RESERVE BANK OF AUSTRALIA

RBAFOI-2526109

An application was received seeking access to documents as detailed below.

Summary of Request	Documents prepared by the Reserve Bank since 1 January 2026 about the global private credit sector, specifically: *- the sector's importance to global financial systems and the risk losses in the sector could pose for same,* *- the links between the global private credit sector and growing capital expenditure on artificial intelligence,* *- any simulations of private credit shock events, or discussions/research/analysis of same, and* *- any internal discussion or research/analysis/studies on private credit and the above themes prepared and made publicly available by other central banks, including the Bank of International Settlements and the European Central Bank*
Notes/context to any specific documents released:	Nil

Background

The following documents were identified as being relevant to the request and were released to the applicant with redactions made to remove exempt material in terms of the FOI Act 1982 Cth:

- 1 - 2603xx 0000 - redact s22 s33 s45 - Semi-annual NBFI Assessment - March 2026.pdf
- 2 - 2603xx 0000 - redact s22 - FSR Debrief speaking notes (Chapter 1) - ASIC APRA - March 2026.pdf
- 3 - 2604xx 0000 - redact s22 - P&I FS assessment - April 2026.pdf
- 3 - 2604xx 0000 - redact s22 - P&I FS assessment - April 2026_Redacted.pdf
- 4 - 260300 0000 - redact s22 s47 - FSR 2026H1 Detailed Outline - P&I & EFM material.pdf
- 5 - 260526 1635 - redact s22 - Australian Banks Private Credit Exposures - reply to Brad Jones - May26.pdf
- 6 - 260508 0000 - redact s22 s45 s47 - Note FS - Linkages to Private Credit - 08 May 2026.pdf
- 7 - 260302 0000 - redact s22 s47 - Briefing Collapse of UK Mortgage Lender ‘Market Financial Solutions’ - 2Mar26.pdf
- 8 - 260331 0000 - redact s22 s47 - Note FS Developments in Global Private Equity.PDF

Semi-annual NBFI Assessment – December 2025

Executive summary

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- **Non-bank lenders** have recently grown their market share, fuelled by sustained credit demand and favourable funding conditions. Vulnerabilities remain limited by the sector's small size. Heightened competition in CRE lending, where private credit funds are active, is contributing to some easing in lending standards. Private credit is not systemically important in Australia now, but ASIC reports shed light on vulnerabilities that may present challenges in the future, as the sector gains scale.

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Non-bank lenders

Registered Financial Corporations (**RFC**)[3], contribute to enhanced lending competition and complement lending offers, typically filling gaps left by banks, such as lending to small and medium enterprises and borrowers with irregular cashflows and higher risk profiles. The sector only represents roughly 3% of total Australian financial assets, which limits FS concerns. However, uneven visibility over the sector could mask the build-up of underlying vulnerabilities. Risks from RFCs can then transmit more broadly across the financial system via interlinkages within the system (both direct and indirect).

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Business lending

Business loans issued by RFCs continue to grow faster than those issued by banks, but less aggressively over the past year than the significant expansion period from 2022 to 2024. RFCs' business loans now represent just over 11 per cent of outstanding business credit (Graph 4), concentrated in areas which banks have been withdrawing from, such as SME lending, equipment lending, auto financing and SMSF lending.

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Box 2: Private credit

Private credit consists of bilaterally negotiated lending to businesses by managed funds. Private credit tends to support the financing of relatively risky businesses – where banks are less active – and creates access opportunities to investors (including retail investors). The full size of Australian private credit is not directly observable, but the sector has grown significantly over the past decade and its assets are now estimated between $50-250bn, less than 2 per cent of system assets (Graph 6).[5] Private credit is not presently large enough to have systemic implications, but vulnerabilities may come to present FS concerns as the sector expands. ASIC's review of public and private markets has highlighted diverse maturity of practices and helped identify vulnerabilities.[6]

- **Lending standards** – Lack of regulators' visibility – and influence – over private credit lending standards could hide growing leverage and distress in borrowing businesses. Sustained competition from private credit could lead to a broader easing in lending standards, potentially pressuring banks in market segments where they compete. Liaisons are reporting signs of easing lending standards for commercial and residential construction finance due to intensifying competition. APRA is collecting new data on banks' CRE lending terms and conditions, to monitor risks on banks emerging from this market segment (see FS diary note).

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5 Estimates vary considerably in part due to definitional differences in determining what constitutes private credit (Note DM).

6 REP 814 Private credit in Australia, REP 820 Private credit surveillance report, REP 821 Private capital market reporting, REP 822 Australia's capital markets, REP 823 Advancing Australia's evolving capital markets; CFR December paper D25/349464.

- **Sector concentration** – ASIC reports material sectoral concentration in development and construction projects, which can amplify financial shocks in an adverse scenario to the real estate industry (e.g. involving housing price crash, or sustained increase in construction costs). The sectoral concentration can also channel risks arising from the private credit sector to disrupt the construction industry (e.g. via reduced credit availability). While the growth outlook for real estate private credit remains favourable (AFR article), there are signs of diversification towards AI/data centre spending and critical minerals (D25/335269).

- **Investor protection** – Private credit arrangements are often opaque to investors, with reports of loan forbearances, portfolio restructure and equity conversion to prevent loss disclosure. Such opacity could lead investors to mis-assess/misprice/mis-hedge the risks they are taking, in turn amplifying risks spreading through the system in an adverse scenario. Investor protection is a growing concern as retail investors increasingly gain access to private credit via super platforms – though sophisticated institutional investors (such as superfunds) are expected to have relatively sound governance and valuation practices.

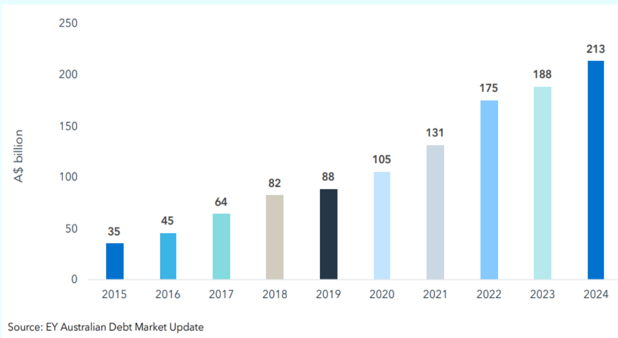
- **Domestic financial system interlinkages** - Risks arising from private credit can transmit to domestic banks (e.g. as providers of contingent credit lines, or co-lenders in a syndicated loan agreement) and to domestic insurers and superannuation funds (including SMSFs) as investors in private credit.

- **Global spillover** - There are concerns that a severe stress event affecting large offshore private credit providers could have spillover effects in Australia. Such an event could cause reputational damage to the industry, triggering redemptions from existing investors or deterring new investments. Recent failures of private credit funds in the U.K. (Market Financial Solutions) and in the U.S. (First Brands and Tricolor collapse) have reignited concerns over global spillovers, in particular as the U.S. private credit sector is showing signs of deterioration (US Private Credit Defaults - Fitch 2025). s33, s45

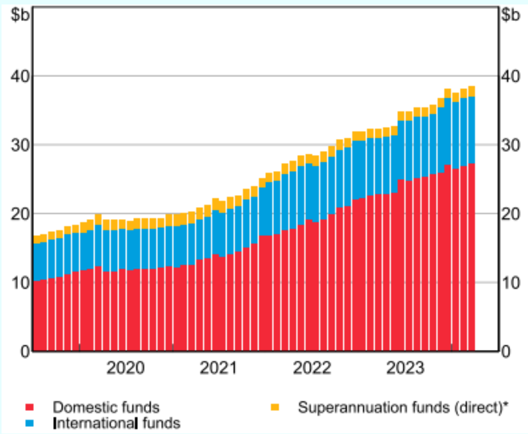
  International players with deep funding capacity could also enter the Australian market quickly, significantly increasing domestic growth and amplifying the risks of global spillover.

