



FEDERAL RESERVE BANK *of* NEW YORK

The Dark Side of Shadow Credit Intermediation

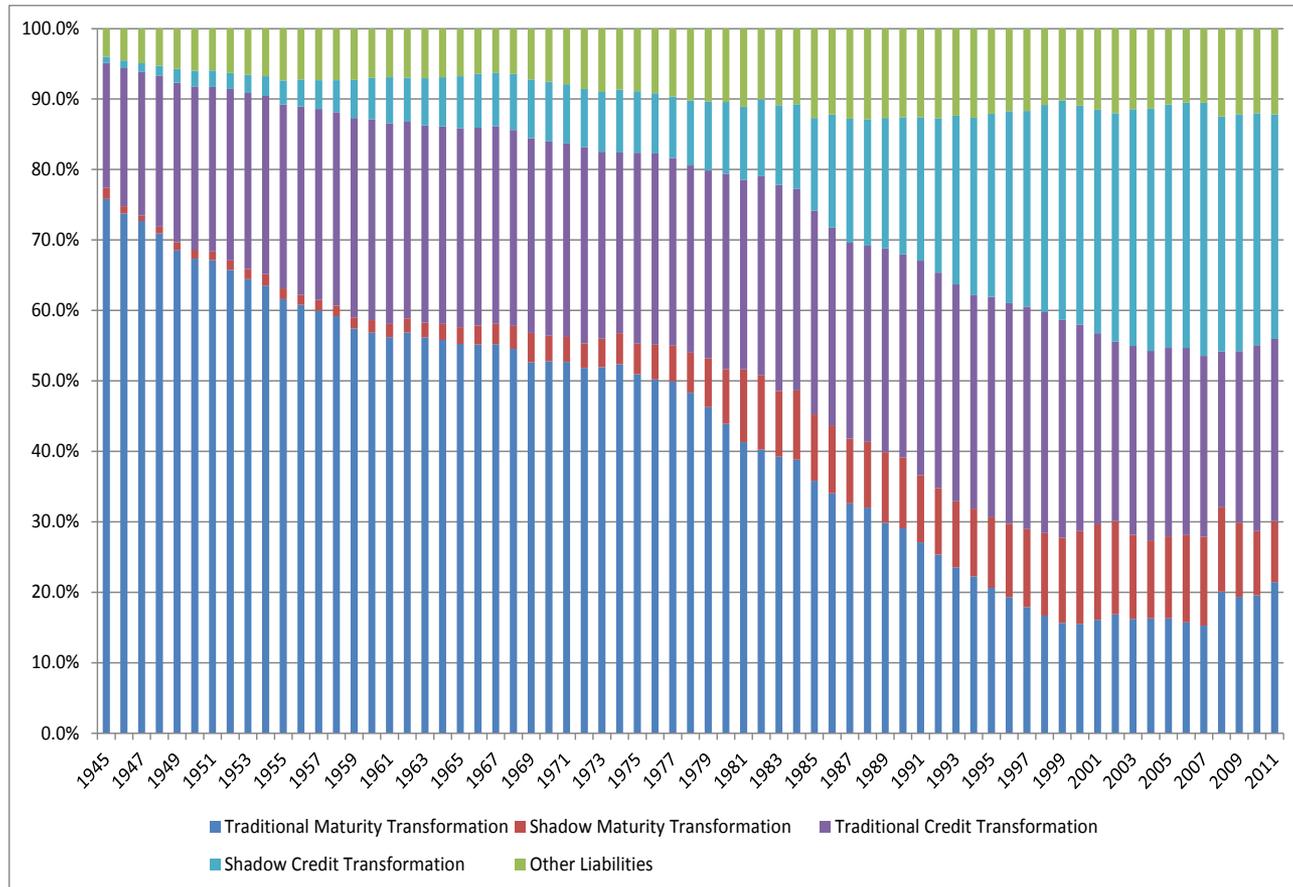
Adam B Ashcraft
Senior Vice-President and Head of Credit Risk Management
23 November 2013

Outline

- 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?



