The Ownership channel of Nonbank credit supply

כנס האגודה הישראלית לכלכלה
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אפרת דרסלר

Motivation and related literature

- Non-bank credit in Israel
  - Small, but fast growing (15-20% annual growth)
- Potential
  - Competition with banks
  - Access for constrained borrowers
- What drives this growth?

- During monetary restraint, NBFIs ease the credit constraint and their credit grows faster then banks' credit (Drechsler et al., 2017; Albuquerque et al., 2025) mechanism works through NBFIs liabilities switch from short term to long term liabilities (Michelson & Suhoy, 2026)
- Banks affect the non-banking credit market as credit suppliers to the NBFIs: (Jiang,2023 ; Kim, 2017)
- Banks use non banks to avoid regulation (Acharya, Cetorelli and Tuckman, 2024; Albuquerque et al., 2026)

Research question and hypotheses

- Does financial ownership affect nonbank credit supply, particularly during funding stress?

- *H1: Financial owned lenders will be able to provide credit more easily in stressed times thanks to better liquidity access.*
- *H2: Institutional investors affect the credit provision through their bond's holdings (following Dreschler et al, 2017).*

Contribution

- Ownership as a determinant of credit supply
- Combines lender-level and loan-level data
- Distinguishes:
  - Passive ownership - institutional investors
  - Active ownership - financial firms.

Data

- Stock ownership and Bond ownership data.
- Lender-date level: panel data
  - 25 credit companies, between January 2017 – June 2025. Financial reports.
- Loan level data
  - Loan and borrower characteristics from the retail credit registry.

Ownership groups

Table2: Ownership groups summary statistics

		Ownership group		
		No financial ownership	Institutional investors	Financial Firm
Main borrowers / loans characteristic		Households – car loans Households – unsecured loans Small business loans	Credit-card loans Small business loans	Households – car loans Credit- card loans Small business loans
Credit balance (NIS thousand)	Mean	546,460	1,848,408	3,985,363
	Std.	456,854	1,979,899	3,494,460
Quarterly growth of credit	Mean	0.075	0.037	0.045
	Std.	0.9	0.26	0.1

Identification strategy

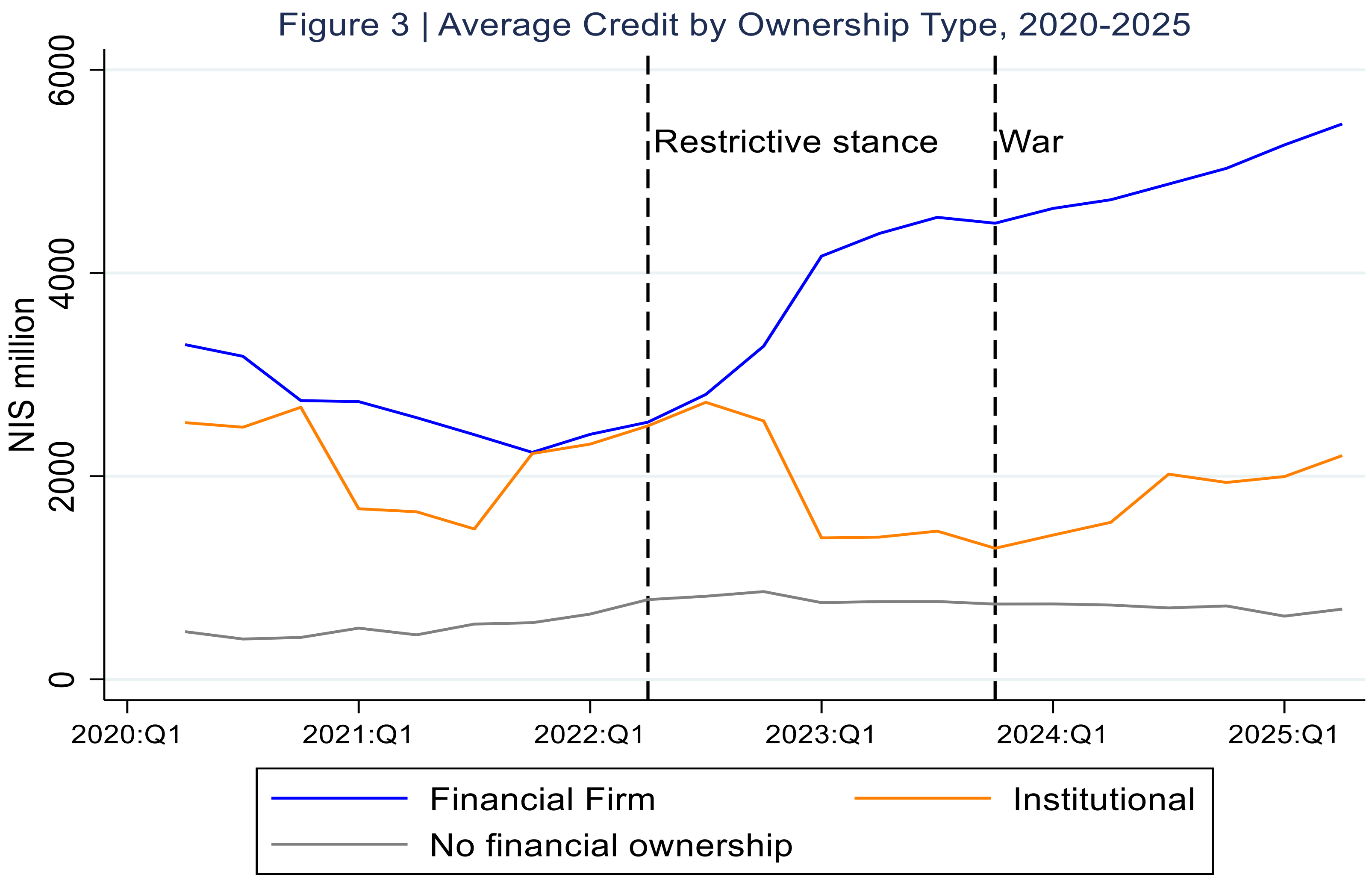
- Heterogeneity analysis:

$$Credit\ growth\ rate_{l,t} = \alpha_l + \beta_1\ Dummy\ for\ Ownership_l + \beta_2 After\ shock_t + \beta_3 Dummy\ for\ Ownership_l * After\ shock_t + \beta_4 X_l + \varepsilon_{l,t}$$

$Dummy\ for\ ownership$: $Institutional\ investors\ , Financial\ firm$

Shocks: Monetary tightening, October 7 war.

Credit growth and shocks



Heterogeneity Results

OD= Ownership dummy
BD=Bond holding dummy

Clustered standard errors,
t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

	Dependent variable: credit growth			
	(1)	(2)	(3)	(4)
Financial Entity SD	omitted	-0.0941***		
		(-3.66)		
Institutional SD			-0.129	-0.245
			(-0.97)	(-1.30)
War shock	0.112		0.0899	
	(0.99)		(0.87)	
Interaction:FE*war shock	-0.0859			
	(-1.53)			
Monetary tightening		-0.0206		-0.734**
		(-0.41)		(-2.37)
Interaction: FE *monetary tightening		0.112**		
		(2.21)		
Interaction: institution*war shock			-0.0716	
			(-1.19)	
Interaction: institution*monetary tightening				0.0523
				(0.49)
Log(gross credit)	0.227**	0.0939**	0.228***	0.413***
	(2.70)	(2.76)	(3.12)	(4.52)
Bank BD		-0.0790***		
		(-3.51)		
Time fixed effects	yes	yes	yes	yes
Lender fixed effects	yes	yes	yes	yes
Constant	-3.146**	-1.243**	-3.070***	-4.922***
	(-2.67)	(-2.70)	(-2.98)	(-5.18)
N	227	144	216	335
R^2	0.176	0.409	0.192	0.286

Main Result

- Financial firms owned lenders inject credit during monetary tightening.

- While other lenders' credit growth lower or do not change during monetary tightening, **financial firms' owned lenders are able to grow their credit faster** compared to institutional investors' owned firms and compared to other firms, owned only by the public.