As private credit in Australia expands, the sector's opacity limits regulators' ability to assess FS vulnerabilities. CFR agencies are continuing their monitoring of the sector and pursuing targeted data initiatives (e.g. ASIC data pilot, ABS managed fund uplift, EFS enhancements) to fill gaps while balancing reporting burden. Overseas, the Bank of England is launching its second system-wide stress test, focusing this year on private markets (BoE - Dec 2025).

Graph 6a. Growth of Australian private credit (EY estimate)



Graph 6b. RBA estimate



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Australian Financial System, FS Department
6 March 2026

Appendix

Institutional participants

Tab 2. Domestic Financial System Participants

Estimates of balance sheet size, March 2025

Sector	Sub-sector[(a)]	Size ($b)	
Investment funds	Equity funds	239	
	Non-financial investment funds (e.g. property, infrastructure etc.)	588	
	Money market funds	28	
	Other financial investment funds	1,046	
	Total:	**1,901**	**14%**
Insurers	General and health insurers	309	
	Life Insurers	95	
	Total:	**404**	**3%**
Pension funds	APRA-regulated funds	2,891	
	SMSFs	1,008	
	Other funds	233	
	Total:	**4,131**	**31%**
ADIs	Banks	6,317	
	Of which: self-securitisation	477	
	CUBS	36	
	Total:	**6,353**	**47%**
Broker-dealers	Broker-dealers	34	
	Of which: prudentially consolidated in a banking group	34	
	Total:	**34**	**0%**
Non-bank lenders[(b)]	RFCs (Registered financial corporations)	519	
	Of which: Private credit[(c)]	46	
	Of which: Securitisers	197	
	Of which: Finance companies prudentially consolidated in a banking group	80	
	Total:	**519**	**4%**
Other market intermediaries	Financial Auxiliaries (e.g. stock brokers, mortgage originators)	92	
	Central counterparties (CCPs)	14	
	Total:	**106**	**1%**
	Total[(d)]:	**13,334**	**100%**

(a) Shaded sectors are prudentially regulated.
(b) Non-bank lenders exclude debt held by managed funds investing in debt (which is contained in 'Other financial investment funds').
(c) RBA estimate. Due to data limitations, the size of private credit in Australia is likely underestimated. Sample of entities is wider than reporting RFCs, resulting in a slight undercounting of non-bank lenders, overall. Some entities are also captured in 'Investment funds', resulting in some double counting.
(d) Sum of single sector estimates, retreated of bank consolidations. This metric is used as denominator to estimate ratios, but single sectors' estimates are not fully comparable, and the sum may contain double counting and underrepresented areas.

Sources: APRA; ABS; ASX; RBA

Types of Investment funds

In Australia, the majority of investment funds are structured as unit trusts.[10] Investment funds can be open-ended or close-ended, unlisted or listed, and offered to retail or wholesale investors[11].

The sector is heterogeneous, serving a wide range of purposes with different systemic risk profiles: [12]

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Private credit funds	Private credit is non-bank lending to businesses by managed funds. The loans are usually not widely issued, and terms are typically tailored to the borrower needs. Loans can be pooled by tranche of risks (and in some cases publicly listed). Private credit funds play a key role in the financial system but can also present FS risks (see box). In Australia, private credit is heavily concentrated to property development and commercial real estate.
Alternative investment funds	These include hedge funds and funds that invest in private equity, derivatives and commodities. Such funds can present high leverage, valuation risks and channel risks from private markets. Individual funds often have concentrated positions in some markets. While hedge funds can play a beneficial role enhancing market liquidity in normal times, they can also amplify shocks during a stress episode by rapidly unwinding their concentrated and leveraged positions, contributing to market disruptions (such as large market moves and a reduction in liquidity).

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Speaking notes: FSR Debrief with ASIC/APRA

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SLIDE 3

One element contributing to the concentration in equity markets, and now also debt markets, has been the growing exposure to the AI investment cycle – and this slide provides some flavour of that.

- [Left chart] The role of growing earnings expectations for the technology sector relative to other sectors, particularly as these adjusted following the Liberation Day tariff announcements. These optimistic expectations, particularly regarding AI, have been a key driver of equity market performance over recent years, particularly in the United States and East Asia.
- [Right chart] We can see the effects on concentration in US markets. When you identify listed companies generating at least some revenue from AI, they account for around 40 per cent of market cap.
- On the debt side, while the use of leverage has been relatively contained to date, borrowing is expected to increase rapidly in the years ahead to fund ongoing large-scale infrastructure investment – this is creating deeper links between the AI sector and credit providers, including banks, bond-market investors and private credit.

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SLIDE 6

Lastly, after covering public markets, the challenging conditions faced by global private markets have risen to prominence in recent months.

- In this chart we can see the slowdown in fundraising by private equity funds in recent years, which in turn is a reflection of the challenging dealmaking environment slowing down fund exits and the return of capital to investors.
- **But, more widely reported, is the worsening of conditions in some segments of private credit.**
    - Recent defaults in the US and UK have been treated as idiosyncratic, tied to alleged fraud and poor due diligence, but the pattern has unsettled investors.
    - Much of the concern now lies in private credit's exposure to the software industry, where valuations have weakened amid uncertainty about AI driven disruption. Some funds have reportedly experienced an increase in redemption requests, and major listed firms have experienced sharp declines in their share prices.
    - Even so, the long term investor borrower structure should reduce the risk of liquidity mismatches that can amplify price moves.
    - We intend to keep monitoring developments in this space, and are very aware of the efforts on ASIC's side when it comes to domestic private markets.

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- **NBFI**. NBFIs' role in core financial markets is continuing to grow and with leverage and liquidity mismatches potentially amplifying market volatility. Conditions in global private markets remain challenging. Global private equity funds have encountered challenges in exiting their investments. High-profile defaults in the US and the UK have highlighted how vulnerabilities in segments of private credit markets could spill over to the broader financial system.

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MARCH 2026 FSR DETAILED OUTLINE – P&I/EFM MATERIAL

P&I Dashboard: D25/314177

The Global and Macro-financial Environment

Key developments

Markets

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- A growing area of vulnerability is the role of debt financing in the AI sector, which has increased rapidly as AI-focused firms and hyperscalers seek large-scale infrastructure investment. While

AI hyperscalers will continue to fund much of this from their operating cash flows, approximately half is expected to be financed externally, mostly through debt. Deeper links between AI firms and credit markets, and increasing interconnections between those firms, mean that, should an asset price correction occur, losses on lending could increase financial stability risks. Opacity in some lending segments - notably private credit - and idiosyncratic risks, such as exit difficulties for private equity funds, could lead to unforeseen losses under stressed conditions. Recent widening in Oracle's CDS spread reflect investor concern over whether the company can generate sufficient internal cash flow to justify the amount of leverage taken out.

s47

- Opaque and highly interconnected revenue streams in the AI sector create hidden financial risks. AI companies increasingly engage in interrelated financing activities. For example, AI companies are increasingly extending credit and taking equity stakes in one another to generate revenue, which could artificially inflate actual demand particularly as revenue streams are opaque. This can distort true cash-flow quality, inflate valuations, and increase market fragility, leaving investors exposed if expected growth fails to materialise.