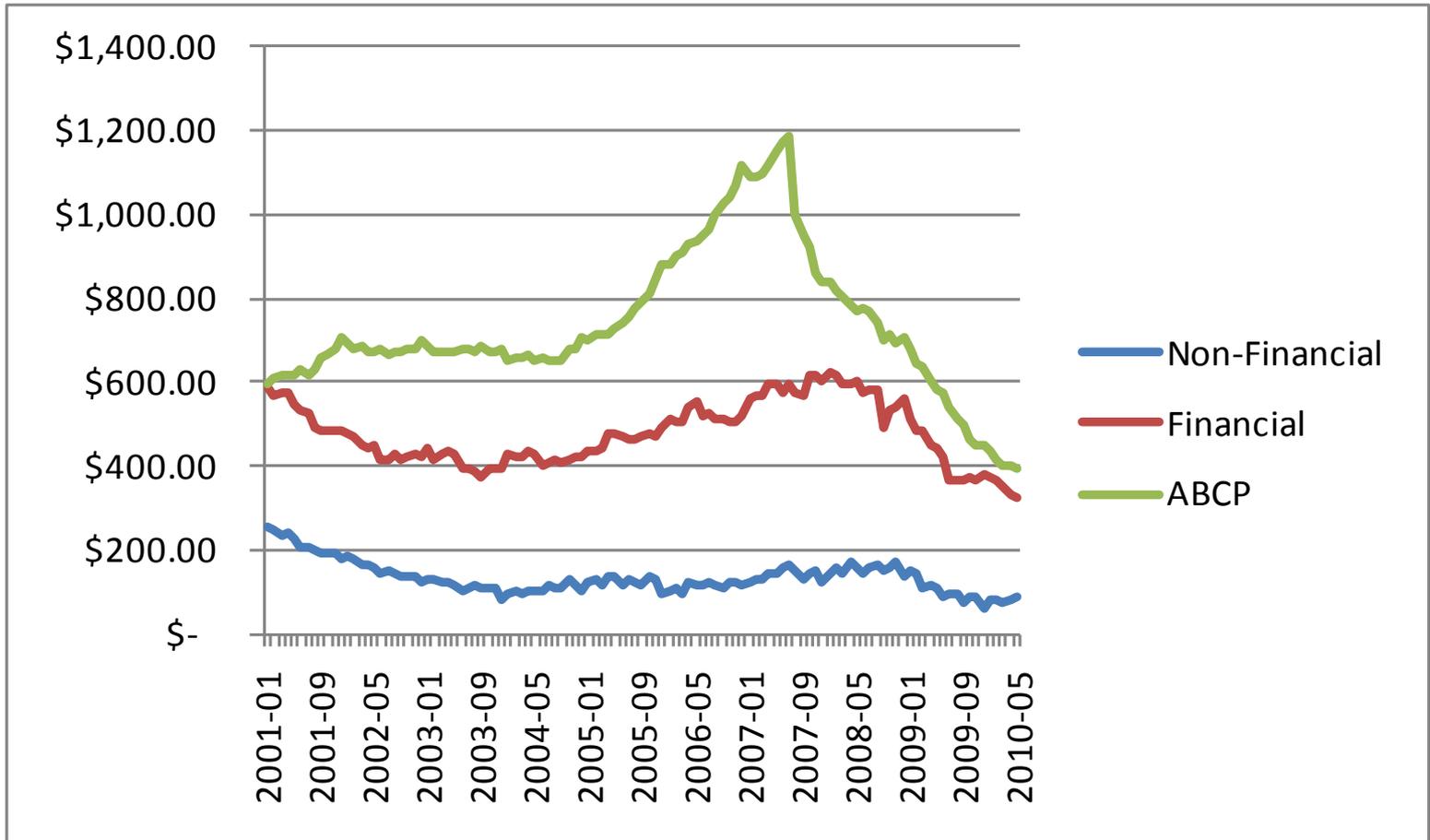
Source: Ashcraft, Adrian, and Cetorelli (2013)

Why should we be concerned?