Loan level data

		Financial Entity held	No financial entity owner
October 7 war	Before	9,216	5,748
		(3,837)	(2,684)
	After	16,973	1,153
		(2,811)	(1,229)
	Difference	+7,757***	-4,595***
Monetary tightening	Before	10,111	4,153
		(4,904)	(2,740)
	After	13,777	5,405
		(3,423)	(3,951)
	Difference	+3,666***	+1,252

*p<0.1; **p<0.05; ***p<0.01
Standard errors in parentheses

Financial ownership enables credit expansion during contraction

Loan level data

- $y_{i,j,l,t} = \alpha_i + \beta_1\ Dummy\ for\ financial\ firm\ Ownership_{l,t}$
  $+\beta_2 Dummy\ for\ Ownership_{l,t} * After\ shock_t$
  $+\beta_3 X_i + \beta_4 W_j + \gamma_t + \varepsilon_{i,j,l,t}$
- $y_{i,t}$: spread, principal amount
- *events: Monetary tightening, October 7 war.*
- control variables –

  X_i: loan characteristics

  W_j: borrower characteristics.

Financial ownership enables credit expansion during contraction

	Spread		Log (principal amount)	
	(1)	(2)	(3)	(4)
Financial Firm SD	2.605**	2.678**	0.1971	0.0883
	(1.155)	(1.186)	(0.1478)	(0.1407)
Interaction: Financial firm SD *war shock	-3.808**		-0.4338**	
	(1.549)		(0.1684)	
Interaction Financial firm SD*Monetary tightening		-1. 371***		0. 1804***
		(0.4087)		(0.0481)
Borrower Socio-economic Index	-0.1905**	-0.1917**	-0.0207**	-0.0206*
	(0.0688)	(0.0683)	(0.0086)	(0.0086)
Borrower age group	-0.1808***	-0.1773***	-0.0054	-0.0051
	(0.0320)	(0.0322)	(0.0097)	(0.0096)
Borrower credit risk indicator	2.280***	2.297***	0.0541	0.0540
	(0.6231)	(0.6301)	(0.0398)	(0.0394)
Original credit period (months)	-0.0035	-0.0028	0.0169***	0.0170***
	(0.0063)	(0.0058)	(0.0026)	(0.0026)
Time fixed effects	yes	yes	yes	yes
Observations	1,388,640	1,388,640	1,388,640	1,388,640
Adjusted R^2	0.18265	0.17188	0.27093	0.26918

*p<0.1; **p<0.05; ***p<0.01
Clustered Standard errors in parentheses

Results – loan level data

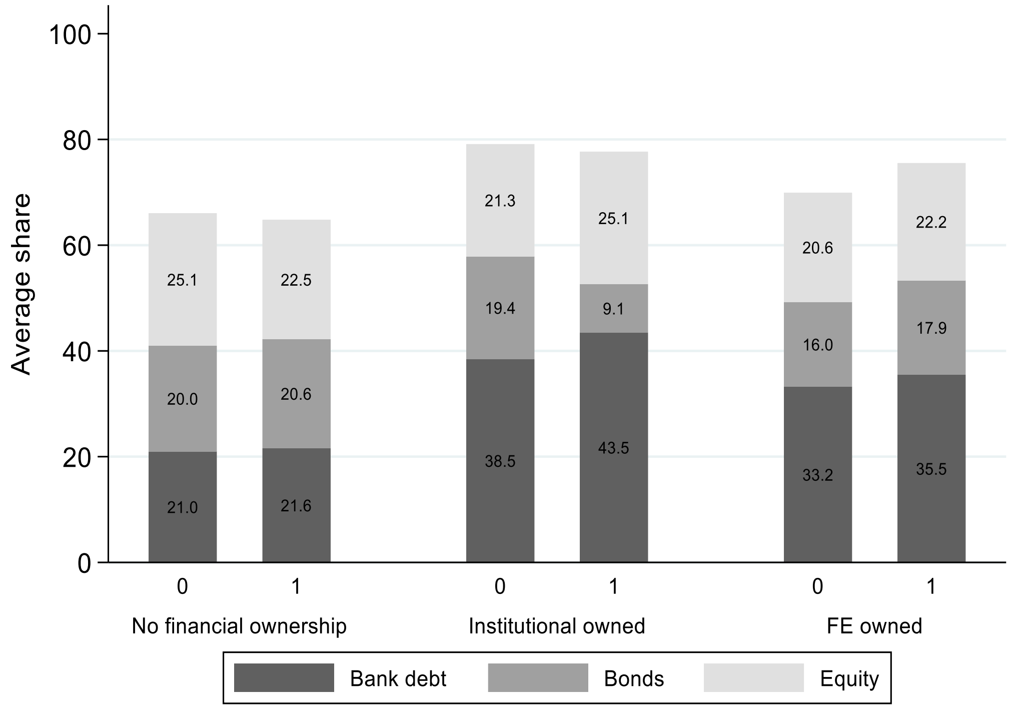
- Financially affiliated lenders usually take higher spreads
- During the restrictive stance and after the October 7 war broke:
  - More loans
  - Lower spreads
- More credit in lower spreads are consistent with expended credit supply