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NBFIs

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- Non-banks are more exposed to valuation risks, as portfolios are heavily exposed to the US and to tech. Funding to corporates have also expanded; in the Euro area, non-banks account for 37 per cent of non-financial corporate credit (ECB 2025). While non-bank flows can be opaque, there is some evidence that hedge fund behaviour tend to be procyclical and margin calls can intensify liquidity risk (ECB 2025). This is particularly true given leverage and derivative exposure among certain NBFIs, notably hedge funds.
- Private equity and private credit businesses are often closely interlinked. Private credit funds often provide the leverage to fund LBO activity, raising risks for investors with overlapping exposures to both the private credit and private equity sides of the business (MSCI 2025). Increasing use of leverage to generate liquidity and fundraising could contribute to a build-up of risks from the sector.

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- Future possible vulnerability may arise from the large debt financing needs from AI firms, particularly hyperscalers, which could lead to a widening in credit spreads and increase in costs for all corporate borrowers. (See BoE FSR content for more details)
    - **From the BoE FSR Box on AI**: Morgan Stanley Research estimate approx. $US 700 billion in AI infrastructure spending financed by debt & equity between 2025 and 2028.
        - *'Morgan Stanley Research estimate that AI infrastructure spending between 2025 and 2028 will be $2.9 trillion. While hyperscalers are expected to continue to leverage their operating cash flows for a large share of this investment, $1.5 trillion is expected to be met by external capital from a wide range of sources across (mostly) debt and equity, including $800 billion from private credit.'*

s45

s22

From: s22
Sent: Tuesday, 26 May 2026 4:35 PM
To: JONES, Bradley
Cc: FS - AFS Banks; FS - AFS Non-banks; BRISCHETTO, Andrea; NOONE, Clare; HOLLAND, Gideon
Subject: RE: Australian Banks' Private Credit Exposures [SEC=OFFICIAL]

RESTRICTED

Hi Brad,

s22 On your questions:

- s22 estimates did not include undrawn exposures such as contingent funding or undrawn warehouse facilities – the exposures will be larger if we include those, but I suspect still not as large as elsewhere. We're still working on a more comprehensive answer to this exposure question ahead of the next FSR based on the data we have available, and we'll keep you updated.
- We don't really have a good sense. NBFIs in graph 2 are defined as anything other than an ADI – it's hard to narrow to anything specific given banks would be dealing with a broad range of institutions.

As mentioned above AFS will have more work coming on this over the next few months, and we welcome any other private credit questions so we can make sure to cover those.

Thanks,
s22

From: JONES, Bradley s22 @rba.gov.au>
Sent: Thursday, 7 May 2026 12:10 PM
To: s22 @rba.gov.au>
Cc: FS - AFS - System Monitoring s22 ; BRISCHETTO, Andrea s22 @rba.gov.au>; NOONE, Clare s22 @rba.gov.au>; HOLLAND, Gideon s22 @rba.gov.au>
Subject: RE: Australian Banks' Private Credit Exposures [SEC=OFFICIAL]

RESTRICTED

Very interesting, thanks s22 . Two quick reactions:

- If I understand correctly, your first estimate would capture bank exposure to listed and unlisted investment funds (ex MMFs), which could include private equity and credit funds. I am struck (surprised!) at how low those numbers, incl because I would have thought many funds would have contingent credit lines with banks. It suggests that some of the themes that have emerged globally (tighter interconnections between banks and the PC industry) are nowhere to be seen here in Australia. As an aside, I recently heard from a large global PE/PC fund that they had struggled to get much traction in partnering with the majors

- In the second graph, do we have a sense for what type of vehicles/institutions these NBFIs represent?

No urgency at all on this

Brad

From: s22 @rba.gov.au>
Sent: Thursday, May 7, 2026 9:19 AM
To: JONES, Bradley s22 @rba.gov.au>
Cc: FS - AFS - System Monitoring s22 @rba.gov.au>
Subject: Australian Banks' Private Credit Exposures [SEC=OFFICIAL]

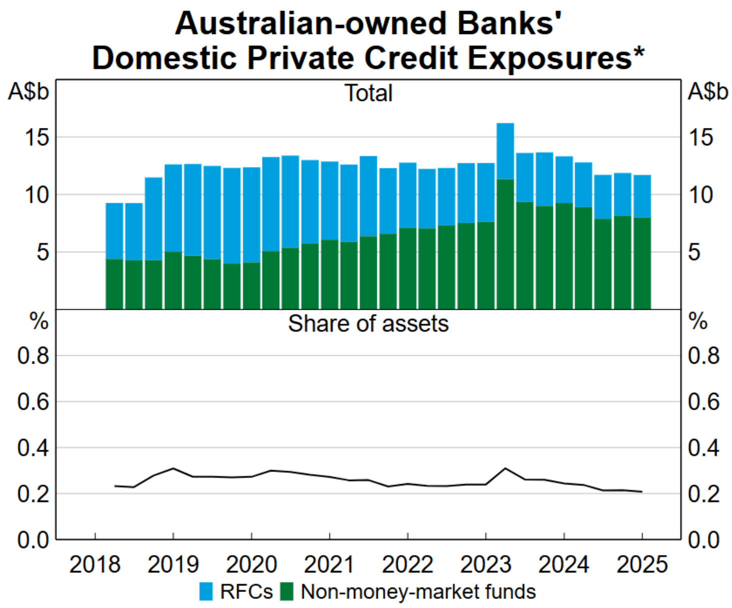
RESTRICTED

Hi Brad,

You asked about an upper bound estimate for Australian banks' exposures to private credit a few weeks ago. I have produced two measures – an upper bound for banks' exposures to Australian private credit, and an upper bound for banks' exposures to all private credit (including overseas).

Domestic exposure
To get an estimate for domestic exposures, I have included debt and equity security holdings and loans to resident RFCs and non-money-market investment funds, which are the two classifications we believe an Australian private credit fund would fall under. The upper limit for exposures to domestic private credit is approximately $12b (just over 0.2 per cent of assets) and has slightly decreased since 2024 (Graph 1). As such, banks' exposures to domestic private credit are limited.

Graph 1

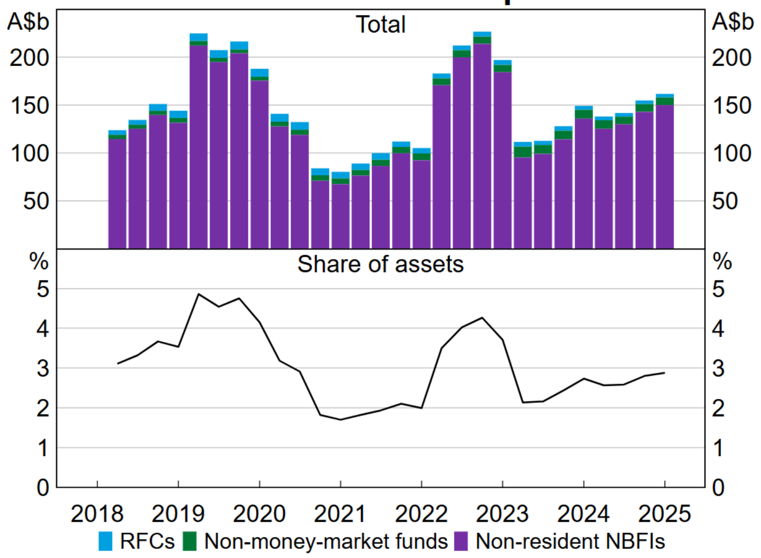


* An estimate of the maximum possible exposure. Includes loans, debt securities and equities for resident RFCs and resident non-money-market funds.
Sources: APRA; RBA.

Overall exposure
I have also calculated a combined upper limit for resident and non-resident private credit. This includes assets to non-resident NBFIs, which brings the total limit to $162b (2.9 per cent of assets; Graph 2), noting this is a broad classification. Exposures to non-resident NBFIs are primarily through loans and other assets (which includes equities, derivatives and working capital). This is much more volatile, primarily due to these 'other assets', but has increased since 2023 (Graph 3).