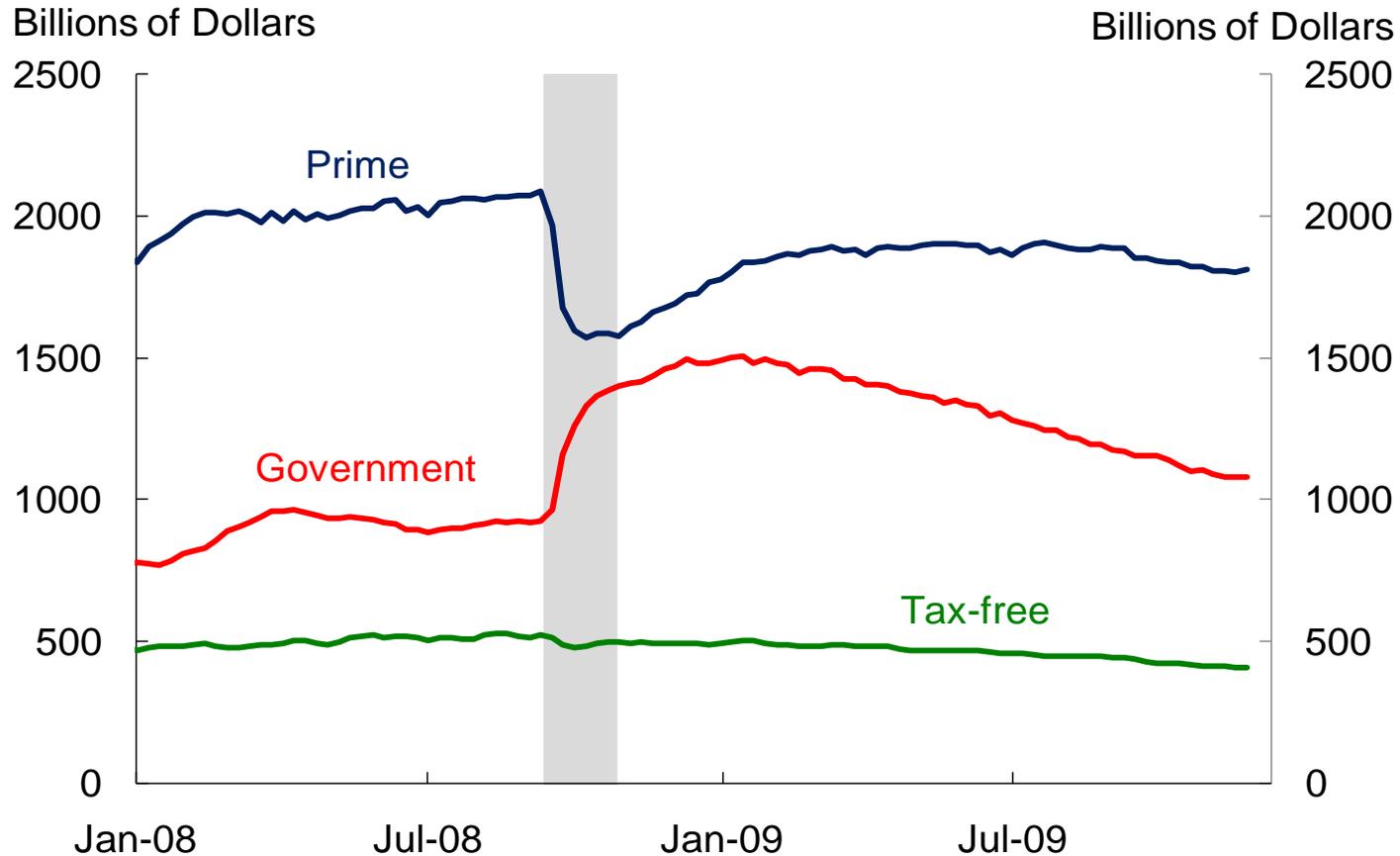
- Regulatory arbitrage
- Neglected risks
- Funding fragilities
- Leverage cycles
- Agency problems

