United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

July 17, 2025

The Honorable Scott Bessent
Chair
Financial Stability Oversight Council
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Dear Chair Bessent:

I write today to request that the Financial Stability Oversight Council ("FSOC") assess the current size, scale, scope, interconnectedness, and mix of activities of the private credit market in the United States. Specifically, I request information and analysis from FSOC on the extent to which nonbank financial companies' involvement in the private credit market, and growing entanglements with the core banking system, pose threats to U.S. financial stability. I also urge FSOC to work with the Office of Financial Research ("OFR") to design and conduct an exploratory stress test of nonbank financial institutions engaged in private credit activities, in alignment with recent exercises conducted by international financial regulators. This exercise would assess their susceptibility to financial shocks and estimate the impact of stress in the private credit market on U.S. financial stability and the broader economy.

Congress established FSOC in the wake of the 2008 financial crisis to "identify risks to the financial stability of the United States that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies," such as private equity firms and hedge funds.[1] It is also tasked with "respond[ing] to emerging threats to the stability of the United States financial system."[2] To do so, FSOC can – among other tools – gather information from regulators and the private sector; "request data and analyses from the Office of Financial Research"; and "monitor domestic and international financial and regulatory proposals and developments."[3] It can also "make recommendations to primary financial regulatory agencies to apply new or heightened standards and safeguards for financial activities or practices that could create or increase risks of significant liquidity, credit, or other problems" in the economy.[4]

1 12 U.S.C. 5322.
2 *Id.*
3 *Id.*
4 *Id.*

The $1.7 trillion private credit market has grown rapidly in recent years, including a 145% increase in the volume of bank loans to private debt funds.[5] This growth could have significant implications for the stability of the financial system and health of the broader economy. Banks and nonbank financial companies are increasingly interconnected: as of December 2024, for example, Fitch Ratings found that "U.S. banks with the largest balances of loans to nonbanking financial institutions…reported $158 billion in loans to private credit..."[6] Describing the risk of banks' "exposure to private credit" as currently "limited," Fitch acknowledged that "assessing the financial stability risks and interlinkages of banks to the private credit sector is difficult due to the market's inherent opaqueness."[7] In its 2024 annual report, FSOC also acknowledged the "potential financial stability risks" inherent in the private credit market, including "opacity, credit risk, liquidity risk, and increasing interconnectedness with banks, insurance companies, and other institutions,"[8] and discussed the "continued growth of private credit" in its June 2025 meeting.[9]

In light of this potential risk, some financial regulators have conducted, or are planning to conduct, stress test exercises to assess the stability of nonbank financial companies. The Bank of England, for example, conducted a test in 2024 to "enhance understanding of the risks to and from non-bank financial institutions (NBFIs), and the behaviour of NBFIs and banks in stress… and investigate how these behaviours and market dynamics can amplify shocks in markets and potentially pose risks to UK financial stability."[10] The Bank of England drew a number of conclusions from its test, including that the shock would cause significant liquidity needs among NBFIs due to significant losses and margin calls.[11] They also determined that many nonbank firms would turn to financing from banks – financing that would likely be unavailable.[12] Though the Bank of England ultimately identified "higher financial resilience levels than before previous shocks, reflecting regulatory changes or lessons learned from those stresses," it concluded that further analysis was necessary to identify and address additional vulnerabilities.[13] Meanwhile, the EU has announced it is planning its first stress test on the nonbank financial sector, as concerns mount among regulators "about the opacity and potential risks these firms could present, as well

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5 Bloomberg, "Bank Lending to Private Credit Funds Swells 145% in Five Years," Carmen Arroyo and Yizhu Wang, May 29, 2025, https://www.bloomberg.com/news/articles/2025-05-29/bank-lending-to-private-credit-funds-swells-145-in-five-years.