Graph 2

Australian-owned Banks' Private Credit Exposures*

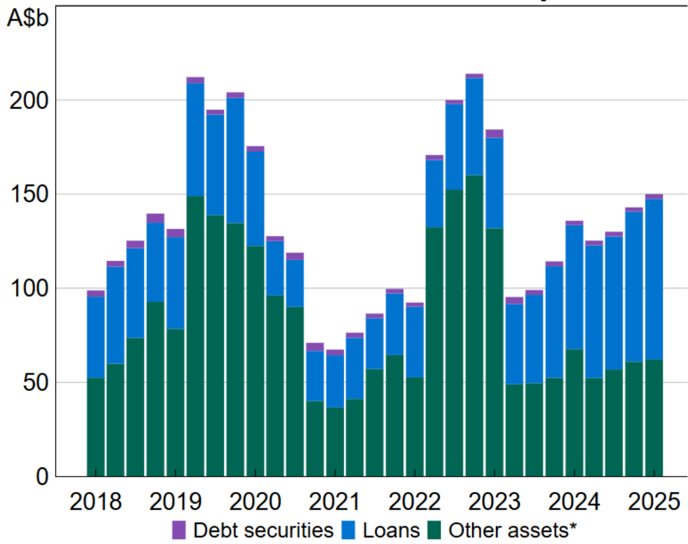


* An estimate of the maximum possible exposure. Includes loans, debt securities and equities for resident RFCs and resident non-money-market funds. Includes all assets for non-resident NBFIs.

Sources: APRA; RBA.

Graph 3

Australian-owned Banks' Non-resident NBFI Exposures



* Includes equities, derivatives, working capital and other assets.

Sources: APRA; RBA.

Let me know if you have any questions.

Thanks,
s22

s22 | Analyst | Australian Financial System | Financial Stability
RESERVE BANK OF AUSTRALIA
w: www.rba.gov.au

Linkages to Private Credit

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Overview

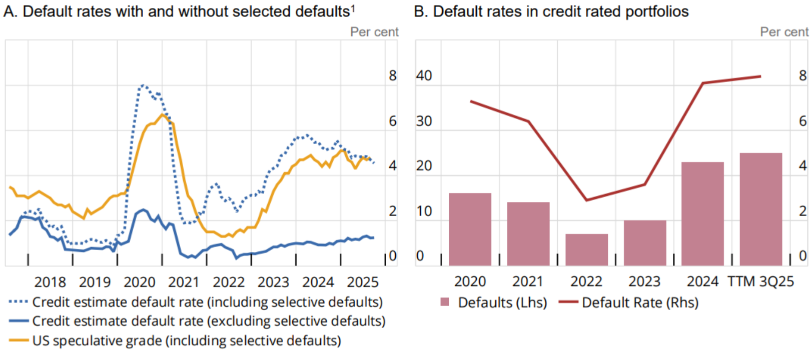
Fragility in private credit markets has been elevated since the latter half of 2025. A number of high-profile collapses, notably at First Brands and Tricolor amid allegations of fraud, and later at UK mortgage lender Market Financial Solutions, have increased scrutiny over opaque lending practices and exposures to the sector. In March 2026, several private credit funds experienced a sudden increase in redemption requests as software-exposed loan portfolios were marked down amid AI disruption risks. This led to fund managers triggering gating mechanisms as redemptions exceeded quarterly limits; some estimates suggest funds collectively received over US$20 bn in redemption requests, of which 44 per cent were fulfilled.

While these events were idiosyncratic and correlated exposures to the broader financial system appear limited, the growth of the sector could create greater complexity and structural opacity, masking underlying risks (Moody's 2026).

- AUM trends – disaggregated by key types (S&P) or BDC/direct fund split
    - Private credit is growing, but remains a small slice of the total debt market
- Drivers of supply and demand (FSB 2026, BIS 2025)
- Recent trends – default rates are likely to be structurally elevated, selective defaults and distressed exchanges could be on an upward trend. Reliance on PIK loans. Spread compression relative to BSL. MI_0725_private-credit-the-rising-defaults.pdf (rising defaults section)
    - Despite an increase in geopolitical tensions

Default rates are rising and are projected to structural increase over the rest of 2026. US private credit default rates hit a . The composition of defaults are concentrated in distressed exchanges, accounting for 65 per cent of all private credit defaults in 2025 (Moody's 2026). The prevalence of distressed exchanges and restructuring reflect a rise in interest deferral methods by borrowers to avoid hard payment defaults, such as paid-in-kind arrangements (Morningstar 2026).

Default rates on private credit Graph 10



[1] Twelve-month trailing default rates.

Source: IMF, S&P Global, Fitch ratings

Payment in kind interest allows borrowers to defer cash interest payments until maturity, with the accrued interest added to the loan's principal balance (PGIM 2025). Private credit funds can underwrite some loans with a PIK component to allow borrowers more flexibility and liquidity for reinvestment or operational purposes in exchange for greater yields. However, an increase in loans amending cash interest to payment-in-kind indicates weakening asset quality. BDCs …

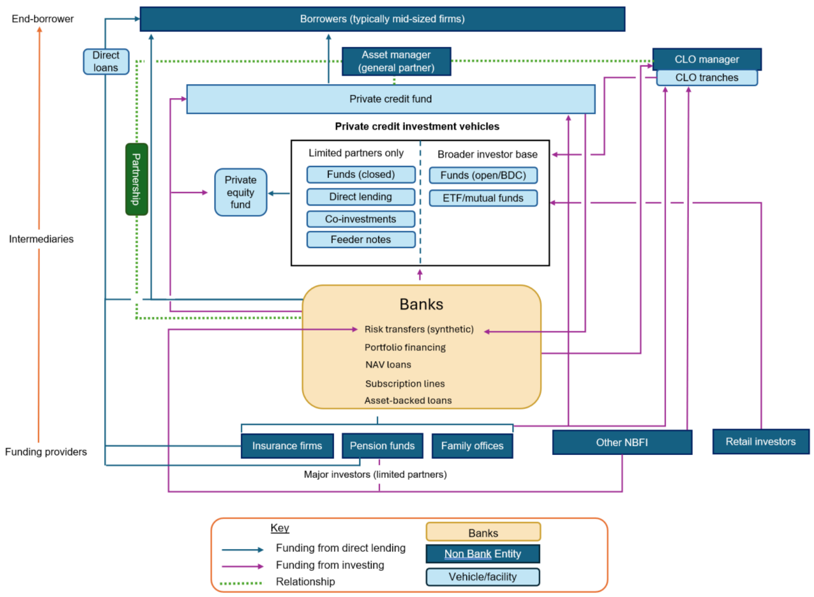
s45, s47

s45, s47

Competition between direct lenders and the broadly syndicated market…

- Ecosystem – stylised diagram of financing arrangements and vehicles. If this is quantifiable, a Sankey chart

Schematic 1: Stylised private credit ecosystem



Source: FSB.

Linkages with the banking system

Graph options

- Sizing credit exposures – range of estimates (e.g., FSB, …)
- Type of financing?

Overall, linkages between banks and private credit funds appear moderate. Large banks' loan commitments to private credit funds are estimated to be around $300 bn, accounting for around 14 per cent of total bank lending to NBFIs in the US. Comparatively, the FSB notes around $130 bn of combined exposures for the Euro are and UK banks (S&P 2026).