What went wrong? Asset-backed commercial paper



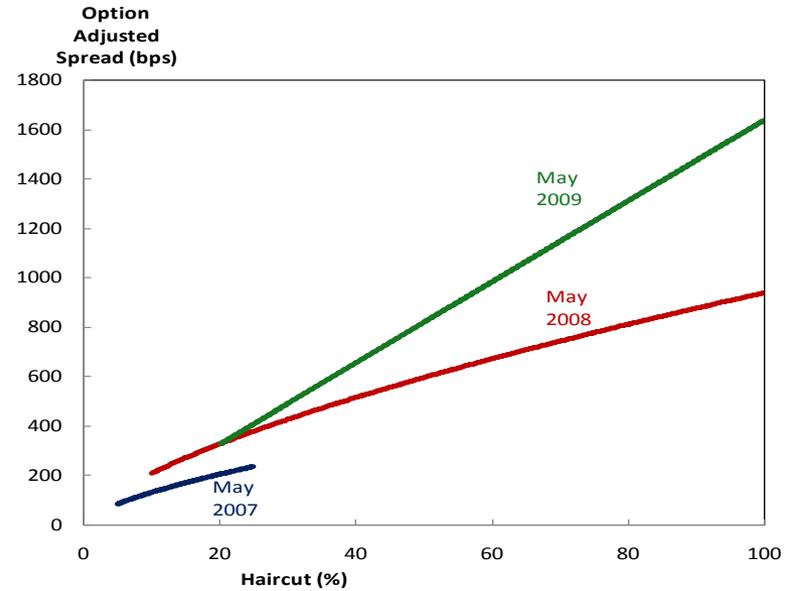
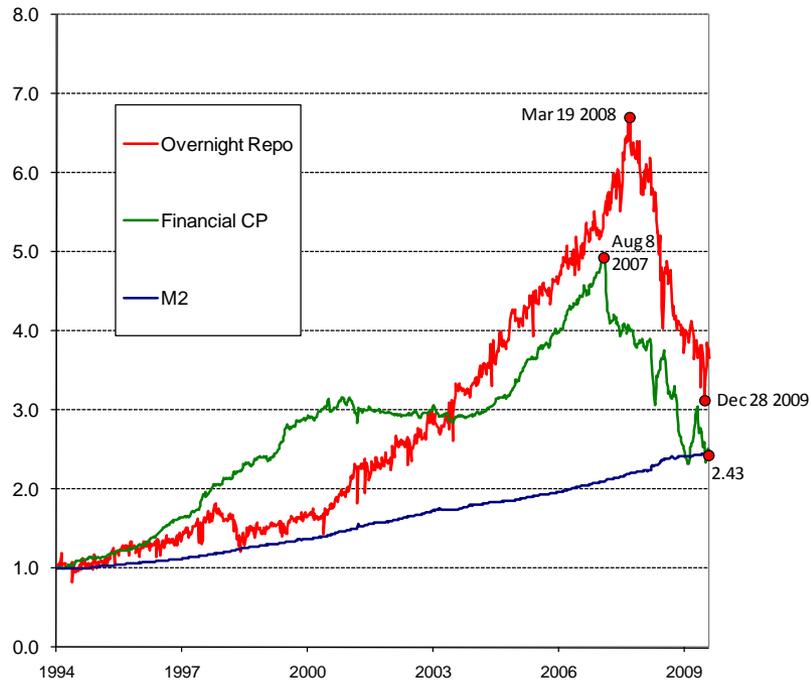
What went wrong? Money market mutual funds

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

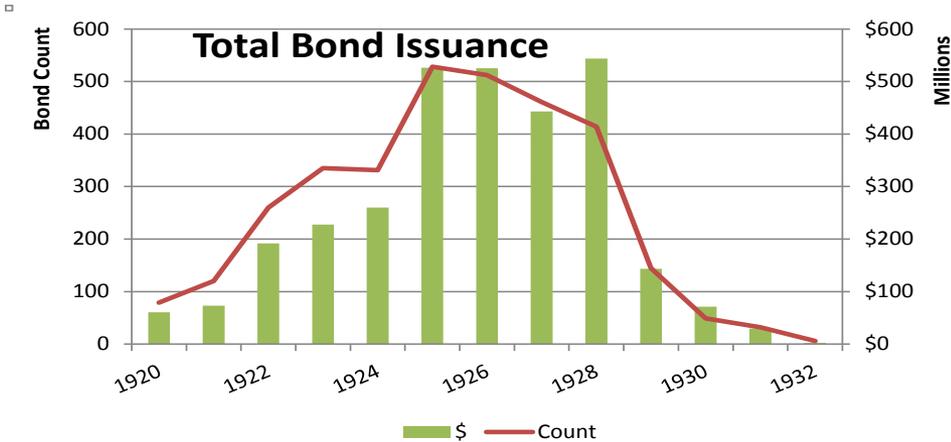
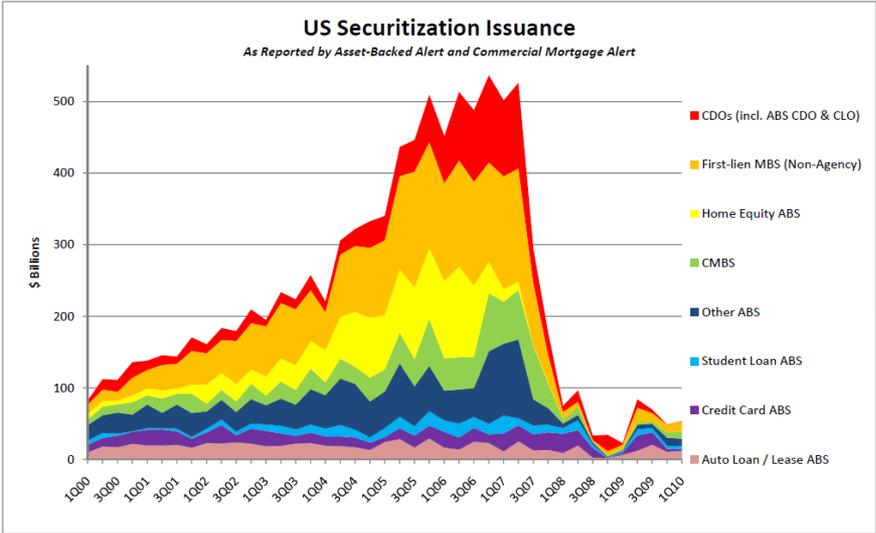