Mechanism

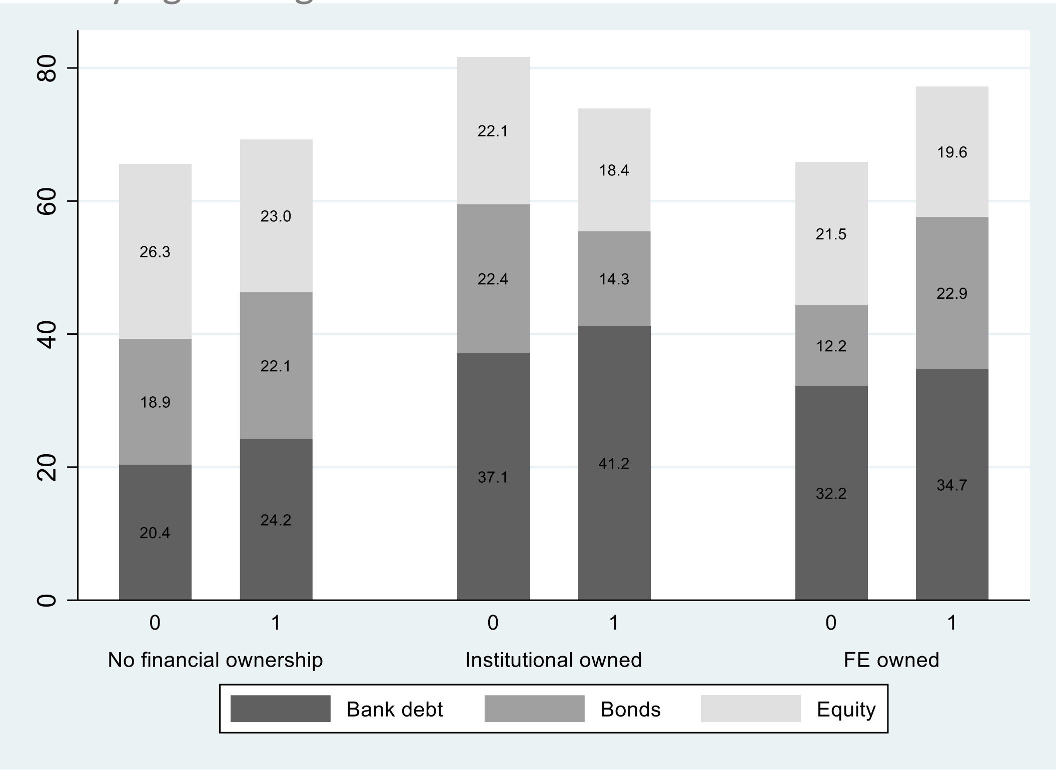
- Why can financially-owned lenders expand credit?