Exposures

BDCs typically well capitalised according to bank capital frameworks (Chernenko et al. 2024).[1]

An overwhelming majority of bank loans are first-lien secured loans, representing over 97 per cent of the total dollar volume (Boston Fed 202-). While this indicates bank creditors are first to be repaid by seniority in the debt structure, historical trends suggest that private credit loans exhibit a low recovery rate (or high loss given default) upon default. This reflects larger portfolio exposures among private credit funds to borrowers with limited collateralisable assets, such as software and healthcare services, which could lead to larger-than-expected losses (Fed 2024).

[1] The paper finds that BDCs have median risk-based capital ratios about 36 per cent. Under a Federal Reserve administered stress test, BDCs have median excess capital in severely adverse scenarios of about 26 per cent.

That said, Bank-PC links have increased…. Banks have increasingly provided leverage to private credit funds through the use of lending facilities, including subscription lines, warehouse financing, leverage facilities and securitisation. Estimates place around $300 bn in bank-extended credit to private credit funds.

Substitution

Alongside direct funding linkages, the expansion in private credit has intensified competition in the broader syndicated lending market (IMF 2024). Increasing evidence indicates that private credit vehicles, including BDCs, serve as substitutes for traditional lenders, driven in part by regulatory constraints on banks (Fed 2025). Any increasing number of joint private credit and bank joint ventures.

However, the net impact of this is nuanced. For instance, while growth in private credit lending could imply a shift in aggregate credit risk if banks are offloading riskier loans to private credit providers, private credit funds also employ lower leverage and are less susceptible run risks due to their closed-ended structure and redemption limits (Federal Reserve Bank of Boston 2025).

Mitigants

Several notable factors suggest bank loan characteristics do not pose a systemic risk. Regulatory data on bank holding companies' suggest that around 86 per cent of loans are secured by first or second liens. Over half of portfolio loans are syndicated, suggesting risks are distributed among borrowers. 21 per cent of loans qualify as leveraged loans, which indicates relatively conservative underwriting standards for private credit funds and BDCs.

Links

- Risk Review 2025
- Private Markets Monthly, March 2025: Identifying Potential Systemic Risks In Global Private Credit Markets

Linkages with insurers

Private credit is a small but growing share of insurer portfolios. The asset class provide insurers with diversification, illiquidity risk premiums and improved asset-liability matching, which is attractive due to stable, long-term cash flows. Life insurers have increased allocations to private credit, holding private credit loans on balance sheets and providing credit facilities to private funds (FSOC 2025).

In the Euro area, exposure are more heterogenous across jurisdictions (ECB 2026). In addition, private equity acquisitions of life insurers are less common, reducing exposures to private market assets.

Could risks spill into public markets

Falling defaults, rising fragility

- Global Financial Stability Report, April 2024, Chapter 2: "The Rise and Risks of Private Credit," April 16, 2024

Other

- Retail and private credit – mostly

Data coverage

- 10-K/10-Q filings (credit facilities – revolving, warehouse lines, direct credit. Syndicates). Off-balance sheet commitments may be evident in 'contractual obligations' category. Accessible via S&P
- SEC/EDGAR – 8-K filings (new credit agreements, new issuance/facilities)
- LSEG/Bloomberg – ABS and CMBS issuance

Box

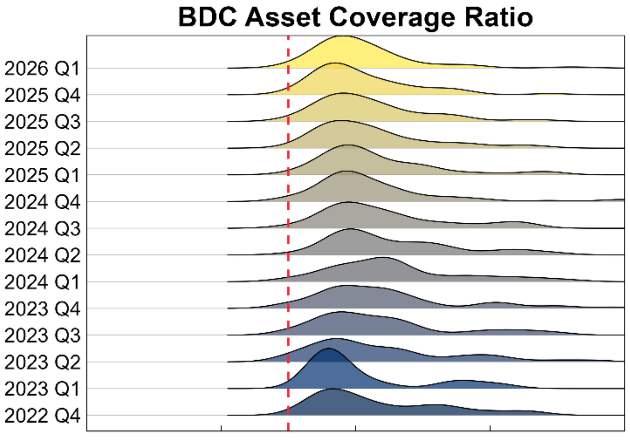
A deep dive in private credit BDCs – micronote/box

- BDC CDS to bank CDS spreads. Comovement signal during stress
- The global drivers of private credit

Business development companies (BDCs) are … Listed BDCs trade on public exchanges, providing investors with liquidity through the buying and selling of shares in the secondary market. Non-traded BDCs function more like semi-open-ended funds, offering periodic – typically quarterly – redemptions at net asset value, but are subject to redemption gates that can limit or suspend withdrawals during stress periods (SEC 2024).

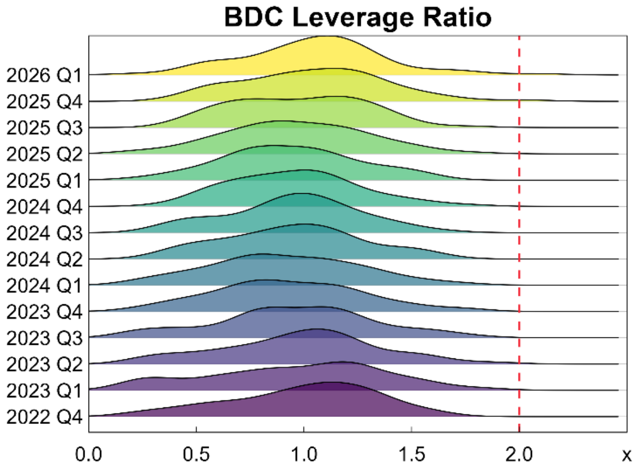
BDCs provide a relatively transparent view into risks in private credit. Beginning in Q4 2022, the SEC began publishing public data extracted from disclosure filed by BDCs (SEC 2026). As a result, BDCs are subject to similar requirements of US mutual funds, including periodic public reporting which provides greater collective visibility compared to other private credit fund types (Blue Owl). portfolios are generally representative of broader loan portfolio characteristics among private credit vehicles – including direct lending funds and unlisted BDCs.

BDCs have experienced substantial growth, with AUM growing from $123 bn in 2019 to $438 bn in 2024 (FSOC 2025). Much of the growth has been driven by non-traded BDCs, signifying a growing share of the market is held by investors within semi-liquid fund structures.



Asset coverage ratio

* Percentage of total assets less all liabilities and indebtedness not represented by senior securitiy, to senior security representing indebtedness.
** Dashed line indicates minimum asset coverage ratio in the US mandated by the Small Business Credit Availability Act (2018).
Sources: RBA; SEC.



* Ratio of long term debt to stockholders equity.
** Dashed line indicates maximum leverage ratio in the US mandated by the Small Business Credit Availability Act (2018).
Sources: RBA; SEC.

BDC leverage ratios are well below this threshold.

The BDC universe include all entities with an active filing status reported by the SEC. I exclude recently listed BDCs that have not yet sold shares publicly (denoted by N-6F filings).

What can BDC data potentially tell you

- Loan portfolio composition, by seniority – senior secured, first lien, second lien, unsecured, unitranche and other loans.
- Loan spreads – it would be informative to compare these spreads to BSLs and leveraged loans. Since bank loans are overwhelmingly first lien, it can be assumed that the 1st lien spread is relatively representative of credit conditions
- BDC debt by investment type – revolving credit, term loans, securitised debt (any other bank loan categories? Subscription lines)
- R

What are the risks to FS

Despite a rise in linkages between private credit funds and the broader financial system, the transmission of risk is less likely to be apparent through leverage channels. Relative to banks, PC funds tend to be employ lower leverage and pose less of a run risk due to [redemptions limits]. From a financial stability standpoint, this could suggest that a shift in credit provision toward private credit could have a net positive effect (Federal Reserve Bank of Boston).

