

Everyone's a Lender Now: Shadow Banking USA

By Charles Hugh Smith

How much private credit has been put in place but isn't in the official credit total is unknown and very likely unknowable. That means total systemic risk is also unknowable.

Everyone wants to lend us money now, even though they're not banks: the insurance company Progressive offered us a loan, PayPal offers us a business loan every time we log in, and the payment processor Stripe includes a pitch to borrow money on its dashboard page.

Then there's the ubiquitous *payment plans* offered by seemingly every vendor retailer.

These are parts of the *shadow banking system* (SBS) that we see, but most of the system is hidden in the global economy's complex financial plumbing. The shadow banking system differs from nation to nation, as it developed to avoid whatever is tightly regulated or restricted within each banking system.

Here is a general definition: *"Shadow banking in the U.S. refers to non-bank financial institutions and activities that provide services similar to traditional commercial banks but operate largely outside of conventional banking regulations. The sector has grown significantly in recent years and plays a major role in the financial system, though it also poses systemic risks due to its lack of transparency and regulatory oversight."*

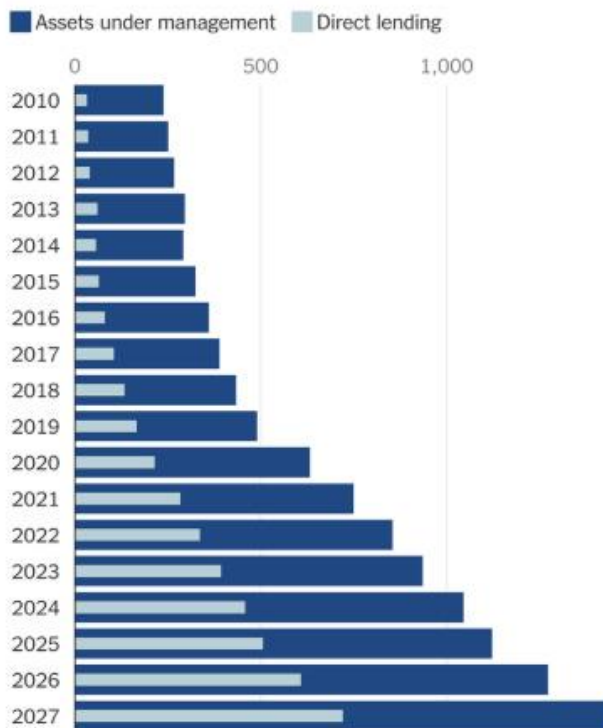
In a global economy dependent on credit, leverage, artifice and speculation, the expansion of shadow banking is highly incentivized. How much of this activity and debt ends up in official statistics of credit is hard to know, even for experts, given that the goal of shadow banking is to avoid the regulations and restrictions that increase transaction costs and limit risk.

Risk brings us to the treacherous territory between *known unknowns* and *unknown unknowns*, as risk is a funny thing: it cannot be extinguished, but it can be cloaked, transferred to others, sold to the unsuspecting as "safe," or buried beneath complexity. It can also lay dormant, slowly dissolving whatever holds the system together, a process that remains hidden until the avalanche surprises everyone who thought the snowmass was stable because it appeared stable.

These links shed some light on the scale, asymmetries and risks built into a sprawling, highly interconnected, highly leveraged shadow banking system

with few institutional safeguards or backstops.

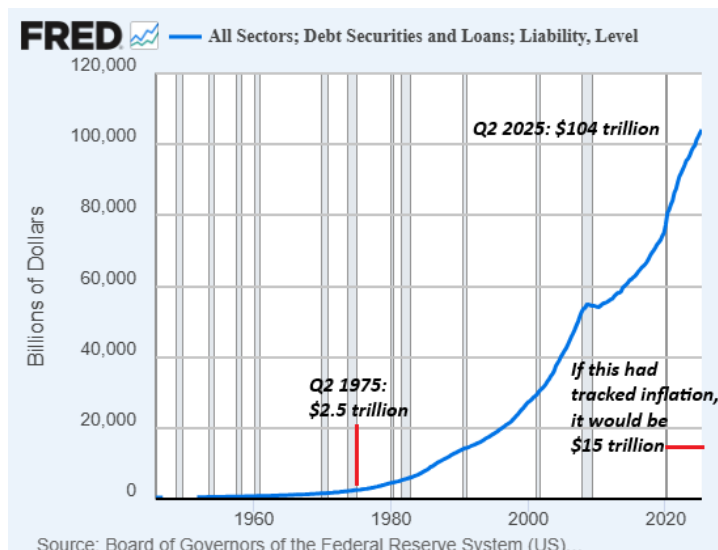
Direct private lending growth in North America



Figures in \$ billion. 2022-2027 are forecasts.

Source: Preqin • By The New York Times

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Source: Board of Governors of the Federal Reserve System (US)...

chart notated by Charles Hugh Smith www.oftwominds.com 9/25