Source: Moneyfundalyzer Note: Shaded area September 16 - October 21

What went wrong? Tri-party repo

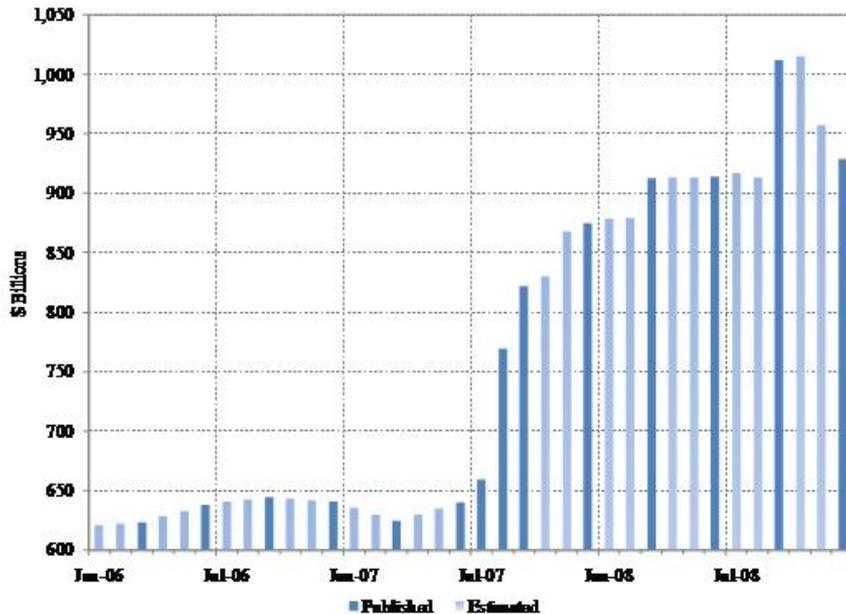


Securitization



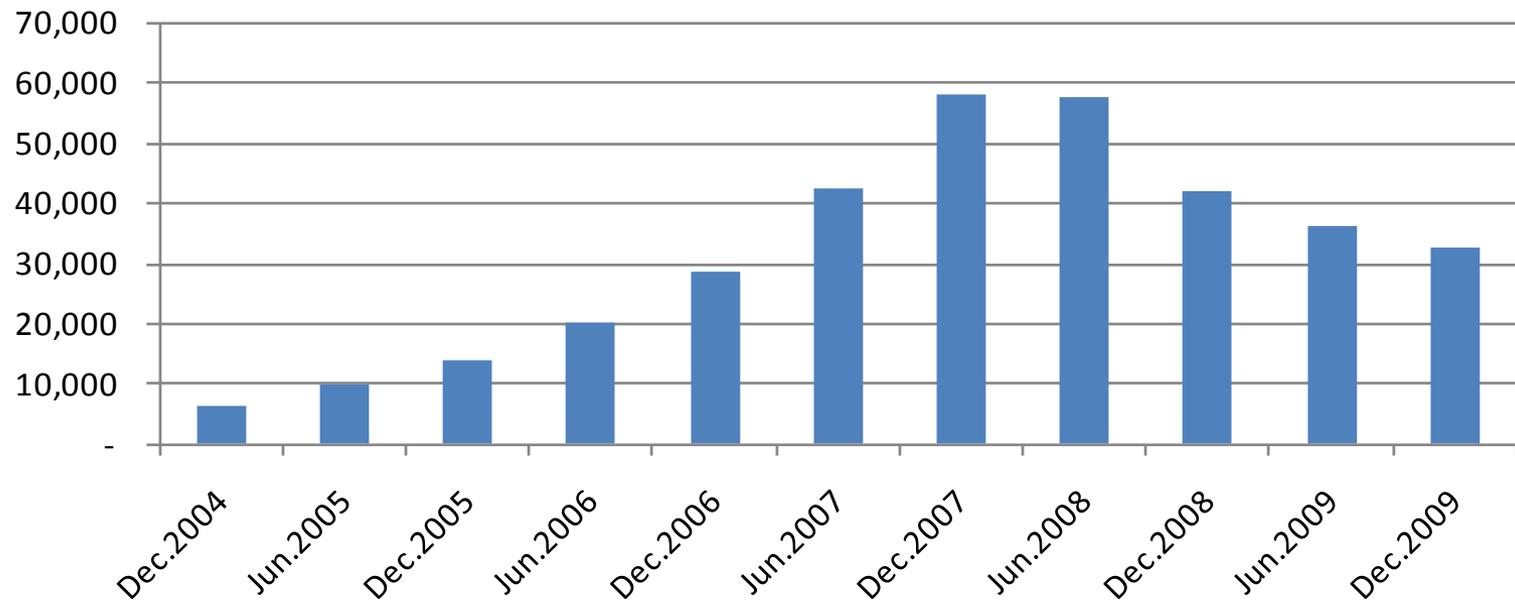
What went wrong? Government Sponsored Agencies