However, it's unclear whether this holds under extreme stress scenarios. As BDCs must remain in compliance with a minimum asset coverage rate of 150 per cent along with bilaterally negotiated bank loan covenant. When this limit is reached, BDCs may be forced to sell down portfolio loans, likely at marked-down prices, to pay of debt obligations in order to continue to remain compliant with coverage ratios.

Contagion

Leverage

Concern is probably liquidity, rather than leverage.

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8 May 2026

Briefing: Collapse of UK Mortgage Lender 'Market Financial Solutions'

Key messages

- Market Financial Solutions (MFS), a UK-based mortgage provider, collapsed on Wednesday 25 February 2026 amid claims of fraudulent behaviour. The collapse has reignited concerns about lending standards in the private credit sector, which initially arose after similar high-profile corporate defaults of Tricolor and First Brands in the US in September 2025.
- While it is too early to assess the full extent of the impact on other financial institutions, several banks and NBFIs had material yet manageable exposures to MFS, totalling over US$2.7 billion. Financial firms with direct MFS exposures (including Barclays, Jefferies and Wells Fargo) experienced a sharp decline in equity prices on Friday, amid a broader sell-off across the financial sector.
- While the non-bank lending sector in Australia is growing and ASIC has raised concerns about risk management standards in private credit, it currently remains small with limited exposures to the Australian banks. The likelihood of a similar event arising in Australia and having systemic implications remains low.

Summary of recent developments

- MFS is a UK-based lender specialising in complex property-backed loans, including risky bridging loans which provide short-term, secured finance to borrowers at high interest rates. The lender operated on a loan book of about US$3.2 billion, largely funded by institutional credit lines.
- Early reports link MFS' collapse to allegations that the provider was pledging collateral to secure multiple loans ("double pledging") without proper disclosure. Bloomberg are reporting a US$1.3 billion shortfall in collateral backing loans from MFS, which accounts for more than 80 per cent of MFS debt tracked by Bloomberg (US$1.6 billion).
- Prior to its collapse on 25 February, MFS experienced 'technical and procedural' issues related to its banking facilities with Barclays, which prompted it to apply to the court to enter administration on 20 February (Mortgage Introducer).
- MFS financed its business debt through a range of tools (e.g. institutional funding lines and warehouse facilities) from several banks, including Barclays, Jefferies, Santander and Wells Fargo, as well as private credit firms Atlas SP Partners (an asset-backed financing firm owned by Apollo Global Management) and Castlelake (FT).
- While there is no evidence that the collapse is a result of widespread mortgage defaults, it occurred amid a series of idiosyncratic stresses emerging from weakness in segments of private credit markets, including the bankruptcies of US-based auto lender Tricolor and First Brands Group in September 2025. These companies face similar allegations of fraudulent underwriting standards.
- More recently, concerns over asset quality and changes to investor redemption rules by some major private credit funds have increased investor worries of further private credit losses.

Total reported exposures of financial firms to MFS are material, with over US$2.7 billion at risk.

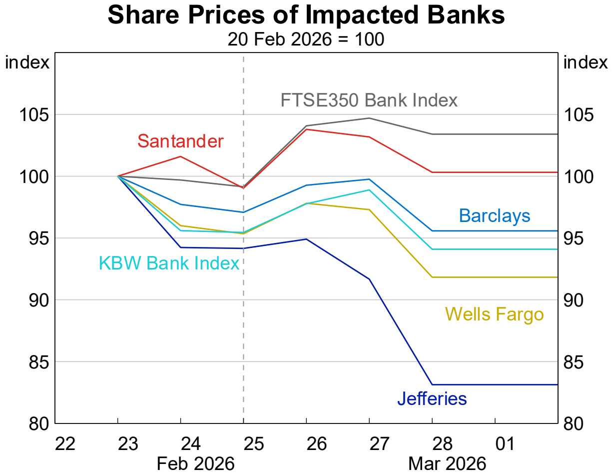
- Major financial institutions with exposures include Barclays (US$800m, s47), Atlas (US$550m, s47), and Jefferies (US$135m, s47). Wells Fargo, Santander and Castlelake are also affected by the firm's collapse, though the extent of their exposures has not been publicly disclosed.
- Currently, there is no reported exposures by Australian creditors.

- It is unclear to what extent losses have been provisioned for, and what proportion of the risk is retained on affected parties' balance sheets, although reported losses should be manageable for these institutions. Barclays was one of the banks responsible for arranging (possibly syndicated) loans for MFS, but their direct exposure is unclear (analysts note that banks typically sell on some or all of their exposure when arranging such loans).
- The defaults of First Brands Group (a global automotive parts supplier) and Tricolor (a subprime auto lender and dealer) in September 2025 had already highlighted opaque linkages and common exposures between non-bank credit providers and the broader financial system. Those defaults have led to reported total write-downs of over US$1 billion by banks from their direct lending, as well as their exposures through credit funds and warehouse lending facilities.
- Better understanding and responding to challenges in private markets remains a focus of regulators globally.[1] In December, the Bank of England launched a system-wide exploratory scenario exercise to enhance its understanding of broader risks and dynamics in private markets, with results expected to be published in early 2027.

Market reactions to the collapse of MFS have been largely contained within the financial sector.

- Equity prices fell sharply for some financial firms, as markets became aware of direct exposures to MFS late last week (Graph 1). On Friday, Jefferies' share value fell 10% (following a 3.5% decline on Thursday), Barclays closed 4.2% lower, and Wells Fargo fell by over 6%.
- The MFS collapse reignited concerns about poor lending standards more broadly in the private credit sector. This, alongside concerns around exposures to the software industry, which is facing potential disruption from AI-based competition, led to a broad selloff across the financial sector. The US Large Bank Index (KBW Nasdaq Bank Index) experienced its largest one-day decline since Liberation Day last April (4.85%). Major declines included Goldman Sachs (7.5%), Morgan Stanely (6.2%), Citi (5.2%), Bank of America (4.7%), JPMorgan (1.9%). The UK's bank index (FTSE 350) also fell on Friday (1.24%) largely driven by Barclays.

Graph 1



* Filtered to weekdays.
** Friday 20 February 2026, Market Financial Solutions applied for administration, Markets opened Monday 23 February.
*** Wedenesday 25 February 2026, Market Financial Solutions administration application was granted.
Sources: Bloomberg; RBA.

[1] See FSB (2025), '[FSB Chair's letter to G20 Leaders](#)', 20 November.

2 March 2026
Policy and International & Australian Financial System Teams
Financial Stability Department

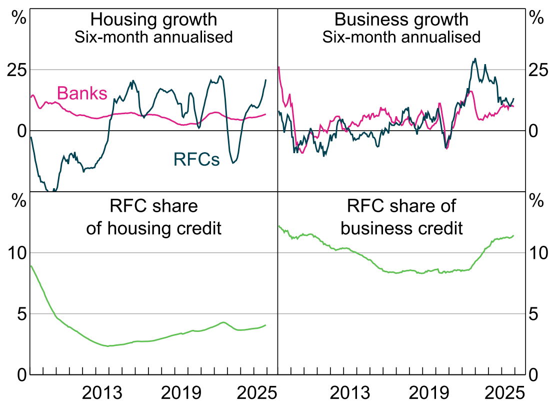
Background on Domestic Non-bank Lending

Non-bank lenders have increased the availability of credit for both housing and business borrowers but risks to financial stability remain contained.