Liabilities composition

Capital structure by ownership group and war period

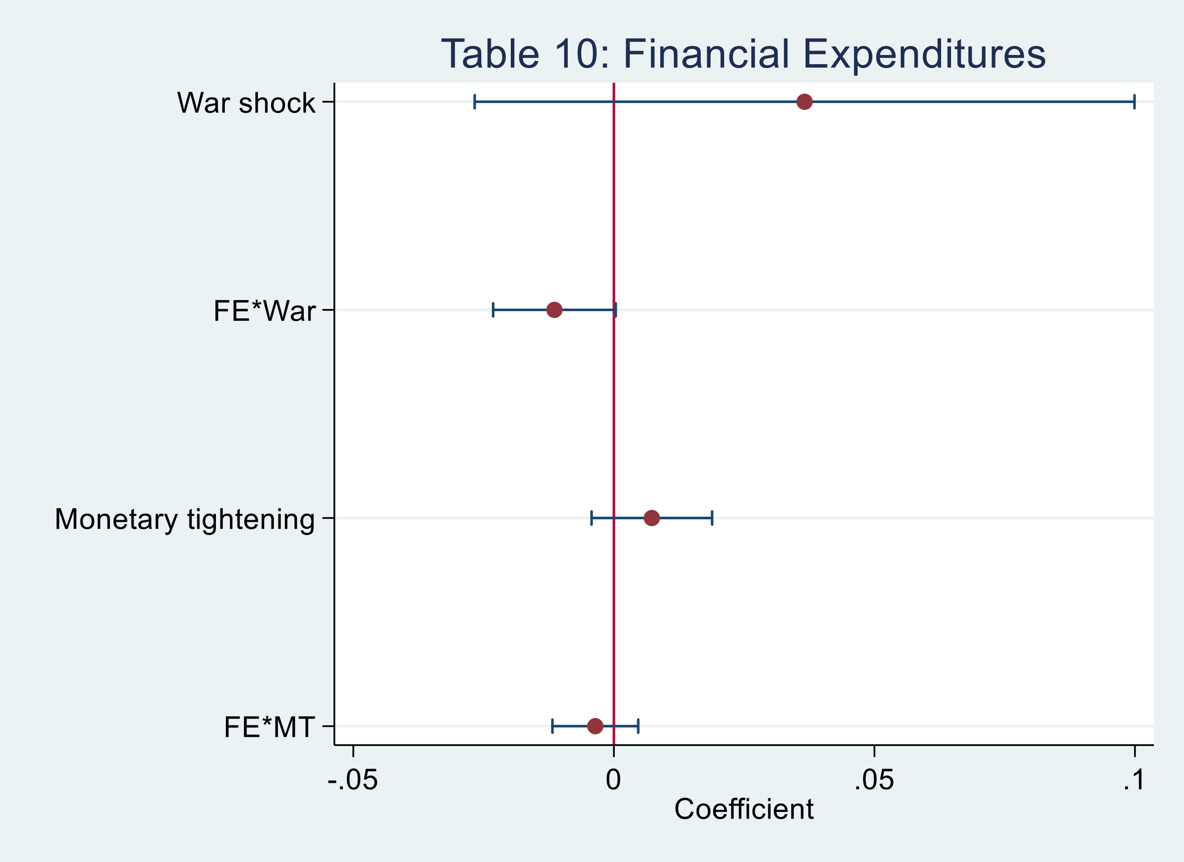


Capital structure by ownership group, before and after monetary tightening



Better access to liquidity

Funding cost



- Lower financial expenditures

Big picture

- Financial ownership matters most when funding becomes scarce
  - During normal periods, NBFIs owned by banks and insurance companies do not grow faster than other lenders. However, when funding conditions deteriorate, they expand credit significantly more than their peers.
  - Loan-level evidence suggests that this expansion reflects greater credit supply, consistent with ownership providing access to funding and liquidity during periods of stress.

Institutional investors vs Financial firms

- Institutional investors
  - Passive
  - No correlation with credit supply
- Financial entities
  - Active
  - Ownership channel

Final Takeaways

- Ownership matters
- Not all investors have equal effect
- Credit supply is shaped by lenders’ owner

- Ownership affects access to liquidity, which determines nonbank credit supply during stress??????

Policy implications

- The resilience of the nonbank credit sector depends on regulation and competition, but also on the ownership structure of lenders
- Ownership links with large financial institutions may strengthen the ability of NBFIs to continue supplying credit during periods of economic stress
- Policy makers evaluating financial stability should consider ownership networks as a potential transmission channel of liquidity across financial intermediaries
- At the same time, greater resilience may come with stronger interconnections between banks, insurers, and nonbank lenders, creating potential channels for risk transmission that warrant monitoring

Thank you.