FHLB Advances outstanding

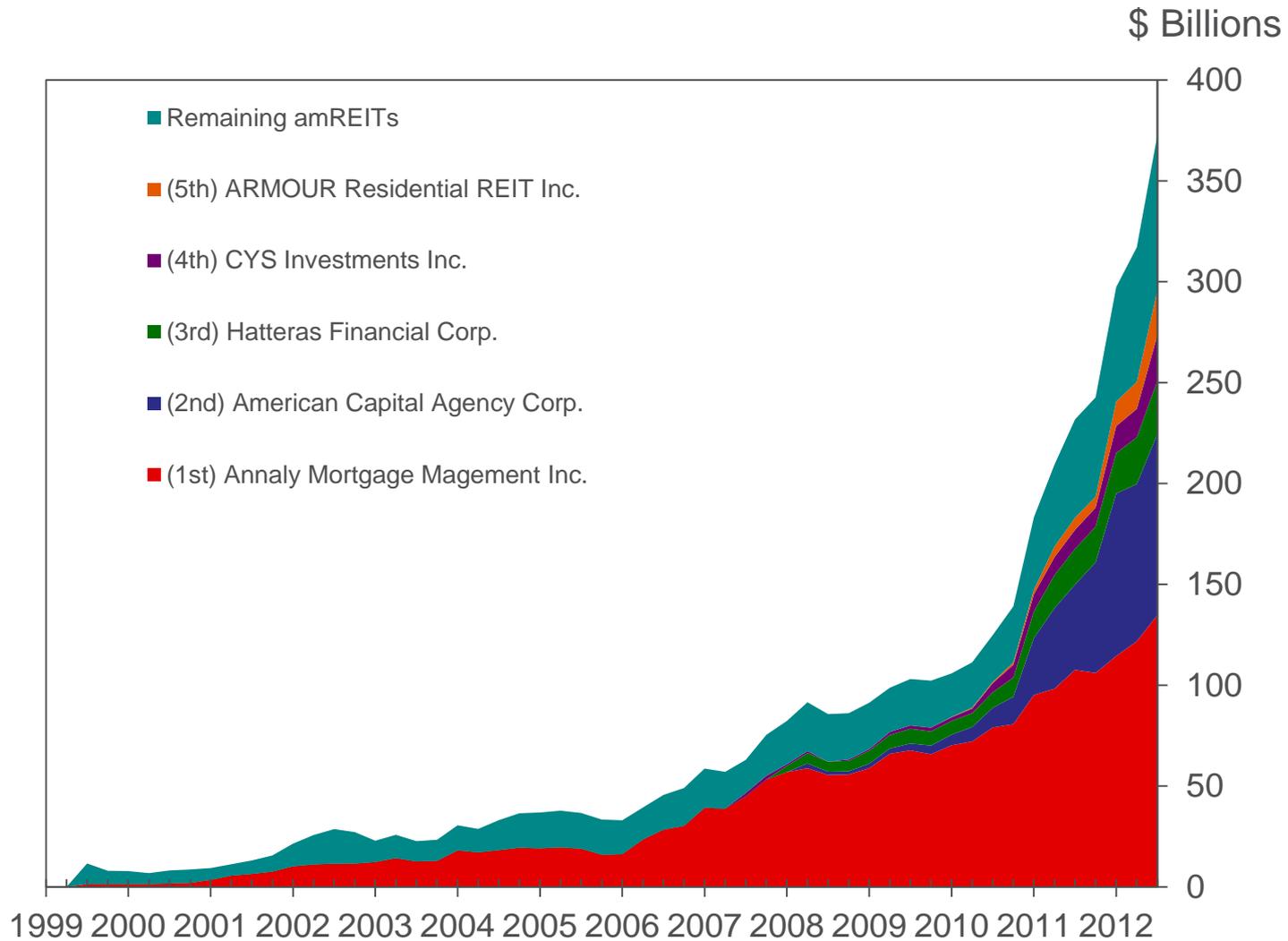


What went wrong? Credit Derivatives