- **Private credit** *(business lending by managed funds)* **is growing fast in Australia and ASIC has raised concerns about risk management standards, but the sector is unlikely to generate FS concerns due to its small size** (less than 2 per cent of system assets). The sector is highly concentrated in CRE (including construction and developing finance), with concerns over some players' opaqueness of portfolio structure and loan performance, and limited regulators' visibility. ASIC finalised its review of public and private markets in November 2025 and issued a roadmap of work and stakeholder engagement over the next 12-18 months.[2] Global turmoil in private credit could spread domestically via large offshore providers operating in Australia, and potentially alter investors' confidence and reduce credit availability for the construction industry.
- **Outside of private credit, Australian non-bank lending activity is of relatively good quality**, by international comparison, with little evidence of material deterioration in lending standards. While there are growing pockets of concentration and opaqueness, these appear contained.
- **In Australia, non-bank lenders' market shares of housing and business lending have stabilised** (at respectively 5% and 11% of outstanding loans – (Graph 2)) after few years of aggressive growth. Their activity is driven by sustained credit demand and favourable funding conditions, boosted by foreign investors' attraction to Australia in the midst of geopolitical fragmentation. Liaison has reported heightened competition in housing and CRE lending, with signs of easing in CRE lending standards (e.g. lower pre-sales requirements).
- **The sector has some linkages with banks, but these appear manageable.** Banks provide warehouse/liquidity facilities to non-bank lenders and compete or syndicate on their (limited) aligned market segments. Australian banks typically impose high lending standards for loans originated using their warehouse facilities, and banks warehouse exposure was last assessed in 2022 at less than 1 per cent of banks' assets (March 2023 bulletin). Recent industry surveys have signalled over-supply of warehouse facility from new foreign banks, with non-bank lenders limited by their operational capacity to further grow their RMBS portfolio (Kanganews, page 12).

Graph 2

Non-banks Housing and Business Credit



* The RFC series includes non-bank lenders with more than $50 million in assets (including lenders consolidated within banking groups), and does not include superannuation funds or insurers. Earliest observation January 2008. Latest observation July 2025.

Sources: APRA; RBA.

Recent Developments in Global Private Equity[1]

Global private equity has grown significantly over the last two decades. Over this period, assets under management (AUM) have increased roughly tenfold, reaching $10.9 trillion as of mid-2025, and the sector has largely outperformed global public market counterparts (Graph 1, Graph 2). [2,3] *However, elevated macroeconomic uncertainty and tighter financial conditions following the global hiking phase in 2022-23 has heightened risks for the private equity sector, with the outperformance gap narrowing in recent years, particularly in the US.*[4] *These dynamics have created challenges across the private equity deal cycle (see Appendix A for a stylised view of this cycle). Difficulties in entering and exiting portfolio investments have slowed the return of capital to private equity investors, which in turn has weighed on new fundraising, with funds increasingly seeking complex and leveraged sources of alternative liquidity. While developments in private equity are unlikely to be systemic in isolation, regulators globally continue to highlight opaque linkages – including with private credit – and layers of leverage as potential amplifiers of financial stability risks (see Box, Appendix B).*

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Fundraising challenges reflect difficulties with exits alongside more uncertain macroeconomic conditions

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Further, private equity funds have traditionally partially financed buyouts using leveraged loans from banks. However, the share of leveraged loan issuance for buyout-related purposes has declined and remains below historical averages, despite strong leveraged loan issuance for non-buyout activity in the past two years (Graph 11). Banks have been more reluctant to extend loans to fund leveraged buyouts, and have been syndicating or offloading "hung loans" to private credit providers to reduce the risk held on bank loan books (Bloomberg 2025).[10] Instead, private equity firms are increasingly seeking funding from private credit providers to make up the shortfall from institutional lenders. In Q4 2025, private credit financed around 80 per cent of private equity leveraged buyouts and has become the preferred source of financing relative to traditional bank-funded channels (Pitchbook 2026).

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10 Hung loans refer to bank-underwritten debt that cannot be sold off to investors prior to acquisition, for example due to a lack of demand or perceived risk.

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Investor-led secondaries, in which an investor purchases an existing stake from primary private equity fund investors, provide sellers with greater flexibility to rebalance or liquidate portfolios without needing to stay invested until the fund expires, while buyers benefit from shorter duration and faster capital returns often at discounted net asset value (NAV) pricing (Morgan Stanley 2022).[11] s22

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11 Transactions usually take place at discounts of 5-15 per cent for buyout, private credit and infrastructure (J.P Morgan 2025).

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Private equity funds themselves have also sought additional leverage to generate liquidity and return capital to investors. NAV financing allows funds to take out loans secured against the asset value of the fund, which are typically backed by leverage already, resulting in funds taking out layers of leverage (BoE 2024). Use of NAV financing is projected to reach $145 billion by 2030 from around $44 billion in 2023 (17Capital 2024). Financial stability risks may arise from interconnections with other areas of the financial system; banks and private credit funds are major providers of NAV loans, exposing them to credit risk. Moreover, the liquidity of the underlying collateral could be prone to market stress. With a majority of private equity portfolios exposed to AI developments of some form (Bain 2025), portfolio companies could be exposed to sudden market dislocations arising from AI-related shocks, which could materially affect the value of asset-backed collateral (see Box: Private equity exposures).

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Box: Private equity exposures

Datacentre-related investments

More recently, private equity backed funding has been an increasingly important source of financing for AI-related infrastructure. An estimated $1.8 trillion in datacentre infrastructure spending will be needed from 2024 to 2030, with private-market capital projected to play a large role in meeting that demand (BCG 2025). Private equity firms invested around $108 billion in datacentre-related deals in 2024, over three times the amount from 2023, while private equity-backed deals have accounted for 80 to 90 per cent of datacentre transaction value since 2022 (Pitchbook, S&P Global 2025). As private equity investment becomes more concentrated around AI, portfolios could be more exposed to price dynamics from AI-related developments and market re-evaluations, which could be amplified by limited transparency into the resilience of private equity portfolios.

Software

Private equity exposures to the software industry have also increased over the past decade, accounting for around 18 per cent of US private equity deal value in 2025 (Pitchbook 2026) (Graph 14). Software exposure is also pronounced in private credit and broadly syndicated loan markets, both of which are growing sources of financing for private equity activity (S&P Global 2026). Recently, the software industry has come under pressure in the face of potential disruption from AI-based competition, introducing risks to private equity portfolio valuations. Lags in private equity marks imply that portfolio valuations on software holdings likely do not fully reflect current market conditions, broadening the scope for larger markdowns.

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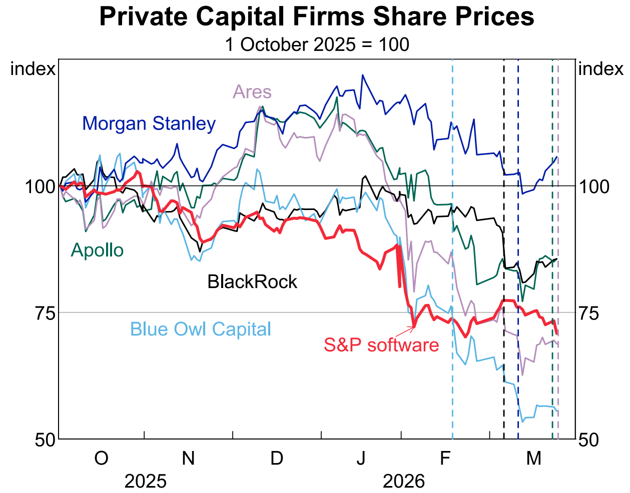
Private credit

There is a high degree of complementarity between the private equity and private credit businesses; around three-quarters of private credit assets are managed by funds whose umbrella firm is also active in private equity (RBA 2024). This raises risks for investors with overlapping exposures to both the private credit and private equity sides of the business.

At the same time, private credit and private equity funds are often invested in the same underlying portfolio company, raising risks from common exposures to further software-related valuation declines. For example, private credit funds often provide private equity funds with the leverage to finance LBO activity, while they can also operate direct lending facilities to AI-exposed companies separately. Recent analysis suggests that, in deals jointly financed by both private equity and private credit funds, private equity bears around 85 per cent of the exposure, implying that any further markdowns in software-disrupted companies are likely to be absorbed predominantly by private equity investors (MSCI 2025).

