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US banks stay selective on NDFI lending as competition drives pricing pressure

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US banks disclosed their second-quarter lending exposure to nondepository financial institutions (NDFIs), expressing caution on private credit broadly but confidence in their own approaches.

In filings and comments tied to second-quarter earnings, executives at large banks described their approach to the sector as guarded, as increased competition puts pressure on structure and pricing. On net, bank executives polled in the Fed's July 2026 senior loan officer opinion survey reported stricter standards for all categories of loans to NDFIs versus historical ranges.

Bank exposure to NDFIs, and to private credit in particular, gained salience in the third quarter of 2025, when several large banks disclosed loans to bankrupt auto-industry lenders. Regulators have since been keeping a closer eye on the sector. Michelle Bowman, the Fed's vice chair for supervision, said in May that the regulator will ask the nation's largest banks in the future to disclose financial information about the NDFIs they are lending to, including total assets, net income and leverage.

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Fifth Third Bancorp's loans to NDFIs are primarily in subscription lines, corporate credit facilities and real estate, areas that have structural protections that provide "significant loss absorption," CFO Bryan Preston said in a July 17 earnings conference call.

"On private credit, our loan growth does not rely on lending to private credit vehicles and business development companies, which together are less than 1% of total loans, a deliberate decision given the structural complexity that is harder to assess through a cycle," he added.

"We have not been providing back leverage to a lot of the private credit funds that are out there in this market," Chairman, President and CEO Timothy

Spence said. "I think that is the place where we've seen structure and pricing deteriorate."

Citizens Financial Group Inc. reported increased exposure to private credit finance in the second quarter on a sequential basis, but the company is being selective with growth.

As equity sponsors that were existing clients grew into private capital, "we were there as their partner to help them think through, like how to go to market, what structures they should set up, what leverage we can introduce to help them get to their return targets," Chairman and CEO Bruce Van Saun said at a May 29 industry conference. "And so I think it's been a good journey for us, to solidify those relationships and be selective about kind of where we want to play and who the partners are that we want to be in bed with."

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At BankUnited Inc., COO Thomas Cornish said in a July 22 earnings conference call that the company had exited a private credit deal during the quarter when the terms of the arrangement changed.

"The credit is probably not as good. The market conditions around private credit are certainly not as strong, to put it mildly, [as they were] a year ago, but yet the pricing is going down and the conditions around the covenants and structure around the credit is weakening," he said. "So you go like, 'Well, why would you do that? That doesn't make any sense.' So when that deal gets redialed, we choose to exit that deal."

Cornish said, however, that such decisions stem more from market competition and pricing pressure from other lenders than from BankUnited's view of the entire sector.

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East West Bancorp Inc. CFO Christopher Del Moral-Niles said in a July 21 conference call that the company's NDFI balances increased by just $24 million, reflecting expected paydowns in its private equity loan book and consumer credit portfolios. NDFI loans "can be yieldier," he noted, in predicting a stable net interest margin for the remainder of 2026.

Zions Bancorp. NA President and COO Scott McLean nodded to the appeal of NDFI lending in an exchange with analysts about the company's loan

growth and deposit cost outlook in a July 20 earnings conference call.

"I would say that our loan growth has been really disciplined. It's been muted by the fact that we've not been gulping down NDFI loans for the last five years," McLean said. "We're choosing to be very disciplined about concentration management, and we're not growing unsecured at a rapid rate, which investors hate when you go into a recession. And so I think with the loan growth projection that we have, we have a very solid opportunity to keep funding costs, which is a significant competitive advantage for us, very much intact."

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