6 Fitch Ratings, "U.S. Banks' Direct Exposure to Private Credit Growing; Poses Limited Risks for Now," February 12, 2025, https://www.fitchratings.com/research/non-bank-financial-institutions/us-banks-direct-exposure-to-private-credit-growing-poses-limited-risks-for-now-12-02-2025.

7 *Id.*

8 U.S. Department of Treasury, Financial Stability Oversight Council, "2024 Annual Report," December 2024, p. 35, https://home.treasury.gov/system/files/261/FSOC2024AnnualReport.pdf.

9 U.S. Department of Treasury, "READOUT: Financial Stability Oversight Council Meeting on June 4, 2025," press release, June 4, 2025, https://home.treasury.gov/system/files/261/FSOC_20250604_Readout.pdf.

10 Bank of England, "The Bank of England's system-wide exploratory scenario exercise final report," November 29, 2024, https://www.bankofengland.co.uk/financial-stability/boe-system-wide-exploratory-scenario-exercise/boe-swes-exercise-final-report.

11 *Id.*

12 *Id.*

13 *Id.*

as links back to the banking system."[14] Regulators in France have announced similar stress test plans.[15]

I strongly urge FSOC to work with the Office of Financial Research to design and conduct a similar stress test of nonbank financial companies engaged in private credit activities. Such an exercise would allow regulators to assess vulnerabilities in the event of shocks to the market, and allow both regulators and market participants to mitigate identified risks. In addition, to help me better understand the growing significance of the private credit market and interconnections between nonbank financial companies and the core banking system, I request answers to the following questions no later than August 11, 2025:

1. Does FSOC view the growth of the private credit market as presenting risks to financial stability? If so, in what ways? What steps has FSOC taken to determine the extent of these risks, if applicable? What steps has FSOC taken to mitigate these risks, if applicable?

2. Does FSOC view the growth in bank lending to nonbank financial companies, and the overall increase in interconnectedness between banks and nonbank financial companies, as presenting risks to financial stability? If so, in what ways? What steps has FSOC taken to determine the extent of these risks, if applicable? What steps has FSOC taken to mitigate these risks, if applicable?

3. Is FSOC considering conducting a stress test, or similar scenario analysis exercise, of nonbank financial institutions, similar to that conducted by the Bank of England and those planned by EU and French regulators?[16] If yes, please discuss FSOC's plans, including the timeline and scope of such a stress test. If not, why not?

4. Has FSOC been in communication with other international regulators about this type of stress testing exercise for purposes of risk analysis? Has FSOC discussed the results of the exercises conducted by international regulators? If not, why not?

5. What information, if any, has FSOC collected from federal and state regulators, bank holding companies, and nonbank financial companies to monitor the rise of the private credit market? If FSOC has not collected any information, why not?

6. Has FSOC directed OFR to collect information or analyze the growth of the private credit market in the United States? If so, please provide an overview of OFR's efforts to examine the private credit market and identify potential threats to the U.S. and global economy. If not, why not?

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14 Financial Times, "EU plans sweeping stress test of non-banks," Martin Arnold, May 27, 2025, https://www.ft.com/content/72a515ac-83a5-4896-b270-dd3f817dc4a6.

15 *Id.*

16 Financial Times, "EU plans sweeping stress test of non-banks," Martin Arnold, May 27, 2025, https://www.ft.com/content/72a515ac-83a5-4896-b270-dd3f817dc4a6.

7. Has FSOC recommended any supervisory or regulatory priorities or principles, or identified any regulatory gaps that could pose risks to the stability of the U.S. financial system in relation to the rise of the private credit market and the increasing interconnectedness of bank and nonbank financial companies? If so, please provide an overview of such priorities, principles, or regulatory gaps. If not, why not?

8. Does FSOC believe any new or heightened standards or safeguards could address risks to the economy posed by the growth in private credit in the U.S. economy? If not, why not?

Sincerely,

Elizabeth Warren
Ranking Member
Committee on Banking,
Housing, and Urban Affairs