In February 2026, investor reassessments of the prospects for the software industry and the liquidity of private credit funds affected some major alternative investment firms. Some private credit funds reportedly experienced an increase in redemption requests in response to recent developments, leading them to introduce restrictions on investor redemptions.[15] While most funds have generally met redemptions, fears of broader contagion could trigger larger outflows and a sharp drawdown of liquidity buffers in the industry.[16] These concerns have been reflected in large share price declines among major private capital providers, all of which operate both private equity and private credit businesses (Graph 15).

Graph 15



* Dashed lines denote reported redemption halts or limits at a firm's private credit fund.

Source: Bloomberg.

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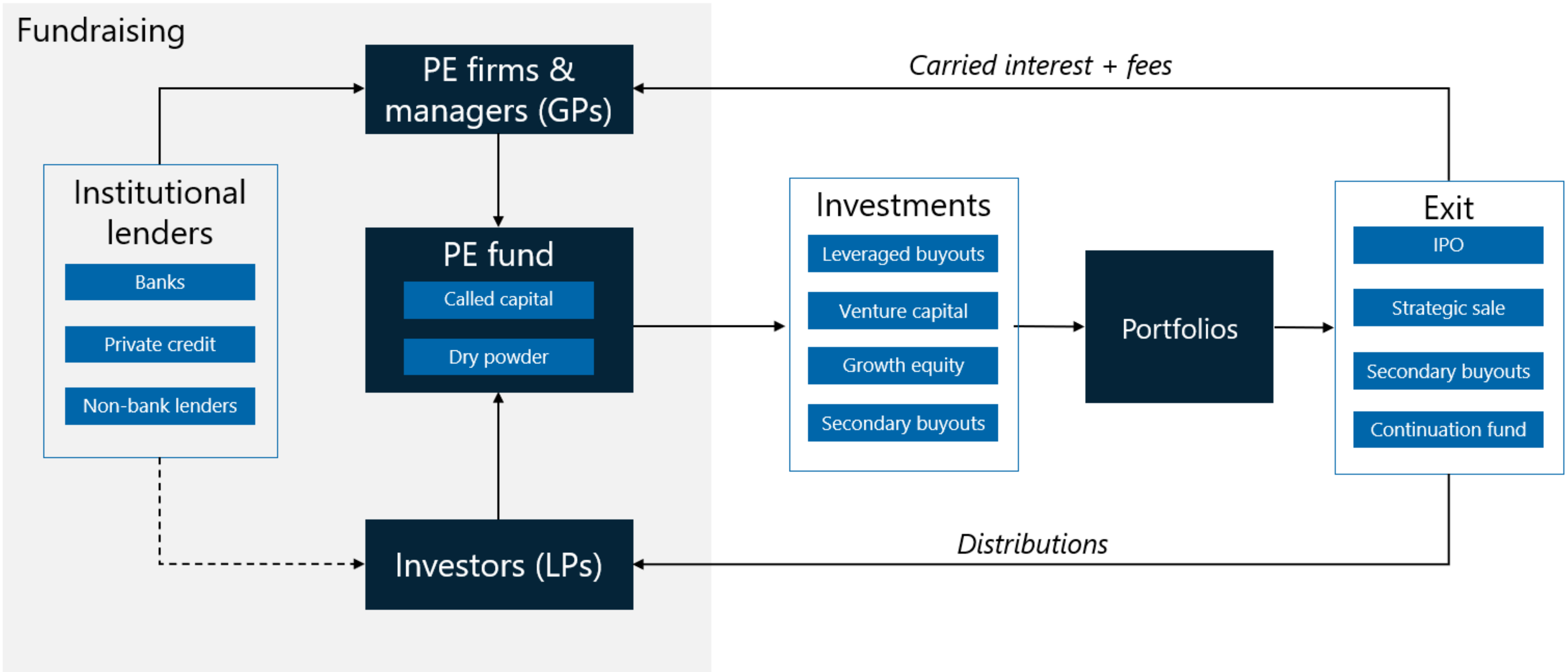
31 March 2026

15 Key incidents include the decision of US investment group Blue Owl to permanently halt redemptions at a non-traded private fund, fuelling broader concern over risks from the asset class. Subsequently, several notable private credit funds – including funds operated by Blackrock, Morgan Stanley, Apollo and Ares – have experienced substantial writedowns.

16 Market reports suggest that broader market spillovers remain contained so far, and leverage at stressed funds and business development companies (BDCs) are lower compared to previous systemic episodes like the GFC. While redemption requests have increased sharply, funds often 'gate' withdrawals to ensure redemptions don't exceed predefined limits to prevent forced asset sales.

Appendix A Stylised private equity deal cycle



Appendix B International Regulatory Commentary

Source	Summary	Link
BoE	• In 2024, the Bank of England conducted a thematic review of private equity related financing activities, assessing that several banks were unable to measure counterparty exposures to the private equity sector. • Private equity financing from private market lenders has been a significant source of funding for parts of the economy; for example, half the funding for UK corporates have come from private markets and non-bank lenders. • PE noted as a growing source of corporate finance, accounting for ~15 per cent of UK corporate debt; vulnerabilities flagged include high leverage across PE-backed firms, interconnectedness with banks/insurers, opacity of valuations, NAV financing, and risks from PE ownership of insurers and funded reinsurance. • The Bank of England is undertaking a system-wide exploratory scenario exercise to enhance its understanding of broader risks and dynamics in private markets and is expected to publish the results in early 2027.	BoE – Thematic Review of Private Equity Related Financing Activity 2024 BoE – "Not So Private Questions" 2024 BoE – FSRs BoE – System-wide Exploratory Scenario 2025
ECB	• Opaqueness over leverage and valuation practices among private equity firms hinders a thorough assessment of risks, and monitoring by regulators remains hampered by data scarcity. • Retail and pension access to private equity raises liquidity mismatch risks. Growing interconnectedness with private credit raises some concern. • A few specialised and larger banks engage with PE through a wide range of financing arrangements. Exposures appear limited in isolation but can involve layers of leverage.	ECB – November FSR 2025 ECB Banking Supervision – Hidden Leverage and Blin Spots (2025)
IMF	• Private credit and equity are closely linked. Managers whose umbrella firm is also active in private equity hold more than three-quarters of private credit assets, while in 70 per cent of private credit deals, the borrowing company is sponsored by a PE firm. • Pension funds and private equity-linked insurers are becoming more vulnerable because they are taking on higher financial leverage and increasing their investments in illiquid assets, making them more exposed to margin calls and potential stress across major financial markets.[17] • Private equity has driven a structural shift in life insurers' business models, increasing their exposure to PE-originated illiquid assets – like structured credit and private debt – which could lead to losses or liquidity stress in adverse scenarios. Forms of regulatory arbitrage via reinsurance in less regulated jurisdictions have increased financial stability concerns.	IMF – Private Equity and Life Insurers (2023) IMF – April GFSR (2024)

17 Some Canadian pension plans are re-evaluating current private equity holdings amid rising challenges in the industry. For example, the Ontario Teachers' Pension Plan posted a loss on its private equity portfolio – which was valued at C$50.8 billion at year-end – for the first time in 16 years (Bloomberg 2026).

BIS	• Private equity faces heightened procyclicality and greater sensitivity to monetary policy; private markets exhibit similar cyclicality to public markets. Long-term capital commitments and lighter oversight can amplify volatility and funding vulnerabilities in the sector.	BIS – The Rise of Private Markets (2021)