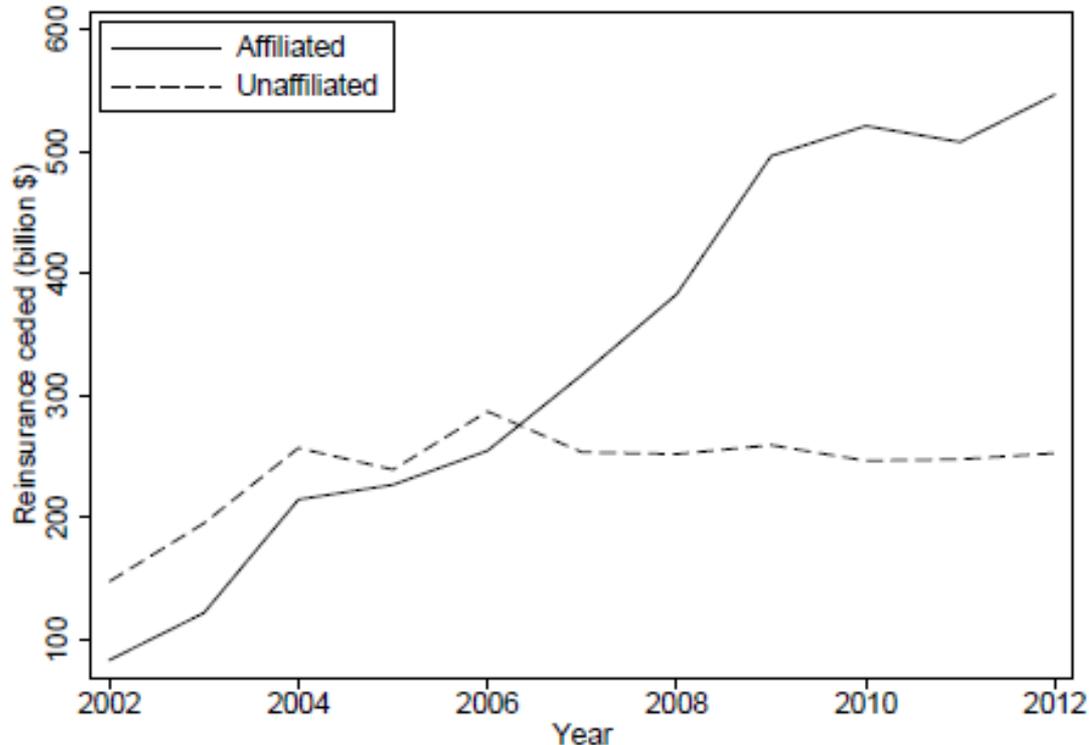
Credit Derivatives, Notional (\$billions)



