing (incl off-balance sheet, trust loans, net corp bond/equity)
- Bank loans

**China: Growth in Shadow Finance Components**
Percent, y/y

- Entrusted loans
- Trust loans
- Net corp bonds (ex-banks)