What to worry about now? Agency Mortgage REITs



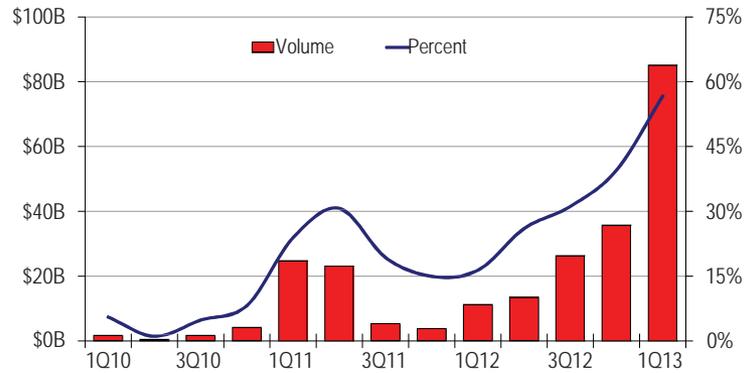
What to worry about now? Reinsurance



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.

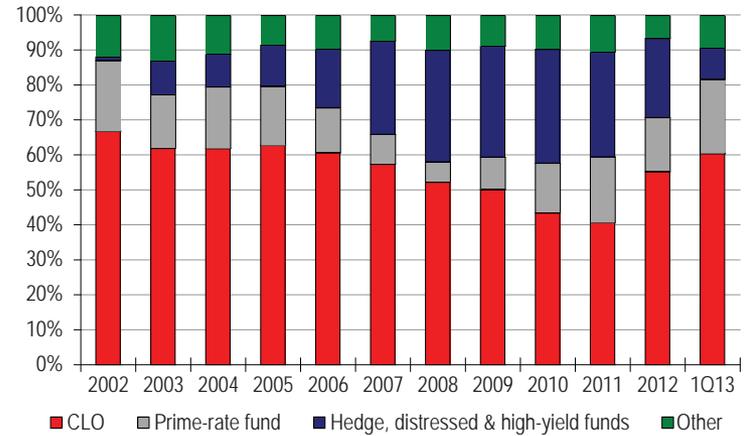
What to worry about now? Leveraged Lending

Covenant-lite volume



Source: S&P Capital IQ LCD

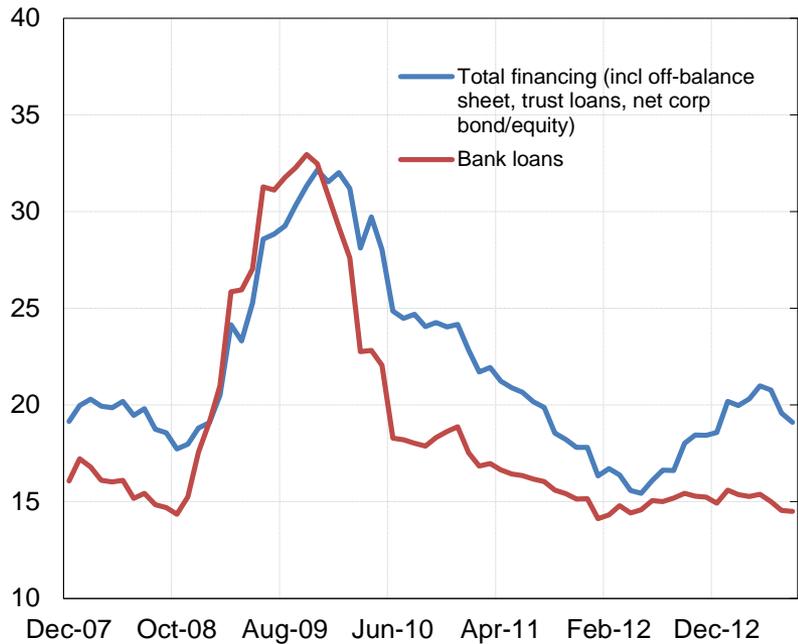
Share of new-issue institutional loan allocations by investor type



Source: S&P Capital IQ LCD

What to worry about now? Chinese Shadow Banking

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



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

